

Vital Questions to Ask a Franchisor

With so many franchise opportunities available these days, how does one determine which franchise is the right fit? The following list of questions has been developed over several years and is provided to help in evaluating the franchise opportunity and the franchisor company itself.

It is probably better not to hit the franchisor with these all at once - one will almost certainly have several meetings with the potential franchisor. However, ensure proper answers to *all* the relevant questions before signing the franchise agreement. If a franchise agreement is signed, a long-term relationship with the franchisor is now established, and it is therefore important to go into it with as full an understanding of the business, its potential and mutual obligations as possible.



The areas to examine may be divided into:

- Business experience
- Research
- Financial/costs
- Marketing

Business Experience

One of the most important things that a new franchisee buys is the experience of the franchisor. Almost every successful franchisor will admit that they made many mistakes in the early days of their own operations, and it is the wisdom and experience they gained through these that they are able to pass on. The new franchisee pays partly to learn from someone else's mistakes.

It is therefore vital that the franchisor has experience of running the sort of business that he or she is franchising. They may already have successful franchised operations up and running; if not, they should have had a pilot operation running (on the same basis as the proposed franchise) for at least twelve months. This applies equally to locally-developed systems and franchises brought in from overseas. What works in Australia will not necessarily work here without some adjustment.

Look at the background of the franchisor company as well as the people involved in its operations. Here are some of the questions to ask:

- How many years of experience do you have in this industry? In this business?
What is the previous relevant experience of the key people?
- How many franchised businesses do you have at the moment?

- How many company-owned stores do you run?
- What is the extent of your own cash involvement in the business?
- Has any franchised business of yours ever failed? *Beware "hidden failures". They may not count an ailing franchise which was sold just prior to going into liquidation, or was bought back by the franchisor and resold.*
- What mistakes have you made and learned from?

Research

Although the franchisor should provide information about the franchising company and the industry in which it operates, it is important to confirm the quality of this information. It is better to put the effort in at this stage and take some extra time over making a decision, rather than discover significant errors later. Find out from sources other than the franchisor about the history of the industry and probable future developments. Buy and read the industry journals and use the internet.

Above all, ask questions. Ask the franchisor:

- What do you see as the future of the industry you are in? Where does this company stand in its industry?
- Look at the franchise's product/service. Is there a viable market for it? Is there still room for growth? How far has it gone in the product life cycle? What is its marketing positioning, e.g. price, image, quality? How does the franchisor maintain margins? How dependent is the business on price competitiveness? How good is the competition?
- What direction is the franchise company moving in? For example, is it adopting new technology as it becomes available/affordable?
- Do I get exclusive rights to a territory? Can my territory be eroded by the franchisor? At a later stage can I sell off part of it if I choose to? How do you define a territory, e.g. how many businesses, homes, geographical area, people, type of population? Do I get first option on an additional territory?
- Could you outline the process and the likely timing from here to starting operations, e.g. assessments/interviews, legal, financing, build out, training periods with the franchisor and in the territory?
- Who finds a site/conducts market research etc? How is it done?
- What initial services do you offer?
- Can I have a complete list of your franchisees? Can I contact them by phone and visit if appropriate?
- Can I see the P&L for your existing operations?

It is important to get a feel for how ethical a franchisor is. It is difficult to ask questions which uncover this, but try to find out about their reputation from external sources as well as asking the franchisees themselves. Always ask several sources, and don't be afraid to take up references - that is what they are for.

Financial/Costs

Buying a franchise involves various different costs: initial and ongoing fees, training fees, stock, shop-fitting or vehicles, and so on. If the franchisor provides a good disclosure document all of these will be documented clearly to avoid any potential confusion or embarrassment at a later stage. However, it is a good idea to have all the following clearly laid down in writing. Ask the franchisor:

- What are the total costs? Are they paid all in one go, or in stages? What is the timing? What do the costs include? What capital costs will be incurred in addition to this price, and what for?
- How much working capital (i.e. cash to run the business, cover wages and other overheads) do I need?
- Do you provide projections for my proposed business? What are these based on? *For legal reasons, many franchisors will not produce specific projections but will provide actual figures for existing operations.*
- Do these figures take my salary and depreciation into account?
- What assistance do you provide in obtaining financing?
- Have you already made special arrangements with banks?
- Do I buy or lease the necessary equipment? What are the options?
- What royalty is charged, and how is it calculated?
- Do I have to buy all or just scheduled items from the franchisor? Are there any other fees? What levels of support or assistance do I get for the royalty?

Once you have the answers to the above, sit down with your financial advisor and, based on conservative assumptions in financial projections, ask yourself: What level of income can I make? How much can I take from the business, and when? Does this meet my needs or aspirations?

Marketing

Marketing is fundamental to the value of a franchise - it is the pulling power of the name above the door or written on the side of the vehicle that should more than justify the ongoing royalties the franchisee pays. As the saying goes, 'the name of the game is the fame of the name'. Ask the franchisor:

- What kinds of marketing programs do you run for the product or service offered by the franchisees? May I see examples? How are marketing programs decided on? What kind of consultation is there with franchisees about what they want/need? What is the process for evaluating success?
- What dollar value is spent on marketing (both advertising and promotions)? How is marketing funded? How much of the royalty goes to a general marketing fund? How accountable is the franchisor for the funds? Is a percentage allocated for local promotions? Am I required to spend additionally on promotions in my area? How much?

- Do you have a launch package for a new franchised territory? What experience is this based on? What does it include? Who pays?
- What help will I receive in arranging local advertising and promotions? Are there standard promotions (artwork and slicks) available for my use?
- Do you undertake advertising in my area on my behalf? Who pays?
- Please show me examples of marketing material you provide, e.g. point of sale material and promotional literature such as brochures, leaflets, sales presenters and standard advertisements.

It is not possible to provide a totally comprehensive list of questions that would be applicable to everyone. Many of the areas to consider will be relevant only to one's particular needs, or to those of the specific business being considered. We suggest choosing the most appropriate questions from the list and use them as a basis for creating a personalized checklist.

A good franchisor will welcome thorough questioning, as it shows genuine interest. Most franchisors should have a disclosure document which will include many of the answers. Read the Disclosure Document thoroughly and discuss it with your professional advisors.