

# Are you suited to franchising?

*As with any new business venture, you need to carefully consider whether you have got the right skills and attitude to run a successful franchise.*

*Analysing your own temperament can also help you decide which type of franchise would be right for you.*

The place to start is you.

## **Evaluate yourself**

You must be prepared to sell. A franchise gives you a business blueprint - but it won't give you customers. You will need to work hard, and most likely, for long hours. Do you have the necessary stamina? Running your own business can be stressful. Think how you react to pressure. You may be starting up in business because you want to be your own boss. If so, would you be happy with the restrictions imposed by a franchise arrangement?

On the other hand, you may want to limit your risk. You might be much more comfortable with a franchise than starting a new business from scratch.

## **Choose the right franchise for you**

Do you like office work? Or would you prefer a business that involves physical labour?

Are you happy working on your own? Or would you be good at recruiting, training and managing employees?

Do you like dealing with members of the public? Or would you prefer a franchise where you sell to business customers?

Are you weak in any particular business skills such as cash flow management? Can you find a franchise that offers the support you need in those areas?

## **Choose a franchise business that you'll enjoy**

You have to do the work that the franchise entails, so buying a franchise that you will enjoy is the most important factor of all. Most businesses, regardless of the industry, and not just franchises - succeed when the owner truly enjoys the products and/or services that the business supplies. If you really enjoy and are genuinely interested in the products and services, together with the customers and markets, then you will gather information and gain skills rapidly. If you enjoy the business it is likely

that you will possess a good deal of knowledge about it already. Being an expert and a specialist at what you do is essential to running any successful business - enjoyment and expertise naturally go hand-in-hand.

You will find it easy to specialise and become an expert in an area that you enjoy, quite simply because it is a pleasure and not a chore. When you work in a service or product area that you love, you will be motivated and your enthusiasm will be conveyed to your customers and everyone you meet. People like to deal with enthusiastic suppliers - people who love their work. When you enjoy the subject of your franchise business you will naturally put in more effort than if you worked in a field that fails to inspire and excite you. People who love their work always work hard and put in more hours. Their work becomes part of their life, rather than it being just a means to pay for their living costs.

### **Research the best franchises**

There are hundreds of different business franchises in Australia today, and there will be more than one, and perhaps many, in your chosen business field. Once you have made the decision to buy a franchise business it is difficult to turn back. A wrong decision takes a few seconds to make, and for some, a lifetime to rectify. So do your research. Look at the alternatives. Ask existing franchisees. Ask customers. Ask bank managers. Read the relevant franchise trade magazines, newspapers and websites. Attend franchising exhibitions. Seek the advice and opinions of friends. Do some local market research to gauge demand for the products and services, in order to test the reputation of the franchising companies, and to test their claims about pricing and any other relevant business claims or information you have been given. Become an expert before you sign the contracts - don't wait to learn about the 'unknowns' after signing the contract and parting with your cash.

These days information is easy to find. Don't be shy - look for it - ask and satisfy all of your concerns before you make your decision.

### **Trust your gut instincts**

When you buy a business franchise of any sort you are entering into a business partnership, in which your relationship with the Franchisor (or 'principal'), and their people, will be absolutely crucial to your success. You must be able to trust and work with the Franchisor and the franchise company's staff - especially the directors and senior managers. If you have the slightest doubt as to the integrity of any of the people within the franchising company, think extremely carefully before you go ahead with them. Trust your instincts - if you feel uncomfortable during the selection and recruitment stage, it is likely that there are grounds for concern.

Feeling uncomfortable about trust and relationships may not necessarily mean that the Franchisor is untrustworthy, but it does probably mean that the 'fit' may not be right for you. Relationships are personal things - there are some people you will get along well with and see eye to eye with; and others you may not. You will be more likely to succeed, and receive a good level of appropriate support, if there is a good emotional 'fit' with the Franchisor. Trust your instincts to tell you whether the franchising company has a similar value system and ethics to your own.

If you value the customer above all else, do they as well? If they do not, then they may not be fully in tune with your style and business philosophy. Finding a good emotional and philosophical match with your chosen franchising company is almost as important as choosing the right sort of business. Given

sympathetic and genuinely relevant support, we can achieve almost anything - be sure that your franchise partner will be able to provide it.

### **Look for a good business profit model**

Successful businesses (not just franchises) are always based on a sound and healthy business and profit model. Most franchises tend to have this, otherwise they cannot operate. Make sure to check the extent and sustainability of the financial model. The better the profit model, then generally the easier it is to start up, run and maintain a successful business.

Businesses with strong brand names and reputations also tend to have stronger financial models. This is because customers are prepared to pay a higher price, and will more often say yes, to receive a trusted product or service.

Seek out franchises with modern technology, innovative and protected products and services, a strong brand and reputation, combined with growing markets where the route to market favours the franchising business model. These opportunities will almost certainly be the ones which offer the strongest and best profitability. Avoid buying a 20<sup>th</sup> century idea in the 21<sup>st</sup> century.

### **Look for high integrity propositions and Franchisors**

High integrity is essential for two crucial reasons:

1. You will keep your peace of mind and be able to sleep at night. The world is full of miserable millionaires - people who have exploited others to make their money. Don't be seduced by this false dream. To always behave ethically and make decisions with high integrity, will keep you safe, and probably make you wealthier too.
2. You will delight your customers and good word will spread, which is vital for local service businesses, which nearly all franchise businesses are. Local businesses live or die by their reputations. Behaving with high integrity will automatically ensure that your reputation shines and grows. Many well established successful franchisees never need to advertise or look for their next customers - their customers find them.

If you buy a franchise that lacks integrity, undoubtedly with all the best will in the world, you will be pushing water uphill.

Look for and buy a franchise which has high integrity at the centre of its products, services and business ethics, and you are half way to running a high integrity franchise business. All that remains is for you to ensure that your own input and activity focuses on high integrity too.

### **Understand the financials**

You do not need to be Gordon Gekko, but you do need to understand the essentials:

- What is the level of investment and what do you get for it - is it good value? Or is it all smoke and mirrors?
- How long will it take you to recover your investment?

- What is the payback period - how quickly will the franchise realistically and reliably acquire profit? This is a crucial indicator, and one which you must understand and be assured that it is acceptable and achievable before you buy any franchise.
- What are the running costs of the franchise? Some will be fixed overheads (such as vehicle lease repayments, plant and tools, franchise fixed repeating fees, your wages, other staff wages, premises and heating, etc), some will be variable 'cost of sales' dependent on your sales levels and volumes (such as materials and additional labour, possibly fuel etc); and some will be other variable costs necessary to promote and expand the business (such as advertising, printed materials, training, etc). Get a clear idea of what these costs are. Be able to see and understand them over a year and broken down month to month.

### **What working capital will you need?**

This is the amount of money required for the business as running costs, including your own salary, before the business begins to make a profit necessary to fund itself and your wages.

What borrowing or loan arrangements are required? Can you afford the repayments, given the working capital requirements of the new business, and the rate of expected business and profit growth?

What alternative borrowing or loan arrangements are available - look around and negotiate hard. If you do not ask you will not receive. No bank manager will offer you their best possible rate until or unless they feel they need to. Have an alternative - play one lender against the other. The most important rule of any negotiation is having an alternative - being able to walk away. This applies also to when you come to buy the franchise itself - sometimes there is room for negotiation. Again, if you don't ask you will not receive. Buying a franchise can become like buying a house - if you get your heart too set on one single option then you have exactly that - just one option; and no room to negotiate.

If you find two options, you immediately increase your power in the discussions, and you will feel more liberated in your decision making too. Understanding the relative financials is an important aspect of comparing franchise opportunities. Work at using the key financial figures and indicators and you will quickly become accustomed to making these judgements, which in turn will make you stronger in your discussions and negotiating before buying your franchise.

### **Understand the meaning of the contracts and franchise agreements**

In Australia we have the benefit and protection of the Federal Governments **Franchise Code of Practice** which is compulsory for all Franchisors under the *Trade Practices Act*. However, its existence does not exempt you from reading and understanding your franchise contract. Get a Solicitor to explain the contract to you.

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