

## Choosing a successful franchise

By Tania Allen

***I**t's exciting times ahead. You have decided to go into business for yourself, and not by yourself. You believe that investing in your own franchise is the best option for you and it's more than likely been a long and hard decision, eliminating a few industries or franchise types along the way that you know just aren't a good fit.*

Now you have short listed some industry sectors down to those that interest you, a good place to start looking for available franchises is your major city newspaper, or industry specific franchise magazines and websites. Here you will be able to either call the company or email them if online and request an information pack. Some information packs provide in depth information whilst others provide a general overview of the franchise opportunity which can then be further explored, should the potential franchisee be interested in taking his or her enquiry to the next level.

What do you do now? Which one is going to be the right one for you? Is there a market for the franchise you are looking at? Can you afford it, and can you make enough money to make it worthwhile?

Buying a franchise does not guarantee your success so it's vital you do as much as you can to research what could lie ahead. The more due diligence you do, the better chance you have of finding the "right" franchise model for you and the better chance you have for success.

### Investigating Your Options

Regardless of whether you choose to buy a new franchise or buy an existing franchise, research is the single most important activity in making your decision. Without adequate information, you could be making a very costly decision, effecting the rest of your life. Below is an outline of the advantages and disadvantages of buying a new franchise or buying an existing franchise which might assist you in your search and decision. Either way buying a franchise has some definite advantages and disadvantages and these should be evaluated before deciding to purchase one.

### Buying A New Franchise

Advantages	Disadvantages
reduced risk of failure	costs more (fees, royalties, supplies)
proven methods and products	smaller profit margins
proven methods and products	difficult to achieve redress if local, regional and national advertising franchisor fails to meet obligations
on-going training and support	a franchisor's problem may become your problem
collective purchasing power	
research and development	
association and synergy with other franchisees	
easier to obtain financing	

### Buying An Existing Franchise

Advantages	Disadvantages
the business is already up and running	tangible limitations
risk and uncertainty may be reduced	design problems
the basic infrastructure is in place	location problems
established location	merchandise problems
existing customers and reputation	intangible limitations
employees	customer or employee ill will
vendors	pricing problems
policies and procedures	inadequate procedures
cash flow	lease problems
no start up period—quicker profitability	potentially higher costs to buy
easier to obtain financing	legal liability in inheriting lawsuits

### Overall Advantages of Buying a Franchise

Consumers today are becoming more brand loyal which means your chances of being successful in business could simply rest on the fact you belong to a strong brand in the marketplace.

- Owning a franchise allows you to go into business for yourself, but not by yourself.
- A franchise provides franchisees with a certain level of independence where they can operate their business.
- A franchise provides an established product or service which already enjoys widespread brand name recognition. This gives the franchisee the benefits of customer awareness which would normally take years to establish.
- A franchise increases your chances of business success because you are associating with proven products and methods.
- Franchises may offer consumers the attraction of a certain level of quality and consistency because it is mandated by the franchise agreement.
- Franchises offer important pre-opening support:
- site selection
  - \* design and construction
  - \* financing (in some cases)
  - \* training
  - \* grand-opening program
- Franchises offer ongoing support:
  - \* training
  - \* national and regional advertising
  - \* operating procedures and operational assistance

- \* ongoing supervision and management support
- \* increased spending power and access to bulk purchasing (in some cases)

There are of course some disadvantages to buying a franchise and the most important one to look out for is if other franchisees are performing poorly or the franchisor runs into unforeseen problems then it can damage the overall system and image of the company.

### **LET'S HAVE A CLOSER LOOK AT SOME OF THE IMPORTANT AREAS YOU SHOULD CONSIDER WHEN CHOOSING A FRANCHISE.**

#### **Your Passion! Where Do Your Interests Lie?**

With over 900 franchise systems within Australia alone, it is important that you gather as much information as you can about the types of franchising opportunities that are available and what they have to offer you and to the market or end user (the customer). Have a clear idea of where your interests lie and what areas you are passionate about, as this will help you eliminate some franchises in industries that just don't interest you. You should start a business in an industry that you will enjoy for the next 10 to 15 years.

Making the correct choice of industry is the foundation for success.

Ask yourself:

- What do you like to do? (interests and hobbies)
- What do you know how to do? (experience)
- What do you do well? (special skills and talents)
- Which industry(s) involve your interests and use your skills and talents?
- What products or services could you sell in this industry(s)?
- Would you rather sell a product or service?
- What products or services would you like to sell the most?

#### **Determine If There Is a Market**

Before purchasing your franchise, determine if there is a market for the franchises product or service.

- How many potential customers are in your area?
- Will your product or service sell?
- What need does it satisfy?
- What problem does it solve?
- What trend or fad does it address?
- What should the appropriate pricing be?
- Who are your competitors?
- How many competitors do you have?

- What do they offer?
- How will your product or service be unique?
- What marketing niche can you capture?

#### **A Fully Informed Decision Is a Good Decision**

Like starting any business, buying a franchise involves a risk. Studies show that successful franchisees:

- conduct their own marketing research
- use their own financial and legal advisors
- develop thorough marketing and business plans
- have prior work experience

As a prospective franchisee the more time you devote to researching the franchises available and evaluating the strength of the franchisors, the happier you will be in your decision. In order for you to make any decision about entering into a relationship with a franchisor and becoming one of their franchisees in the network, it's important you are in a position where you can make a fully informed decision about whether it's right for you, or not. Reading an information pack just isn't enough. Think about areas such as the company's vision, philosophy and values. Are they in alignment with your values, and are you comfortable with what their products and services offer the marketplace?

It amazes me that many people make a spur of the moment decision about their future and their next 10 or so years. A franchisor does not need a license to become a franchisor, so how do you know if your investment is safe?

#### **A great place to start is to investigate the franchisor's history:**

- How long has the franchisor been in business?
- How many current franchisees are there in the network?
- What is the failure rate of the franchisees?
- Are there any pending or past lawsuits and what have they been for?
- Does the franchisor have a reputation for quality products or services?
- What is the franchisor's financial health?
- What are the earnings claims and profit projections? On what are they based? Are the projections based on franchisor or franchisee-operated units?
- How long have the franchisee operated units been used for projections been in business?
- What is the background of the principals/management? What is their business experience? Have they personally had any bankruptcies? Have they personally had any recent litigation?

#### **Transparency**

Transparency is another important ingredient to the decision making - due diligence

process. The more open the franchisor is, the more you can find out whether it's the right fit for you.

- Is the franchisor open when communicating the business model to you?
- Do they offer you the opportunity to speak with other franchisees?
- Are you able to meet the franchise support team?
- Do you have the ability to review the operations manual and possibly sit in on a training class?
- Have you the opportunity to work in an existing franchise for a couple of weeks and really get to know the:
  - \* System
  - \* Manuals
  - \* Training program
  - \* Support
  - \* Earnings potential

Speaking with current and past franchisees is important as it allows you to get a general idea of their experience in the business and what it's like working within the franchise network. Hearing a franchisees' perspective (make sure you speak to a few and not just one), is a fundamental part of your due diligence and you get an idea of what to expect and what the culture is like and what the franchisor is like from a Franchisees' perspective.

Speaking with franchisees that have left the system and finding out why they left gives you more insight into the franchise. Be sure you contact more than one so you can average out the responses. Not everyone's going to be right for the franchise and a few will leave the system either because they were asked to or because they failed to do their proper due diligence initially and realised it just wasn't for them. So ensure you speak to more than one past franchisee.

When speaking with or visiting existing franchisees, try to cover areas like:

- The level of training
- The quality of products or service
- The level and promptness of support
- The operations and quality of the operations manuals
- The earnings potential/claims
- Any problems or difficulties with the franchisor
- Franchisor-franchisee relationship
- Level of franchisee commitment

### **Franchisor-Franchisee relationship**

How does the franchisor treat the franchisees in the network? This is an important

area to ask questions about. Ask current and past franchisees as well as the franchisor. The ideal situation is if the franchisor treats it's franchisees with the respect, as fellow business people who are in business to achieve profitability and mutual success. You will find yourself in a much safer and more successful environment and network if this is the case. Franchisees who are respected as fellow business partners are more likely to respond to the franchisor like switched on business people motivated and ready to seize opportunities and deliver products and services to their local area as best as they can. They are proud to get out into the local market representing the brand they belong to.

### **Commitment**

Is the franchisee committed to the franchise? A franchise offers strength in the market place in the brand as well as in the numbers of the network. How committed is the franchisor to ongoing support and training? You can find this out just by asking a few current franchisees. Is the support and training broad which means it not only offers business operation training and support they provide much broader support and training which covers all key areas of business along with offering management resources, support and advice.

### **Franchise Agreement and Disclosure Document**

Carefully study and obtain professional advice concerning the franchisor's Disclosure Document and Franchise Agreement paying special attention to:

- Costs including franchise fee and fit out fee
- Term (duration of) agreement and renewal provisions and conditions
- Termination clauses
- Franchise territory
- Procedures and restrictions
- Training and assistance
- Earnings potential - gross sales, net profit
- Expansion plans
- How fast do they plan to grow?
- Where do they plan to grow?
- Do they have a business plan for your area of location?
- What is their analysis of the competition in your area?
- How many units are being planned for your area? Why that many?
- How much is going to be spent in regional advertising in your area?

Let's expand on a couple of these key points.

### **Franchise Fees**

One of the most common questions is how much does it cost, and what are the other fees I have to pay? Every Franchise system is different. You will more than likely find a general overview of the fee in the information pack and you can find out the full list

of fees payable, both upfront and ongoing, in the Disclosure Document. The fee will vary depending on the maturity of the business and the complexity of the system.

#### **Upfront Fees:**

Before you start your new franchise, there will be an upfront fee payable to the franchisor. This is the fee to enter the system and gain the right to use the intellectual property including the system and brand name. Most will also require a training fee to be paid which will cover the initial training provided to you so you have the knowledge and the skills to operate your business from day one. Some franchisors will also ask for an upfront marketing or initial promotion fee which is used to promote your franchise in the local area during the initial launch period.

#### **Royalties / Ongoing Fees:**

Royalty is the most common word used for the ongoing fees that are payable to the franchisor. This fee usually covers business, management, technical and marketing support. These fees vary from franchisor to franchisor. Some base their fees on turnover whilst others set a fixed amount. Some franchisors do not charge an ongoing support fee at all; instead they earn their income from the sale of their products to franchisees, which the franchisee then sells to their customers. Usually these products are exclusive to the franchise system and can only be purchased direct from the franchisor.

#### **Marketing Fees:**

Marketing fees are collected by the franchisor to go into a marketing fund or marketing pool. This allows the franchisor to market the brand for the benefit of all. This generally is a fixed fee or a percentage of turnover. Not all franchisors require you to pay into a marketing fund. Please check the franchisors Disclosure document for this. Be aware that you will still be required to pay for your own Local Area Marketing for your franchise.

#### **Fit Out Costs:**

The fit out fee is commonly included in the total investment set by the franchisor. This is known as a “turnkey” solution where by the franchisee can sign the agreement, attend the training and then commence in their premises with everything ready at their fingertips to operate the business. Where the fit out costs are not included as a total investment the franchisor will give the franchisee an estimate to fit out the site. Every site will be different so these costs will vary from site to site. Fit out is done in the most cost effective manner and in alignment to the design and layout standards.

#### **Training:**

The initial training provided to new franchisees is a vital ingredient to the success of the franchisee. For many new franchisees, this is the first time they have been in business for themselves so it’s important to ask what’s included in the initial training.

From my experience training that includes the operations of the business, use of the system as well as other management and marketing processes sets a more solid foundation for success. Assisting franchisees in areas such as marketing, bookkeeping, staff recruitment and training, quarterly planning and so on will increase the chances of overall confidence in the business which will ultimately lead to a higher chance of success. The more proactive franchisors provide the services of a franchise coach to assist the franchisee in all key areas of business.

#### **Support:**

Ongoing fees are charged in return for a certain level of support provided to the franchisee. It is always a good idea to ask what level of support is provided and what is included in this support. Does the support cover all key areas of business or just the franchise system?

Obtaining independent legal, accounting and business advice before signing any binding documents is absolutely essential!

#### **IN SUMMARY:**

Before buying any business, you must carefully consider many factors that are critical to your success:

- costs
- training and support
- your abilities
- franchisor’s experience
- demand and competition
- expansion plans

#### **Brand Name:**

How well known is the franchise name?

Does it have a reputation for quality?

Have any consumers filed complaints against the franchise? If so why?

#### **Costs:**

How much money will this franchise cost before it becomes profitable?

Can I afford to buy this franchise?

Can I make enough money to make the investment worth my time and energy?

#### **Training and Support:**

What kind and how much training and support does the franchisor provide?

Do existing franchisees find this level of training and support adequate?

#### **Your Abilities:**

Do you have the technical skills or experience to manage the franchise?

Do you have the business skills to manage the franchise?  
Is the franchise of interest to you?

**Franchisor’s Experience:**

Has the franchisor been in business long enough to have established the type of business strength you are seeking?

**Demand:**

Is there enough demand in your area for the franchisor’s products or services?  
Is the demand year-long or seasonal?  
Will the demand grow in the future?  
Does the product or service generate repeat business?

**Competition:**

How much competition do you have, including other franchisees?  
Are the competing companies/franchises well established?  
Do they offer the same products and services at the same or lower prices?  
Is there a specialty or niche you can capture?

**Expansion Plans:**

Is the franchisor planning to grow at a rate that is sustainable? Part of your due diligence when considering which franchise network to invest into should include looking at the individual success of the franchisees. Have a look at what individual franchisees are achieving. Has the franchise met all their expectations and if not where has it fallen short. Do you have the ability to own multiple sites within the franchise network?

**Obtaining independent legal, accounting and business advice before signing any binding documents is absolutely essential!**

If you are making the decision to get into franchising, your success will be determined by the level of due diligence to do, the level of understanding you have gained of the franchise business and the level of commitment you are willing to give to your success. Your future success and prosperity will also largely depend on how well the relationship between the franchisor and franchisee is managed.