

# Franchise & Finance

*a banking approach on franchising*

*Rabobank. A bank with ideas.*

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February 2011, Amsterdam

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# Franchising in The Netherlands

Industry	# franchise-chains	# outlets	# employees	€ 1 million turnover	
Food retail	83	5.250	102.500	12.275	<i>AH, C1000</i>
Non-food retail	190	10.900	72.500	10.295	<i>Hema, Shoeby, Primera, Ouderenwinkel</i>
Catering	82	2.150	32.900	1.450	<i>McDonalds, Subway</i>
Services	265	7.700	30.400	3.250	<i>Multicopy, Hypotheker, Thomashuizen, Curves</i>
Others	59	2.450	10.250	1.950	<i>Pirtek</i>
<b>Total</b>	<b>679</b>	<b>28.500</b>	<b>246.700</b>	<b>29.230</b>	

Source: EIM & Rabobank in cooperation with NFV; 2010

- Franchising: about 5% Dutch GBP

# Formula Management

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- Formula:
  - Distinctive and profitable
  - Proven in Dutch market: benchmark information is essential
  - Franchise management: adequate support & coaching of franchisees
  - Offering an exclusive protected area
- Franchisee recruitment
  - Quality before quantity: do not make concessions!
- Legally sound
  - Independent franchise organization
  - Franchise-contract aligned with European Code of Conduct
  - Franchise advisory board
  - Membership of NFV (Dutch Franchise Organization) is preferred



# Franchise and Finance I

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- Franchisee:
  - Fees-paid versus profitability: *"can I make a profitable business with or without the franchise formula?"*
- Franchisor:
  - Fees-received must lead to a profitable business, after reaching a certain market volume
- Realistic business plan is required
  - Franchisor: *"how can I converse Home Instead Senior Care into the Dutch Market?"*

# Franchise and Finance II

## *Franchisor*

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- Solvency:
  - Initial risk bearing capital required:  $\pm 25\%$  (private equity, venture capital?)  
Level depends on:
    - Investments (goodwill, initial losses)
    - Time path of growth
    - Off-balance liabilities (e.g. guarantees)
  
- Liquidity:
  - Cash flow forecast (initial losses, uncertainty-margin)
  
- Financial forecasts (management case):
  - 3-5 years; time path depends on number franchisees
  
- 'Worst'-case' scenarios, because of:
  - Disappointing turnover franchisees
  - Disappointing number qualified franchisees
  - Disappointing market acceptance

# Franchise and Finance III

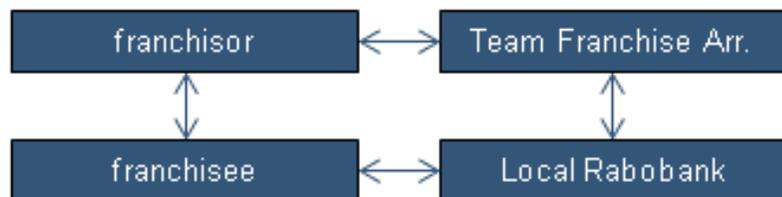
## *Franchisee*

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- Investments:
  - Entrance fee, commercial office space, working capital
  - Personal income & living expenses
- Solvency:
  - Initial risk bearing capital required:  $\pm$  20-25%
- Financial forecasts:
  - Cash flow forecast (initial losses, uncertainty margin) 1-3 years
  - Exploitation forecast 3 years
- Credit application franchisee contains:
  - Personal biography, personal tax record previous year
  - Investment budget and financing overview, exploitation forecasts
  - Exploitation of the objectives, including competitive market situation (local)
- Assessment and approval bank:
  - Entrepreneurship & financial personal situation
  - Governmental guarantee

# Rabobank Offer

*'Rabobank : the power of cooperation.'*



- Franchisor:
  - Contact local branch Rabobank in cooperation with central Team Franchising
  - A 'Franchise Arrangement' provides a single point of contact
- Franchisees:
  - Contact local branch Rabobank
- Offering credit & loans, financial logistics, insurance of risks



# Closing Remarks

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- Solid formula: distinctive and profitable
  - Controlled implementation and benchmarking
- Franchisee recruitment
- Legally sound
- Solid financial position franchisor
- Rabobank financial partner

# Disclaimer

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