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7 questions to ask yourself before you buy a franchise

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White Paper

7 QUESTIONS TO ASK YOURSELF BEFORE YOU BUY A FRANCHISE

With over 1,200 franchise opportunities available in Australia, it's difficult to find the right one for you. They range from home services to hotels, from bakeries to banks and everything in between! No wonder it seems so daunting!

Here are seven questions to ask yourself before you buy a franchise. Write down the answers as you go. This will help you clarify your thinking. Keep them as a reference point as you evaluate the franchises you're looking at.

1. Why do you want to be in business?

Everybody who starts a business wants to be successful. But success means different things to different people. What about you?

Make a note of the reasons you want to be in business. These might be financial reasons, or there might be something else. It's important to understand what's behind this decision because that is the thing that's really driving you.

Now, look ahead and imagine yourself in 5 years time; what would you like to say about what you've accomplished?

Now, as you are looking at various franchises you can evaluate them against whether or not they will fulfill your reasons for going into business.

2. What are you good at?

You may not have given this much thought in the past, but when you're thinking about starting a business, it's really important to be clear on what you are good at and what you like doing. That's because it simply makes sense to get a business that makes that most of what you're good at.

Take a moment to think about your strengths and abilities. For example, are you good dealing with

people, or do you prefer to be on your own? Are you comfortable talking to strangers, or does it take a while for you to warm to people? Are you good at managing people, or would you rather they take care of themselves? Do you have an attention for detail, or are you not so concerned? Do you like selling, or does it seem too pushy?

You get the idea, it's about having a good look at yourself. If you're not sure where to start it might help to ask someone who is close to you.

Now, consider the types of businesses that can make the most of these strengths and what you enjoy. Think of how might you use these to best advantage in a business of your own. Now that you're aware of these strengths, check to make sure the franchise you are considering allows you to use these strengths in an active way.

3. What sort of work environment suits you?

Starting a business usually means a change to your working environment. It will be important that you feel comfortable there. So, take some time now to think about the types of workplaces you enjoy working in.

Consider aspects of work such as the physical environment and how you work with others. For example, you may be used to an office environment rather than working outdoors. Or you may prefer to work with and manage others rather than working on your own. You might be looking to stay in a similar environment rather than making a significant change.

Whichever your preference, take the time now to think about it. That way you can check your new franchise to be sure it lets you work in the environment you most prefer.

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4. What's your family and personal routine?

Owning a business is likely to have an impact on your daily life. It's a good idea to think about your current work routine and how you spend your evenings, weekends, and holidays. You should also have a think about your family responsibilities. Consider whether you are able to make any changes that may be required to meet the demands of your new business.

Once you've answered this question you can match this against the time requirements of the business you are looking at. You are then in a better position to assess the impact this has on your family and personal routine.

5. How much income do you need?

Before you invest in any business you should be aware of the minimum income you need to meet your personal and family expenses. Take a close look at your costs of living and identify which costs are fixed and which are flexible. You need to be aware of this because in the early days of running a business there may be less each month than you were used to.

It will also be really helpful to consider how much income you would like to make. This gives you a goal to aim for and may help you decide between alternative franchises.

6. How much does it cost and can you afford it?

Prices tend to be different for all franchises. The price of some franchises is publically available, in other cases you will need to ask the franchisor. There are other sources of this information, such as industry magazines, or franchise brokers.

In all cases, the franchise Disclosure Document will tell you how much it costs. The franchisor prepares

this document, which also outlines some other important things you need to know.

If you're looking to buy a franchise that's already up and running, you'll be able to get the price from the current owner, or from their business broker.

Once you know how much the franchise costs, you can decide if you can afford it. You may have the funds available, or you may need to take out a loan. Some franchises are 'accredited', which means they have relationships with banks to assist people in getting loans to purchase their franchises.

The initial purchase price is one thing, but you should also consider the first few months of being in business. You will need to be sure you have enough cash available to see you through the start up period.

Remember, there's always some financial risk with being in business. But, taking some precautions at the beginning puts you in a better position to create the best chance for success.

If this discussion has raised questions for you we recommend you talk to the franchisor, or an accountant familiar with franchises.

7. How much money can you make?

Now for the tantalising section... the money! You will want to know how much money you can make out of the franchise you're looking at.

Right from the start, you will be looking for signs that the franchise can give you the income you need. And at each stage of your research you are gathering evidence that the business can be profitable and produce the income you need.

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To work out the profit for a business, you deduct expenses from sales. So, as you can see, there are two questions to answer:

1. *What are the costs for running the business?*
2. *What level of sales are you likely to achieve?*

The answers to these questions come from different sources. If you are looking at a new franchise, you will need to work it out, based on your own assessment, investigations and research. The best place to start is the Disclosure Document.

The Disclosure Document will include an indication of the main costs to operate the business. Some franchisors also provide sales and expenses figures for existing franchisees. If you're buying an existing franchise you will be able to look at the figures from the previous owner and make your own assessment from there.

But a word of advice! This part can get quite complicated, especially if you're not experienced in financial matters. Don't worry! Ask the franchise sales manager to explain how you can best determine the figures, or get advice from an accountant with franchise experience.

Once you have done this exercise you will have a better understanding of the costs to operate the business and what level of sales are achievable. Now you can see what the profit looks like and can assess if it is enough to meet your needs.

This is general advice. Before you purchase a franchise you must obtain specific legal, accounting and business advice based on your own circumstances.

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About Smart Franchise

Peter Knight, FCPA and **Kate Groom** help people communicate better about finance. They run Smart Franchise, a business which provides practical financial training for non-financial people. By understanding the financial position they can make better decisions for their business.

Peter is an accountant with over 25 years in professional practice advising business owners. **Kate** has worked with franchises for almost 20 years, focusing on business improvement. She was formerly Business Performance Manager with Kwik Kopy Australia.

Find out more about us at www.smartfranchise.com.au

About Kwik Kopy

An independent Australian company, Kwik Kopy Australia was established in 1982 as a Master Licence holder from Kwik Kopy Corporation U.S.A. There are now over 100 Centres operating throughout Australia. As a leading member of the Franchise Council of Australia and Franchise Association of New Zealand, Kwik Kopy were the first Australian franchise to be accredited under the Franchise Code, holding licence number 001. The company was also the first franchised printing business in Australia to achieve the impressive Quality Assurance Standard ISO9002.

Visit www.kwikkopy.com.au for more details.

About Franchising

To learn more about franchising, visit the ACCC's web site. You can also buy franchise publications from www.franchise.org.au