



Government
of South Australia

Department of Trade and
Economic Development

BizFacts

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Buying a Franchise

If you are considering buying a franchise then there are some things you must find out first. A legitimate franchising company is proud of its name and welcomes detailed investigations. A franchise can be a good way of investing providing that you do your **homework**. Beware of any company that refuses to answer your questions.

You should consult your accountant, your bank, a solicitor or a registered franchise adviser **before you sign any contracts**. The Business Enterprise Centre Network and Regional Development Boards have advisers who can assist with your enquiries. For details of your local centre, phone 1800 188 018.

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What is the product or service like?

A franchise usually relies on a corporate image and you should check how this is generally regarded. Would you normally buy the product or service for yourself? How do you feel about committing yourself to long-term business with the products sold now?

How well does the product perform? Are there steady all-year sales or are there seasonal variations? Could you carry a slack period? Check that the product is not just a fad but will continue to enjoy a good market in years to come. How long has it been on the market and what is its market share? Can this be improved by your efforts? Ask how the product or service fares in relation to its major competitors. Does the price and quality stand up to investigation? Is it packaged and merchandised well and who supports the advertising campaigns?

How much is known about the franchisor's history and reputation?

How long has the franchisor been in business? If the firm is new ask about the product or concept testing, how long the trials were and what were the results. You should request annual reports and research data to show you how well the company is performing.

Is the firm ethical and does it have a good reputation? Has it got a good record of honesty with its franchisees and customers? Ask who the principals are, what standing they have in the community and what their business experience is.

Check the reports to see that the firm is adequately financed and what the plans are for future expansion. Check their policy on extending franchises in a locality to make sure that your market share will be protected.

Take your time to research the background material. Have you been provided with a disclosure document? Ask other franchisees about their experience with the company.

Find out how selective the company is in choosing franchisees. Have they asked you for full details of your qualifications, business experience and financial standing?

Is the company a member of the Franchisors' Association of Australia and New Zealand?

What should you ask about the sales area?

Where is the product or service sold now and what guarantee do you have that it will sell in your area? How much competition is there from similar products in both franchised and non-franchised outlets and how much of the market share do they hold? Check on how good trade is in the other outlets and on the quality of their product and service to see if your franchise will be competitive.

Look at how the franchise sales area is defined on a map and in the contract, and whether you get exclusive rights to a particular catchment area. Find out as much as you can about the characteristics of the area in relation to your product. Does the population match the target market in terms of age, buyer preferences, spending and product image?

Is the locality in a population growth area or in a declining neighbourhood? What are the general characteristics of the residents or those who work there? Are they the same kind of people or a mix of types and ages? What effect will population changes and suburb image have on your customer profiles?

Is there potential for trade growth in this area and how many sales can you trap from passing trade? Some companies do market research before they offer a franchise. Check if this has been done.

The franchise contract should explain fully all your rights and obligations under the franchise agreement that you make with the company. It should be comprehensive and down to earth. It should be in plain English. You should check the contract with a solicitor and your accountant.

The contract should benefit and protect both parties and you should ask what your rights are to terminate the contract and how much this would cost you. Would you be able to sell the franchise if the franchisor consents and how much money, if any, from the sale of the business would go to the franchisor?

A contract should list the terms under which the franchisor is entitled to exercise an option to take back or terminate the contract and the conditions under which this might occur. What compensation for the goodwill that you have built up would be recovered in such an event?

Does the contract prevent you from establishing, owning or working in a competing business for some years after termination or sale of the franchise?

Are the payments you have to make to the franchisor fully spelt out – do they include the franchise fee, any advertising levy and renewal fees? What other payments apply?

How much merchandise must be purchased from the company and how often? Are there any supplies that you can or must organise for yourself?

If there is a sales quota, this should be stated. Are you sure that you can make this volume of sales?

Before signing the purchase contract check if you could establish a similar business more cheaply under another structure. What does the franchise contract offer you that is different? What are you really buying?

How much assistance will the franchisor offer you to establish and maintain the business?

Does the contract spell out what continuing assistance you can expect from the franchisor?

If the company runs a training school for you and the staff, is it properly equipped and does it run acceptable training? Find out about the reputation of the training offered before you enter the contract. What staff training skills will you need to acquire and does the franchisor offer this? Will this be at a cost to you or is it covered in the contract or by levy?

How much do you know about the operating systems that the franchisor uses? If they provide procedural manuals, Codes of Practice, Quality Service Policy and any form of centrally generated accounting and record keeping system, are these provided to you under the terms of the franchise? Does the franchisor give you training in the management and operational systems and is this at any cost to yourself? Have you been able to observe a system in full operation before you choose to sign up?

If there is franchisor finance available you should check the normal money market rates with your accountant and bank manager to make sure that it is competitive and you cannot get a better deal elsewhere.

What feedback does the company provide through centralising accounting and analysis of sales performance that could assist in planning?

How is the advertising and sales promotion handled? If there is any media promotion or use of celebrities will you be able to gain assistance through this?