Notes to the Franchisee Initial Investment Requirement

The figures and information set out are purely illustrative. They do not represent any representation or guarantee that the figures or any other aspects will be achieved. The success of a franchise is linked to many factors such as the location, ability of the franchisee and resources devoted to the franchisee.

1. Franchise Package Costs (A)
The costs shown represent the tangible items to be supplied to the Franchisee by the Franchisor prior to commencement of operations. This includes the Franchise licence, training & opening support & travel costs & hotel accommodation incurred by the Franchisor when visiting the Franchisee.

2. Operational Launch Costs (B)
The costs shown represent the items that the Franchisee pays for directly for during commencement of operations. This includes the following:

- Leafleting launch i.e. getting the first 10,000 leaflets distributed.
- Staff advertising, by placing adverts in local newspapers.
- Business stationery i.e. letterheads & leaflets
- Business Insurance

The Franchisor adds no profit element to these costs by acting as a 'post-box' in supplying the above items to the Franchisee. The Franchisee benefits from paying directly by saving on avoidable VAT costs.

3. Potential Establishment Costs
The costs shown represent the following 'potential' establishment costs and may not be required if the Franchisee has them already:

- Hardware - Desktop computer with modem & printer.
- Software - A database programme will be supplied free of charge. Microsoft Word, Excel & Access will need to be purchased if the Franchisee does not have them already.
- Telephone - this allows for the cost of installing the telephone lines with a telephone & 0800 number.
- Desk & Chair

4. Other Potential Costs
The costs shown represent the following 'other potential' establishment costs and may not be required if the Franchisee does not need them.

- Legal - Provides for the legal costs in obtaining advice in securing the Franchise.
- Accounting - These cover costs incurred for assistance in preparing the business plan, assisting with any funding arrangements, and advising on the

setting up of the necessary book-keeping system to satisfy Inland Revenue requirements.

- Miscellaneous Items - Covers any small items and services not provided for in the above.
- Working Capital Provision - Provides an estimate of further funds required operating the business during its initial stages, excluding Franchisee personal drawings if initially required, and to cover any possible operating deficits as the business becomes established. However, this will need to be specifically determined in the Franchisee's business plan cash flow forecast once the exact operating costs have been identified, and the rate at which customers commence using the service and the associated cash flow that can be brought forward has been confirmed.

5. Possible Total Investment

The likely total investment requirement is shown here depending on the circumstances of the franchisee.

Notes to Maid2Clean Franchisee P&L Projections

1. Agency Commission is the charge made to the customer for providing cleaning services.

1. Agency Commission (£20 per visit) is the charge made to the customer for providing a one-off cleaning service.

2. Gross Profit is the value of profit achieved from the turnover less any bad debts.

3. Management Service Fee is the total fee payable on the sales achieved. From Month 1 the Management Service Fee means 7.5% of gross turnover.

and thereafter

…from Month 13 - £175 per month or 7.5% of GTO whichever the greater

…from Month 24 - £200 per month or 7.5% of GTO whichever the greater

…from Month 36 - £225 per month or 7.5% of GTO whichever the greater

4. Net Income is the income available after payment of all direct costs.

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5. Rent & Rates - In this case, it is expected that the business will operate from home. If you will be trading from a rented office then you need to include such figures in your forecasts.

6. Light, Heat & Water is a provision for possible costs that will not hugely vary over activity growth. No additional costs are anticipated.

7. Insurance is the costs of providing suitable business cover. Year 1 cover is provided for in the initial fees.

8. Wages & NI reflects the cost of supporting the sales being achieved. In the first two examples, no additional assistance is budgeted for.

9. Local Marketing provides for the cost of local marketing initiatives such as leafleting, etc.

10. National Marketing Levy is based on 1.5% of net turnover and is payable to Maid2Clean. These monies collectively will be used to promote the brand on a national basis.

11. Motor Vehicle Petrol provides for the petrol used during business activities e.g. interviewing cleaners & meeting clients.

12. Telephone and Fax is a provision for the level of telephony activity used.

13. Printing, Postage and Stationery are a provision for the level of activity and assume all materials that are provided direct by Maid2Clean during start up will be paid for.

14. Accountancy will vary depending on the amount of quality bookkeeping the Franchisee does for himself, the level of turnover and the Accountant engaged. NB No provision made for 1st year as this cost will occur 14 months after commencement.

15. Bank Charges will depend on the bank chosen, the frequency of banking, the number of cheques written, standing orders and direct debits set up. Assume free banking after in Year 1.

16. Sundries are a provision for the level of activity, and include general items of small value likely to be incurred that do not allocate the other cost headings.

17. Operating Profit is before the Franchisee's drawings and taxation. It does not provide for the cost of the Franchise Package that has been excluded from these projections in order to demonstrate the effect of pure trading, Bank and Finance Interest that will be dependent on the availability of the Franchisee's own capital and any borrowing requirements. Depreciation will vary depending on capital investment and the cost of depreciable assets.

Franchisee Drawings have not been provided for; effectively the operating profit after certain deductions and taxation will be his remuneration and /or reinvestment back into the business. It is dangerous to state a level of remuneration for the Franchisee's own worth.

All Costs may vary depending on the location and the specific operating conditions of each Franchise, which must all be identified in an individual business plan.

VAT has been excluded from the projections as it is assumed Franchisees will be VAT registered only where applicable. The Franchisors fees shown exclude VAT at 17.5%.

General Observations of the Profit & Loss / Cash flow Projections for Average Performance Franchisees

The projections are based on figures provided by Maid2Clean. They assume modest growth during the first years of trading, as the business becomes established.

The average figures are derived based on an average net growth of 2 clients per week.

Month 1 - Assumes modest growth revenue. Assumes 2 clients in first month = (2 clients * 3 hours x £2.5 per hour * 52 weeks/12 months) = £32.50 *2 = £65.00.

Month 2 - Assumes net Assumes net gain of 9 * 3 hour clients in 2nd month calculated at (9 clients * 3 hours * £2.5 per hour * 52 weeks)/12 months + revenue from previous months clients (£65+£292.5) = £358

Month 3 - Assumes net Assumes net gain of 9 * 3 hour clients in 2nd month calculated at (9 clients * 3 hours * £2.5 per hour * 52 weeks)/12 months + revenue from previous months clients (£358+292.5) = £650

Month 4 - Assumes net Assumes net gain of 9 * 3 hour clients in 2nd month calculated at (9 clients * 3 hours * £2.5 per hour * 52 weeks)/12 months + revenue from previous months clients (£650+£292.50) = £943

Month 5 - Repeats previous month residually & assumes gaining a Net 9 x 3 hour clients in that month calculated as follows... (9 clients * 3 hours * £2.5 per hour * 52 weeks)/12 months + revenue from previous months clients (£943+ £292.5) = £1235

Month 6 - Repeats previous month residually & assumes gaining a Net 9 x 3 hour clients in that month calculated as shown from previous months.

Month 7 - Repeats previous month residually & assumes gaining a Net 9 x 3 hour clients in that month calculated as shown from previous months.

Month 8 - Repeats previous month residually & assumes gaining a Net 9 x 3 hour clients in that month calculated as shown from previous months.

Month 9 - Repeats previous month residually & assumes gaining a Net 9 x 3 hour clients in that month calculated as shown from previous months.

Month 10-12 - Repeats previous months residually & assumes gaining a Net 9 x 3 hour clients in that month calculated as shown from previous months.

Average Data
Further local work is required by Franchisees in assessing whether the average figures used in these projections is realistic for their own areas as their impact on the operating profit is obviously fundamental.

Operating Profit
This will be greatly affected by the level and the speed of customer uptake, and balancing income with appropriate staff and other variable costs as the business develops.