



Growing The Golden Nest

F4



Furnishing The Entrepreneurial Spirit

F7

## Franchising Your Way To Success

Established brand, proven operational methods, and cost-savings. These are some of the reasons why entrepreneurs are increasingly turning to the franchising business model.

• By Jo Yong



Franchise business is one of the few businesses that have been acknowledged as being resilient even in the face of tough economic conditions. A study done by the European Franchise Federation recently revealed that 90 per cent of franchise businesses in Europe were very minimally affected by the slowdown. This is not surprising as franchises are normally businesses that have proven themselves and possess excellent branding on top of competitive pricing.

There are legions of loyal customers out there who despite lower disposable income still make it a point to patronise these outlets. These outlets have responded in a most appreciative manner by cutting prices. McDonald's in Malaysia, for example, has very quickly adapted to the declining purchasing power by slashing prices of their value meals. Many other franchise restaurants have done the same. Delifrance, for instance, has halved prices of some of their pasta dishes. The list goes on.

### Bucking the trend

Despite the expected decline in the number of franchises being registered this year, franchise consultant, Francorp Malaysia Sdn Bhd chief executive officer Affandy Faiz expects the quick-service and full-service restaurant to buck the trend by recording a one to two per cent increase

in the number of outlets. On the other hand, sectors like automotive, retail food and products will experience reductions in employment. Overall, he sees lodging, business services and real estate as experiencing the largest percentage reduction during this downturn.

During the last five years, the number of franchises has grown rapidly and although many experienced a decline in sales during the current downturn, the industry is expected to emerge from the current downturn even stronger, just like what had happened ten years ago after the Asian economic crisis.

Currently, there are more than 300 franchises registered with the Registrar of Franchise, with more than two thirds being local franchises. Collectively, they represent about four per cent of retail outlets and contribute only a small five per cent of total retail sales in Malaysia, a far cry from the 85 per cent and 40 per cent recorded by Australia and the United States respectively in terms of contribution to total retail sales in their own countries.

## Need help?

Francorp Malaysia Sdn Bhd, the master franchisee for Malaysia, Singapore, Thailand and Indonesia, of the international franchise consulting group Francorp International, is a one-stop franchise solution company.

According to its CEO Affandy Faiz, the Kuala Lumpur-based company offers 70 types of franchise services including market research, logo creation, legal advice and strategy.

Some well-known companies that they have helped include Kamdar Group, A-Look Eyewear, Ridpest, Jatimas and Lo Hong Ka.

agencies assisting the franchise players such as Perbadanan Nasional Bhd (PNS), SME Bank, Perbadanan U s a h a n Nasional Bhd (PUNB) and Credit Guarantee Corp. The Franchise Act 1998, which is

Francorp Malaysia's Affandy Faiz



under the purview of the Ministry of Entrepreneur and Cooperative Development, may be revamped in the near future to add further improvements.

Now is the time for both franchisors and franchisees to iron out their differences to make it a win-win situation. Most industry experts agree that given their small size, the franchise players can afford to be more dynamic and flexible to make changes to ride out the economic crisis. Malaysian Franchise Association (MFA) sub-committee chairman for research and education Datuk Dr Adnan Alias is reported to have said that smaller franchise operators can manoeuvre out of the storm better than large franchise outfits.

### Good choice in bad times

It is undeniable that when times are bad, it takes longer to recoup investments in a new business venture. Hence, it makes a lot of sense to leverage on a more established business which has proven products and branding.

"When the global economy is deteriorating like no

Still in its infancy, the local franchise industry is however well-regulated with several government



From page F1

## Franchising Your Way To Success

tomorrow, operating a franchise business is definitely better and less risky than non-franchise business. You do not have to start from zero to establish and popularise the brand name and products. You will save significantly on advertising and promotion, which means half the battle has been won," trumpeted Eric Thong, the latest franchisee of Lo Hong Ka, the famed supplier of bottled birds' nest.

On the other hand, he lamented the considerable investments required to purchase the franchise and "in a way, being totally controlled by the franchisor". Wardrobe's franchisee, S. M. Wong echoed similar sentiments. The latter described the precise and strict guidelines as contributing to most of the disagreements between him and the franchisor.

"Unless we have a strong union of franchisees, we are sometimes unable to make a joint decision with the franchisor," says Wong adding that there may also be fears that the franchisor may not be able to support them on a consistent basis.

### Quality control

Franchisors on the other hand have nagging fears that franchising would lower the level of quality in

their business. According to Francorp's Allandy, the opposite is however more likely.

"Typically, franchised operations outperform company-owned outlets. This is in part due to the fact that the franchisee is more motivated than any manager because the franchisee has invested his or her money to open and operate the business," he explains.

The other issue franchisors have to deal with is the very high expectations that franchisees tend to have in terms of the return on investment. MBE Business Corporation Sdn. Bhd director Brian Chow, the master franchisor of Mailbox Etc, reckons that getting a franchise with a proven system and products is only 30 per cent of the battle. The franchisee needs to put in 70 per cent of the efforts in order to drive the business.

"Merely buying a franchise license is not the road to definite riches. A great deal of effort is still required to be put into the business," reaffirms Chow.

Lo Hong Ka associate director Lee Yew Weng agrees. He says that they had to get franchisees to see that their business model is not based on a fad but on a long-term business with reasonable and sustainable returns.

Despite the perennial problems, for the franchisor, the decision to franchise is mainly financial. Lee admits that they were not growing the number of their outlets as fast as they would have liked.

"Opening new stores would have tied down our capital unnecessarily as our priority now is to devote more resources to growing our product range. Hence, franchising was the natural solution for us to grow our outlets and to spread our network farther across the country," he explains.

**"Merely buying a franchise license is not the road to definite riches. A great deal of effort is still required to be put into the business."**

## Financing For Franchising

There are numerous grants and financial packages to choose from for those keen on the franchise business.

As franchising is seen as one of the key areas for potential market growth and entry into regional and international markets, the government has made available various forms of financial facilities and incentives for those looking to pursue the franchising model.

Perbadanan Nasional Berhad (PNS)'s SME Franchise Product and Service programme is amongst the favourite with those interested to learning more about franchising. PNS have been mandated as the lead agency in developing the Franchise Development Programme (FDP) under the Ninth Malaysia Plan. PNS is striving to develop world-class 'franchisepreneurs' through delivery of integrated services and comprehensive products.

### PNS Pre-Franchise Scheme

PNS has a Pre-Franchise Scheme which is to assist new Bumiputera franchisors by providing financial assistance to potential franchisors and master franchisees. Application for this scheme will receive a maximum financing rate of six per cent per annum with maximum tenure of ten years. The maximum loan amount is RM2 million.

#### Eligibility criteria:

- Companies with existing businesses but yet to register with ROF with 50 per cent equity-owned by Bumiputera
- Register positive profits and shareholders fund in the latest audited accounts and having minimum one outlet with at least a year in operation
- To furnish a detail franchise business plan and the proposed time frame to register with the ROF and business must be Syariah compliance
- Submit application for franchise registration to ROF not later than two years from the date of first disbursement.

### PNS Franchisee Financing Scheme

PNS Franchisee Financing Scheme is created to develop and increase the number of middle-level Bumiputera entrepreneurs (MLBE) in franchise businesses through financial assistance for purposes of business expansion and starting-up franchise companies.

The maximum financing rate for PNS Franchisee Financing Scheme is four per cent per annum with maximum tenure of five years. Applicants have to at least finance an amount of RM20,000 for the franchise. Nevertheless, the maximum financing will be RM500,000 or 80 per cent from the total project cost.

#### Eligibility criteria:

- Registered with ROF and MFA with equity wholly owned by Bumiputera.
- Board of directors and management must be 51 per cent controlled by Bumiputera
- Franchisee needs to contribute 20 per cent of the total project cost

### SME Bank

SME Bank's Franchisee Financing Scheme is set up to provide financing to Bumiputera franchisees in starting and expanding their businesses. This scheme is a term loan which means a loan from a bank for a specific amount that has a specified repayment schedule and a floating interest rate.

The scheme is able to allow applicants receive a RM20,000 - RM500,000 loans for tenure of five years maximum. The scheme will only pay for a maximum 80 per cent of the total project cost with an interest rate of four per cent per annum.

#### The following criteria apply:

- Franchisor/Master Franchisee must be registered with Registrar of Franchise (ROF) and Malaysian Franchise Association (MFA)
- 100 per cent equity owned by Bumiputeras
- Minimum 51 per cent BOD and management are Bumiputeras
- Franchisee must contribute at least 20 per cent of total project cost

To ensure that Malaysian SMEs franchise planning and growth path is effectively managed, both SME Bank and PNS will direct applicants to the appropriate franchise consultants or service provider at point of application to further assist their start-up ideas and business growth.

## Franchise Wish-list

The following are various suggestion by SMEs involved in the franchise industry:

- 1) Expand loan funds and reduce the time for approval of loans for franchisees - sometimes it takes up to eight months to get a franchise loan approved. Make the loan approval procedure more relaxed and transparent
- 2) Abolish double standards of two departments requiring permits for the import of the same item. For example, importing birds' nest into Sarawak requires permits from both the Forestry and Agriculture while it is not required in Sabah.
- 3) Reducing the time taken to approve franchise licences - in some cases, it takes up to six months. In the U.S, approval for franchise applications must be made within two weeks, otherwise it's automatically approved.
- 4) Reduce corporate tax rates further by two to five per cent; give pioneer status to franchisors and franchisees; extend the capital gains tax rate of 15-25 per cent; give more capital allowances and shorten the depreciation for fixed assets especially buildings and land; and exempt from taxes the revenue earned abroad by franchisors.
- 5) The SME Corporation should appoint a small franchising co-ordinator to take care of existing and aspiring franchisors.
- 6) Make small business health insurance more affordable.
- 7) Tax rebates for advertisement and promotion activities.