

1. What is Franchising?

Franchising is a business method of expansion that allows an individual or group of individuals to market a product or a service and to use of the patent, trademark, trade name and the systems prescribe by the owner.

2. Who is the franchiser/franchisor and franchisee?

- **Franchisor/Franchiser** – a legal entity which owns the patent, trademark, method and products or services that allows others to use under his name.
- **Franchisee** – a person or a group of persons who invest, own and operate a business under a licensing agreement granted by the franchisor. Likewise, Franchisee are entitled to: use of the trademark or tradename; market the product or service; have access to pertinent trade secrets; enjoy advertising support, and acquire same benefit from the goodwill of the franchisor.

3. What are the benefits of franchising both to franchisor and franchisee?

a. To Franchisor

- Business expansion does not require huge infusion of capital because franchisee pays the cost of the new outlet.
- It provides franchisor a motivated manager for the business expansion.
- Multiple outlets can be established simultaneously even when the business is small.
- Provides franchisor an effective method of business expansion that combines limited risk with profit potential and short-run growth with long-term stability.

b. To Franchisee

- Obtain a working business model and a proven method that is successful for running a business;
- Less costly than to establish a single company owned outlet.
- There is an on-going support service – the knowledge that while franchisee are in business for themselves.
- Acquire a strong marketing and distribution system;
- Use of a brand or trademark recognized by customers;
- Provided with effective mechanism for achieving deep market penetration and saturation

4. How to select a franchise business

Important things to consider before acquiring franchise business:

a. Self Assessment of the Franchisee

- Examine oneself skills, interest, experiences and educational background/ training that can help in choosing an appropriate franchise business.

b. Financial Capability of Franchisee

- Prepare a short-list of business franchise appropriate to your criteria and suitable to your budget.
- Know the breakdown of the capital investment requirements such as: franchise fee, royalty fees, furniture and fixture, sinages, equipment, pre-operating expenses and operating capital.
- Consider rental or construction or renovation of stall, wages of employees, water, telephone and electricity which is not part of the franchise cost.

c. Franchise Business Legitimacy

Check the following licensure from the following government and private sector:

- DTI Business Name Certificate
- SEC (if corporation)
- Bureau of Internal Revenue (For VAT and other Taxes)
- SSS (for security of employees)
- LGU Permit (mayor's permit, sanitary or building permit)
- Intellectual Property Office (for patent and trademark)
- BFAD (if in food, cosmetics or drugs)
- DOTC (for internet café or telecom business)
- DEPED (for school or review center)
- BSP (for remittance and pawnshop)
- Affiliated Franchise Association

d. Franchise Business Performance

Examine the following:

- The value, appeal and quality of the product or services
- Direct Sales of products to the franchisee
- Sales of goods and services of the existing Franchisee
- Profit from royalties based on the franchisee's sales
- Product is rank with competitive product
- Examine the payback period and the return of investment
- Proprietary position in the market
- Be sure to get to know those people you will be working most closely with as you build your business.
- Visit a sufficient number of the existing franchisees to ensure you have a sense of the prevailing attitudes of the group.

e. Franchise Contract

- The operating policies and restrictions of the Franchise;
- The nature and extent of your obligation to buy supplies and materials from the franchisor approved sources;
- Your rights to renew or extend the contract beyond the original term of the contract;
- The geographical area/ location and types of business or customers to whom you may sell;
- Your rights to sell or transfer ownership of the franchise;
- Precise definition of the price, commissions, rental fees, and leases required to own and operate the franchise;
- Exclusive territory awarded to you; and State franchise law;
- The terms and conditions to terminate a contract;
- The rights of the franchisor to assign unpaid portions of the initial franchise fee to financial institution or other "holder-due-course";

f. Packages and Benefits

- Find out who will be providing the operational support and training directly to you and form an opinion about their competence.
- Description of the exact training and support services that franchisor provides like accounting services, advertising, rental of equipment or facilities and many others.

g. Consult experts

Consult experts to guide you through the franchising process and help you review and discuss unfamiliar topics or materials.

h. Franchise Terms and Conditions

- Know the investment capital requirement.
- The amount of Franchise Fee and the terms of payments.
- The Agreement to remit a royalty or commission fee based on gross sales or number of units sold to the franchise firm.
- In some companies, payment of separate fees for training, accounting services, advertising, and rental of equipment or facilities is being shouldered by the franchisee.
- Computation of the true cost of a franchise, i.e. all special fees, royalties, as well as the interest charges on the unpaid balance of the initial franchise fee.

5. What are the various frauds and schemes used by illegitimate franchisor

- Promise exorbitant profits with meager investments;
- Demand that you “act immediately” before investigating in order to “get in on the ground floor”;
- Fail or unable to provide vital statistics on franchise sales, profits, locations, etc.;
- Promise “easy sales” of the franchised product or services;
- Fail to identify company officers or principals;
- Promise profits through chain sales or pyramid schemes in which you make your money by selling other franchises or distributorships;
- Use names, which sound like, but which are not connected
- with nationally known, reputable business firms; and
- Promise large income from “work-at-home” or spare-time” effort.

6. What are the procedures in applying for a franchise?

Step 1 - The franchise applicant will submit a Letter of Intent to the franchise company, including the following information:

- Name of the interested party
- Expressed interest in a franchise
- Proposed site and location (with complete address and location map)

Step 2 - The franchisor will:

- Do an initial assessment of the proposed site upon receipt of the letter of intent;
- Determine the most feasible business model; and
- Get in touch with franchise applicant and send over the Franchise Qualification Form and brochure.

Step 3 - The franchise applicant will:

- Fill out the Qualification Form; and
- Send it back to the franchisor.

Step 4 - The franchisor will:

- Review the Qualification Form; and
- Schedule meeting with franchise applicant to discuss other procedures.

All other steps will depend on the outcome of the discussions made between the franchisor and the franchisee.

7. Where can you get additional information about franchising?

Association of Filipino Franchisers, Inc.

Tradecon, Inc.
88 Rodriguez Jr. Avenue, Libis, Quezon City
Tel. No.: 633.8547
Fax : 638.4330
E-mail : info@filfranchisers.com
Website: http://www.filfranchisers.com

Filipino International Franchise Association (FIFA)

The FIFA Center
Ground Flr., Minnesota Mansion
267 Ermin Garcia Street, Cubao, Quezon City

Philippine Franchise Association (PFA)

Unit 701, OMM – Citra Bldg., San Miguel Avenue,
Ortigas Center, Pasig City
Tel. Nos.: (632) 687.0365 to 67
Fax No.: (632)687.0635
Email: pfa@nwave.net
Website: http://www.philippinefranchiseassociation.com

8. Financing

SME-Financing Organizationally Competent and Excellent Franchise Business (SME-FORCE)

Small Business Corporation

17th & 18th Flrs., Antel Corporation Centre
139 Valero Street, Salcedo Village, Makati City
Tel. No.: (632)751.1888

9. Technical Assistance

Philippine Trade Training Center (PTTC)

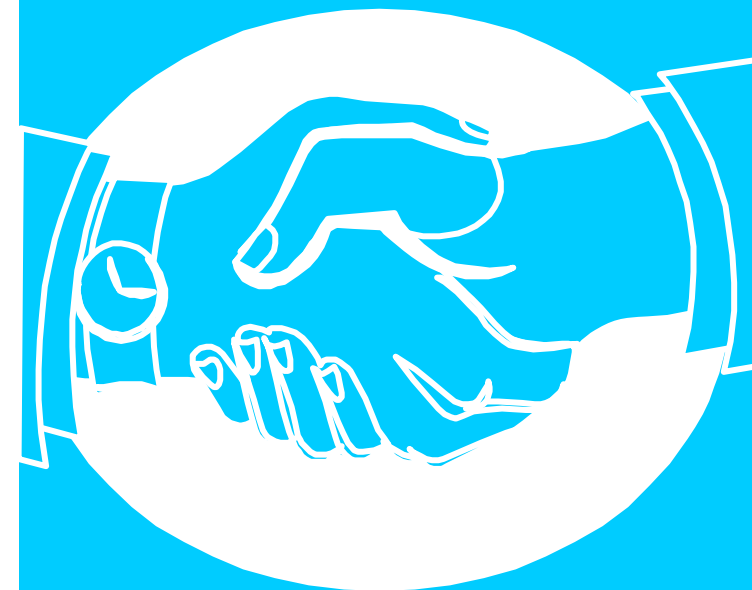
International Trade Center Complex
Roxas Blvd. corner Sen. Gil Puyat Avenue
1300 Pasay City
Tel. No.: (632) 468.8963 to 64



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Starting A Business



FRANCHISING