

# 5 Top Tips on Successfully Buying a Franchise

By Grant Garraway

The purchase of a franchise will for most people be the biggest or second biggest financial investment they ever make. You need to ensure you have maximised your chances of making that purchase a success.

You have the chance to own and operate your own business with the advantage of a partnering with an established franchise company with brand recognition, a well-established business model, and high quality products or services available to your customer which you have purchased at the best prices. That's what franchising generally promises you.

However if your franchisor lets you down on any of those points you may find yourself trapped in a no-win situation with an unsuccessful business and a franchisor that is providing significantly less than they promised.

How do you improve your chances that your franchise is a success? We recommend you use these 5 simple steps to guide your purchase decision. There is no substitute for completing your due diligence fully.

## 1. Know Yourself and where you might fit in.

The franchise sectors growth over recent years has been excellent. Set out here are some of the key facts about size of the franchising sector, established by Griffith University on behalf of the Franchise Council of Australia in their 2010 survey.



The latest industry survey is the 2010 survey released in October 2010 showed the number of franchisors was 1025 and that the franchise sector is estimated to contribute \$128 billion to the Australian economy.

**The Franchise Shop** has worked with franchisors from children's sports centres to retailers and convenience stores to coffee and tea store. A prospective franchise buyer could easily be overwhelmed by the sheer number of possible franchises.

You **MUST** ask yourself what skills you bring to your new business. Extensive experience in retail? Five years of home-building know how? An ability to work well with children and their parents? Make sure the franchise you are considering purchasing matches your unique skill set. Be very wary of any franchise which operates in an industry you know nothing about.

## **2. Know your Franchisor**

By now you've probably looked at many of the franchise websites and perhaps even spoken extensively to several franchise sales people, now it's time to make sure the information you've been given matches the facts. Look at the Franchisors Disclosure Document (FDD) carefully.

The Federal Government through the ACCC requires all franchisors to provide an FDD 14 days prior to signing an agreement with you or accepting any money which is not refundable.

The franchisor, among a wide range of other matters, must identify its executives and describe their business experience, disclose certain legal cases or mediations provide a breakdown of initial and ongoing expenses and state the conditions for renewing, selling or terminating the franchise. You should have an experienced franchise solicitor review it to protect yours – and not the lawyer who helped you with your divorce or your fencing dispute with your neighbour.

## **3. Trust it But Check it!**

The ACCC requires that the FDD include a list of current and former franchisees. These people are a best resource to verify the franchisor's claims. Contact or visit franchisees in your area to chat about their experiences and to see first-hand the volume and type of business they're doing.

You should call every person on the "former franchisee" list and as many of the active franchisees as time permits. Give less time to franchisees that the franchisor introduces you to or encourages you to contact. Beware of purchasing any franchise with a high percentage of terminated, cancelled or non-renewed franchises.

## **4. Do Your Numbers**

All franchises have some start up fees and even the very best business might take a few months to make a profit and positive cash flow. Take a hard look how much you are willing to invest and how long you can wait before the business makes a profit. Don't assume the "estimated initial investment" contained in the FDD will be enough to get you to profitability. How long can you live on your savings?

## 5. Call in Professional Advisors

In addition to carefully reviewing the FDD, you should have it and the franchise agreement reviewed by an experienced franchise solicitor who can help you understand your rights and obligations under the franchise agreement. They will also help you protect your interests and provide you with tools and knowledge to make a better business decision.

A franchise experienced accountant can help you assess the franchise's financial information and develop a successful business plan for your new business.

An experienced franchise consultant can offer you industry knowledge , and background information on your proposed franchisor which neither the solicitor nor accountant may possess, assist you ensure you have completed your due diligence.

If you require assistance with your purchase of a franchise, please feel free to contact The Franchise Shop on 1300 139 557.