
According to the research done by Griffith University, there were 1,025 franchisors in Australia in 2010. This is good news for you as potential franchisee as it means that you have a long list of franchise systems with different brands and fields that you can choose from.

Setup and structure

One of the key decisions that you need to make is how you want to set up and structure your business ownership. The common structures used to operate a business are company, trust, partnership and individual. As each structure has its own advantages and disadvantages, you should seek professional financial and legal advice to find the 'right' structure for you.

Two key considerations that you should take into consideration when deciding on your structure are:

- 1) Tax implication – through effective tax planning, you can legitimately plan and minimise your tax
- 2) Legal protection – protecting your personal assets and yourself from litigation claim

Key considerations

Buying a franchise is not a decision to be taken lightly as it involves substantial financial investment and a long term contractual agreement with the franchisor. Therefore, you would want to ensure that you undertake the necessary actions and steps in helping you to make the right decision.

Some of the key actions and steps that you should definitely consider are:

1) Interest in the industry

As this will be a long term investment, it is advisable that you choose an industry that you have interest and passion in. This will increase your personal satisfaction and motivation level to grow the business that you truly care about.

2) Investment cost

You should work out on how much you want to invest in the franchise business and be realistic to yourself. You need to consider whether you can afford the franchise business that you have in mind. If not, you should consider other franchise business that is within your budget. Set a realistic limit and stick to it.

3) Franchise royalties and marketing levies

Be sure to ask and understand how the franchise royalties and levies are calculated, whether it is a fixed amount or as a percentage of sales or combination of both. You should also compare these fees to other franchisors in the same industry to ensure that they are reasonable. Remember that this is a recurring payment that you need to pay to your franchisor. Therefore, you need to take that into consideration on your profitability and cash flow management.

4) Source of funding

Generally, new franchisees fund their franchise business from their own savings, loans from family, friends, banks and other investors. Remember that no matter where your source of funding is from, you need to have sufficient funding for both the initial investment cost and ongoing working capital. Be sure to have flexibility in your funding to ensure that you can cover unforeseen expenses and also be able to seize opportunity as they arise.

5) Due diligence

You should definitely consider engaging a specialist and independent consultant to undertake your due diligence. Considering the substantial financial investment that you will be making, you want to be sure that you have done a thorough research on the franchise business. Remember that the due diligence should answer all your questions and concerns.

6) Scenario testing

Taking a step further, you should also ask your consultant to do scenarios analysis based on a set of 'what if' positions and what are the implications to you as the franchise owner.

Some of the questions you should be asking and have answers for are:

- Do I have the capacity to cope with the demand?
- Do I have the resources to manage a bigger team?
- Do I have the cash flow to continue operation for the next three months?

7) Return on investment (ROI)

Understand the ROI of the franchise business to you. In doing so, remember that you need to take both short and long term perspective that align to your objectives and goals. You want to be sure that you are achieving the return that you desire.

8) Speak to existing franchisees

One of the best ways to understand a franchise system is to speak to experienced franchisees, both current and previous franchisees. They will be able to share their opinion and most importantly, their experience with the franchisor. Do not hesitate to visit them and see the operations for yourself. This will help you to get a good practical view of the business so that you can envisage how it will be for you.

9) Existing or greenfield site

Approach both existing and greenfield (i.e. new location) sites with an open mind. Remember that both have its own potentials and risks associated with it. Think about what these options mean to you and make an informed decision.

Disclaimer

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10) Speak to your advisor and trusted confidant

As you are researching your first franchise business, you probably start to realise that this will be a long journey and may also be a steep learning curve for you. Therefore, it will be a good idea to speak to your trusted advisor and confidant to get the support that you need. Remember that the support and opinion are priceless and can be exactly the extra assurance that you need.

Conclusion

It is to your benefit that a proper due diligence and research are being conducted on the franchise that you are interested in. Consider the franchise business from a commercial perspective because ultimately it is an investment of time and money. Resist the temptation to purchase a franchise business just because you like the brand and therefore skipping the due diligence and hope that it will work.

We believe it is great to have passion in the franchise business but do not be emotionally attached to it. It has the potential to cloud your judgement in deciding which franchise business is best for you. This is when you should speak to your advisor and get their independent perspective. Be honest to yourself in your decision.

Be prepared to work for the success of the franchise business. Remember that although a franchise business has a proven business model, it will not guarantee success. Both the franchisor and you need to work together in achieving the mutual goals.

After going through these exercise, the good news is that you will gain valuable experience in setting up your first franchise business and from operating it. This will definitely prepare you in owning more franchise businesses in the future.

We would like to speak to you and assist if you have any questions or concerns. Contact us now for your **complimentary** and **no obligation** first meeting to discuss on how we can assist you in buying your franchise business.

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8 Aug 2011 © AscendPoint 2011

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