

WE KNOW

BUSINESS

FRANCHISING OPPORTUNITIES

QUICK GUIDE

When considering if a franchise is right for you remember that you are looking to a standard tried and proved formula, albeit some may have variation on this standard theme. Most if not all franchise operators will encourage you to talk with franchisees to get a very clear picture of the business, how it works and whether it meets your expectations.

Franchises cover many different industries; you are not limited in your choice of industry or lifestyle. You can choose a business that reflects your own skills, values and personality.

INVESTING IN A FRANCHISE CAN GIVE YOU A REAL EDGE

Depending on the industry and size of business you choose, you'll benefit from:

- **Proven business models** – you'll be directing your valuable energies into a business that has already succeeded elsewhere
- **Reputable, recognized and proven brand** – including registered trademarks and other intellectual property
- **Training and support** – from systems documentation to manuals
- **Experience and expertise** of the franchisor – from training and support when you need it, to advice on banking, legal and accounting issues
- **Buying power** of a collective group – giving you the potential of better deals for sourcing equipment, stock and better quality materials
- **Greater marketplace presence** and awareness from coordinated advertising and marketing
- **Known financial input** – you'll know how much it's going to cost and how much working capital you need
- **Teamwork** – as part of a nationwide group you'll have a common direction, yet be working for yourself
- **You don't need to be an entrepreneur** – many franchises do not require you to have intimate industry knowledge to get started
- **Lower risk** – franchise units have a significantly higher survival rate in the first three years of business than self-start small businesses.

If you are looking for a business with minimal input, choose again, there is no such business. Franchising itself is no guarantee of success. You must apply the same consideration and research that you would to any business decision, a business particularly a franchise is only as good as the operator.

IS FRANCHISING RIGHT FOR YOU?

- List your strengths, weaknesses, opportunities (those areas you could improve) and threats (personality traits that could work against you in business).
- Why are you interested in working for yourself – is it independence, a change, lifestyle reasons, financial reasons, or could it be because of the success of others?
- Can you identify any risk factors?
- What level of personal commitment are you willing to make? – eg, are you willing to work longer hours, and weekends if necessary?
- Are you motivated, positive, and enthusiastic?
- Are you a team person or are you happier working on your own?
- What sort of environment do you enjoy working in?
- Are you happy for someone else to set the direction for the business?
- Will you receive support from those close to you? Family/Friends.

Ask other people

- Ask several people who know you well the same questions you asked yourself. Compare their answers with your own
- Ask people who are self-employed about what it's like – the good points and the bad. What do these people have in common? Are their answers consistent? Would you be happy working in that sort of situation?

WHERE TO NOW?

If you are confident you are ready for franchising in terms of your personality, capability and risk profile continue on:

- Choose an industry you'd like to work in. You may already have skills you can bring to your new business
- Find out all you can about franchising
- Read magazines like Franchise New Zealand Magazine
- Contact the Franchise Association of New Zealand, legal or accounting firms that specialise in franchising ask them to send you further information.

SOME QUESTIONS TO ASK YOURSELF ABOUT YOUR FRANCHISE'S PRODUCT OR SERVICE?

- Is there a real need for this product/service?
- How stable is that need?
- Is the product/service still growing as a category?
- How large is the current market and the potential market?
- How much competition is there in the category already?
- How long have those companies been established?
- Are there several franchises to choose from?
- What do they have in common?
- How are they different? Is that important?
- Are there are town planning, zone, land changes or territory changes that may affect customer buying patterns or choices?

CONTACT THE FRANCHISORS

Look at a range of options, perhaps start with the franchise whose advertisement you were first attracted to.

- Ask them to send you information and read each information pack carefully
- Make a note of your impressions and a list of questions as you go.

The details you are looking for are:

- Company's history
- Products/services
- Market for these products/services
- Role of the franchisor
- Costs – initial and on-going.

Organise an appointment

This may be the first of a series of meetings. You should be looking to see whether you like the company and to obtain all the information you need to make an informed decision.

At every meeting, gather more detail. Get all the answers to all your questions. And if you have any more questions, ask them. Your money, livelihood and your future are at stake.

Questions to ask the franchisor

- How long has the business been running as a franchise?
- How long did it run before it became a franchise?
- How successful was it in that time?
- Did they run a 'test' franchise? What were the results? Has anything changed since then?
- How strong is the franchisor's financial position?
- Do they have a disclosure document? If not, how can you source that information?
- How many franchises are there? Have any failed, closed or changed hands? If so, why?
- What levels of training and support are provided? Do they fit with your needs? How long are the training and support available for? Do they extend to/include staff?
- Is the franchisor a member of the Franchise Association of New Zealand (FANZ)?

Check the company records

Contact the Companies Office and look at the company's details, including shareholders and directors. Does all the information match what you've been told? Have there been any sudden or sizeable changes in the number or names of shareholders and directors? If so, contact the franchisor and ask them for an explanation.

Has there been any legal action taken against it, actual or pending? Speak with your lawyer about this.

Check the company's credit

Get a list of credit references and check them carefully. If you are worried, you might also request credit references for the shareholders and directors, or run a credit search through a credit agency.

Speak to existing Franchisees

Ask for a full list of existing franchisees, including contact details, and talk with several of them about their experiences:

- Is the franchise what they expected?
- What sort of hours do they work?
- How supportive is the franchisor?
- What do customers think of the franchise?
- Look up the franchise's web site (if it has one), just in case there's something there you didn't know
- Does the franchise have a Code of Practice? How is it enforced?

Make sure you're happy with the answers to these questions before you go further.

HOW MUCH WILL YOU PAY FOR A FRANCHISE?

Costs vary and depend on factors such as the profile of the franchise, expected returns, the cost of its stock and location.

Transfer fees

Some agreements provide for a transfer fee to be payable to the franchisor upon sale of the franchise. It is reasonable for the franchisor to be reimbursed for any costs they will incur upon sale. It pays to check the franchise agreement to see if a fee is payable and how much it is. Check who is responsible for the training of new franchisees, and who pays for the training.

Returns

Making money is the purpose of any business. You may be better off buying a more expensive, profitable business than buying a low-cost business that offers little or no profitability, growth potential or franchise support. Before you even think about returns you'll have to take other things into consideration such as tax,

borrowings, and of course your working wages. In addition to the on-going return on your investment, the other consideration is how much you will get for your business when you sell it. A successful franchise operation is likely to attract a considerable premium and offer a good capital gain.

QUESTIONS TO ASK YOURSELF

- Will this business meet the personal goals that I've already identified?
- Will I be as good in it as I want to be and do I have what it takes in terms of skills?
- Do I fully understand what's involved and am I comfortable with that?
- Do I get on with the franchisor? Are they reliable and competent? Do they understand my goals and aspirations?
- Could I have a future with this business and is it one I am happy with?
- How successful have others been and can I be just as successful, or even more so?
- Do I have my own territory? How big is it? How viable is it?

If you had the choice of starting your franchise from scratch, or being handed the reins on one that's already up and running, which would you choose.

BUYING AND EXISTING FRANCHISE

Rather than setting up from new, an existing franchise offers both advantages and disadvantages. On the up side, the systems and customer base may already be established and you can analyse what is being achieved and what might need to be improved. On the other hand, you may need to ask yourself why the owner is selling it or that it could be more of an expense than you originally bargained for.

Things to be aware of:

- If the owner is selling, what are the reasons?
- Be aware that if the owner is selling a successful franchise they might want a payback, usually in the form of goodwill
- If the business is in a rundown state you may need to upgrade fittings, equipment or stock and retrain staff. The franchisor may also force you to upgrade as part of their regular renewal programme.

Involve the franchisor

Before you spend too much time analysing an existing outlet find out if the franchisor has to approve your purchase:

- Are any fees payable to the franchisor upon transfer of the business owner, and if so are they to be paid by the purchaser or the seller?
- Is there a defined territory?
- Is a new franchise agreement covering a full term issued by the purchaser or are you assigned to the existing agreement?
- Is that remaining period long enough to allow a satisfactory return on investment?
- Will you be required to upgrade business fittings shortly?
- Who will provide training – the franchisor, the existing business owner, or both? Who will pay?

Check the figures

- Are the figures the most up-to-date?
- Did turnover increase dramatically just before the business was sold?
- Are the expenses for this period realistic?
- Has anything been left out?

Compare the figures provided by the franchisee with what the franchisor believes is achievable. Any major variances will need to be understood and verified. Also ensure that you as a buyer will have a clear title to the

assets of the business. The last thing you want is to have stock or equipment being repossessed and to have to pay for equipment a second time.

All these factors will impact not only on what you should be prepared to pay for the business, but also on your chances of success.

BUYING AND EXISTING FRANCHISE

With all this information gathered and all your questions satisfactorily answered it's time to involve an accountant, a lawyer and a bank. Ensure the companies you deal with have extensive franchising experience. While independent, professional advice may seem like an expense, it is money well spent.

Discuss with your accountant

Ask the accountant to assist you in preparing a 12-month projection. Utilise the franchisor for the budgeting and cash flow analysis details. They will need to do this.

Prepare a business plan

CECC have information that will help you. All the major banks have information and templates on their websites that can assist you.

Talk to your bank

Talk to your bank about the best ways to finance your new venture.

Consult a lawyer

Once you receive the franchise agreement it is critically important you understand what it says and what it requires of you. Do your best to work through the legal language, writing down questions as you go.

Do not rush this process. When you've done this take the agreement and your questions to your lawyer. Ask them to read the document and then to explain it to you.

Of particular importance are details like:

- What you receive
- Upfront costs
- Your territory
- Terms and conditions of the agreement
- Expiry and the options after expiry
- Performance criteria
- On-going fees including royalties, marketing contributions, training fees and compliance costs
- How these are calculated and what they cover
- Other costs that are not covered
- Other areas of the business for which you are responsible.

Get a structure

If it is not covered in your agreement ask your lawyer/accountant about how your business should be structured. Should you form a company, enter a partnership or work as a sole trader? Each structure is different and all have advantages. Your lawyer or accountant will be able to provide you with advice on which is the best for you and how to go about establishing it, and to be aware of any associated costs.

Know the law

Ask your lawyer to explain and/or provide you with information on legislation that you will need to be aware of. Examples of such legislation include:

- Fair Trading Act 1986
- Commerce Act 1986

- Companies Act 1993
- Consumer Guarantees Act 1993
- Employment Relations Act 2000
- Holidays Act 1981;
- Occupational safety and health regulations

Meet your tax obligations

Talk to your accountant about your on-going tax compliance and financial monitoring.

- Goods and services tax (GST)
- Fringe benefits tax (FBT) – if applicable
- PAYE
- Yearly income tax returns.

You might also wish to talk to them about quarterly or half yearly reports so that you know how you are going.

UNDERSTAND YOUR OWN COMMITMENT

You should look at a timeframe of at least three to five years to recoup the initial business investment. Your accountant can help work out what timeframe meets your goals and requirements. Now you're ready. You can now face the world of business with confidence. You've looked at your own needs, explored your options, made your decisions and utilised the expertise of professionals who specialise in the legal, accounting and financial aspects of business. By doing all this carefully and methodically you could dramatically increase your chances of success.

Information provided by Westpac Bank Franchising Specialists

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