



Business Course: INTRODUCTION TO FRANCHISING IN THE PHILIPPINES





1. Introduction

Welcome to FranchiseManila.com's online Introduction course to Franchising in the Philippines.

After many years of covering the Franchise business in the Philippines, we decided to create this Introduction to Franchising basics. You will find this course quite easy to follow and the subject matter indexed for quick reference and easy access. It won't take you more than 30 minutes to complete the course. However, we do suggest much more time to review additional resource materials and to complete our suggested next steps at the end of the course.

2. Course Goals

Our Introduction course to Franchising in the Philippines has four key goals. **First**, to define franchising so you clearly understand what you are going into, and explain to you the different types of franchises. **Second**, explain the advantages and disadvantages of investing in a franchise. **Third**, we will discuss the components of a Franchise Disclosure Document. **Fourth**, we will identify other useful resources that can assist you in franchising a business.

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3. Course Topics

In order to make this course as simple and efficient as possible – we structured it with several topic sections. Each topic section covers a different aspect of franchising. Some of the areas covered include:

- The plain Definition of franchising
- The Advantages and Disadvantages of investing in a franchise
- Investigating your Franchising options
- Is franchising the right business for you?

4. What Exactly Is Franchising?

Investing in buying and owning your own franchise can be a superb way to start a small business without taking on the high risks that are associated with starting a new business from scratch. As you surely know, starting a new business from scratch includes investing a lot of time and funds into product design, production, operations, marketing and many more.



When you buy a franchise, you actually buy a license to use the name, trademarks, and proprietary products of an existing company. Owning a franchise like Bacolod Chicken Inasal for example, allows you to sell and distribute this company's products as well as to use their business systems, which they've built and perfected over many years. These business systems may include national marketing power and connections, accounting systems, point-of-sales information, experienced site selection system, and more.



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In exchange for these rights and services, the franchisor (the company from which you are buying the franchise) receives an upfront fee for the rights to a geographic area, as well as royalties based on sales, which you must pay on a monthly, quarterly or yearly basis. However, there are many franchise companies that do not charge royalty fees.

5. The Types of Franchises

Basically, there are two primary forms of franchising: Product/Trade name franchising and Business Format franchising.

According to the Product/Trade name franchising, a franchisor (the company you buy the Franchise from) owns the right to the name or the trademark they created, and they are selling that right to you - a franchisee. This form of franchising is often seen in the soft drink industry, where a product is sold or distributed through a franchisee.

According to the Business format franchising, the franchisor and franchisee have an ongoing relationship, where the franchisor provides a full range of services, including site selection, training, product supply, marketing plans, and even assistance in obtaining financing.

Ice Cream Deluxe

P 249,000

INCLUSIONS:

- Use Trade Name & Logo
- 1 MINI HIGH-END CART
Size (H 7ft. W 5ft. SW 2.5ft.)
- COMPLETE EQUIPMENT
 - Ice Cream Machine
- Sets of UNIFORM
 - Apron, Visor, Hairnet & T-shirt
- INITIAL Products worth 3,000
- Business Orientation & Kit
 - Franchise Seminar
 - Crew hands-on training
 - Inventory Kit
 - Concept Manual
- Notarized Franchise Agreement
- After Sales Support

Ice Cream Deluxe (Flavored Ice Cream in a Cone)



6. The Advantages and Disadvantages of Owning of a Franchise...

Before you invest, you will need to determine whether franchising is right for you or not. You must first evaluate the advantages and disadvantages of this sort of investment, and decide accordingly.

The advantages of owning a franchise are mainly the fact that a good franchise offers professional assistance in all aspects of the business, instead of starting everything by yourself from scratch. A good franchise will provide a well-tested product, brand recognition, a marketing plan and assistance, site selection assistance, training for you and your staff, purchasing power, and in some cases even help in financing.



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The disadvantages of owning a franchise include the need to invest and pay for the lucrative franchise fee, which in some cases like McDonalds or Starbucks – is very expensive. On top of that, when you are a franchisee, you have lack of control on some business decisions, such as product offerings and marketing campaigns. Also, the length of franchise contracts is sometimes deterrence, but these can usually be negotiated in the Philippines.

7. Investigating Your Franchise Options: Which is the right one for me?

There are thousands of different franchise opportunities in the Philippines. So how do you know which franchise is the right one for you? The answer is quite simple, extensive Market Research, and then making sure you believe in the product.



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Luckily you have online resources like FranchiseManila.com where you can identify hundreds of viable Franchise opportunities in the Philippines. You can also search for more opportunities through other Internet resources, magazines such as Entrepreneur, or in various trade and business journals such as the Franchising PH.

If you have a preferred brand you really like, we suggest you reach out to franchisors to get all the details and help you during this research process.

Once you have a list of 5-10 (or more) franchise options that are relevant to you, make sure you believe in their products. Without believing in a product or brand – it will be hard to succeed...



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8. Make sure to Research the Franchisors

After conducting a thorough market research and making a list of potential franchise businesses that you are interested in, the next step is to research each and every franchisor on this list. Remember, you risk losing a significant amount of money if you do not investigate a business carefully before you invest your hard-earned money.

In most cases, franchise sellers will disclose certain information about their business to potential buyers. If some do not disclose any information – better you stay away from them. Make sure you get all the information you need, before you enter into this form of business. This is true for any sort of business.



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Consider the following questions during your research on each of franchisors on your list:

1. How long has the franchisor been operating in the industry? If it's only 6 months or a year – that's not good enough. Try to find franchisors with at least 3-4 years of operational experience.
2. How many franchisees are currently operating in your area? If your area is already saturated with several stores of this franchisor - it might be risky to open another. Try to be among the first in your area.
3. What is the financial health of the franchisors? Try to get all the necessary financial data about each franchisor on your list, and then consult with an accountant or financial expert to make sure the franchisor is in good financial status.
4. Are there any current or pending legal issues against the franchisor? This is crucial and can sometimes lead to bankruptcy. Go to the relevant Government institutions (BIR, SEC, City Halls, etc) to check and verify that there are no current or pending legal issues against the franchisor.



9. Talk to other Franchisees

Find the time and make the effort (even if it requires a few days or weeks to research) to find and talk to other franchisees of the brands you are interested. Try to get a first-hand account of their experience with the franchisor. Ask them the above questions to verify the info you researched, as well as any other question that you have. Focus also on the ease of communication with the franchisor, reliability of products and services, how is their marketing assistance? How is their training? Etc.



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10. Verify The Franchise Package

As part of your extensive research, you should also take a detailed look at the franchise package to see what exactly is included.

Consider the following questions during your research on each franchisor on your list:



- Are there are licensing or other fees involved (like royalty fees, marketing fees, insurance?)
- Is it required to purchase or lease a land and/or building?
- What is the equipment that is required and/or provided?
- How long is the franchise contract?
- What training is provided by the franchisor?
- What level of inventory is required to start? What's the cost?
- What other costs are included to be paid to the franchisor?



Insist on getting Franchise Disclosure Information

As soon as you identify a company or two (or more) that you are interested to franchise, the next step is to request and read thoroughly their Franchise Disclosure Information.

In light of some franchise scam incidents that happened in the Philippines, the Department of Trade and Industry (DTI) through the Bureau of Trade Regulations and Consumer Protection (BTRCP), issued an advisory on franchising (Bureau Order 10-24), where among others, it urged prospecting or would-be franchisees to exert due diligence when getting a franchise.

The “Franchise Disclosure Information” (FDI) refers to a set of information and documents that needs to be disclosed by the Franchisor to the Franchisee and/or prospective Franchisee.



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The “Franchise Disclosure Information” should include important information such as:

- Info about the history of the franchisor, their business experience, litigation, and bankruptcy details - if any.
- Complete disclosure of the fees associated with the franchise, like initial investment costs, royalty and marketing fees, all the financial issues and rules.
- A list detailing all the franchisee’s obligations and provisions. These details are very important, because they define the rules by which the franchisee-franchisor relationship will be managed. You should know what the restrictions are on what products can be sold? How will disputes be managed? How are terminations handled? The information should also include details about the marketing assistance and rules, computer systems, and of course training of staff and management.
- A list of existing franchisees (active and non-active).
- Financial statements of the franchisor and copies of contracts used in the franchise offering, including the Franchise Agreement.





11. Ask Yourself These Vital Questions

Even if you find the perfect Franchise Business, before you make that big move and invest your hard-earned money in a franchise, you should first ask yourself a few very vital questions regarding your personal aspirations, goals, and needs.

Consider addressing the following questions:

- What is your experience level in starting and managing a business?
- What are your professional abilities? And how do they complement the franchise business?
- What is your level of education? Is it enough to manage a franchise business or do you need to study more?
- What are your 3-year and 5-year goals? What about the longer term 10-year goals? Do they correlate with starting and managing a franchise business?
- What is your current financial situation? Can you afford to invest this amount of money into a franchise? Do you know how much you can afford to invest?
- **Keep in mind**, this is mainly about you, your ambitions, goals and capabilities. Try to focus on the best possible franchise company that will be able to meet all of your needs.





12. Seek Advice and Counseling

You might be tempted to do this entire research process of finding your ultimate franchise - all by your own. We suggest you do not. You should definitely consider seeking advice from franchise consultants, attorneys and accountants, and other business experts. Remember, you should try and minimize the risks involved as much as possible.



Here are some matters where franchise consultants can help you:

- Franchise consultants can match your skill sets, education, business goals and budget with the right franchise and franchisor. A good franchise consultant can also help guide you through the research process and will usually offer advice on financing options.
- Franchise attorneys can help you review the franchise agreement, the lease contract and incorporation documents, as well as provide relevant legal advice.
- Franchise accountants can help you in checking and reviewing the franchisor's financial statements.
- Professional Real-Estate brokers can help you select and secure the right site for your franchise.



Remember, it is extremely important that you find these experts, organizations and individuals that can help and consult you on every step of the way during your research, before you decide to purchase a franchise. Put emphasis on networking with other business owners , joining relevant Facebook groups, going to events, and more. These are all useful tactics to finding the help you require.

13. Conclusions

Congrats on completing our Introduction to Franchising course! We do hope it was helpful in providing you with a good basic knowledge of franchising.



By now, you should be able to:

- Describe what franchising is and the main types of franchises
- Clarify the advantages and disadvantages of owning a franchise
- Point out the components required for the Franchise Disclosure Information
- Determine the resources you will need in franchising a business

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14. Your Next Steps

Well, now it's all up to you. If you are serious about owning a franchise business, consider taking these steps:

- **Step 1:** Be Sherlock Holmes! Launch your own Investigative mission prior to purchasing any sort of business. Go through the above sections 7 to 10, one section after the other and conduct all the necessary investigations.
- **Step 2:** Understand Exactly What You Are Getting. Prior to signing any contract with a franchisor, you should ensure details such as: Training for staff, Marketing assistance, Right to use the franchise name and trademark, Assistance in store design, Uniform, etc. Make a long list of every little item...
- **Step 3:** Find Professional Help. Ask close friends or go online to search for franchise consultants, relevant Attorneys and Accountants – who will assist you in evaluating the franchisor, his financial statements, the package he offers, etc

15. Have a Question? Want to provide feedback?

Contact us at FranchiseManila.com:

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