



IS FRANCHISING RIGHT FOR YOU?

YOUR CHECKLIST FOR BUYING A FRANCHISE



CHECKLIST FOR BUYING A FRANCHISE

Buying a business is a substantial investment. Once you have decided on a franchise system and started the purchase process - you must ask the right questions from the start. A careful, well thought due diligence on the business is the key to a successful transaction. This checklist is designed to help guide you in the due diligence process.

1. FRANCHISE SYSTEM BACKGROUND AND HISTORY

First up you need to understand the franchise system, it's history and other background information.

- ▶ How long has the business been franchised?
- ▶ How experienced is the franchisor's team?
- ▶ How much do I need to invest?
- ▶ What is the vision for business and brand?
- ▶ What are the plans for growth?

All franchises aren't created equal. The good brands out there are constantly evolving, so it's not just about understanding where they are today, but where are they headed in the future?

2. CURRENT FRANCHISEE SUCCESS

A full understanding of the franchise system, its success and current state should be factored into your review process. Get to know the business inside and out. Seek out a franchisor who is going to be honest and upfront from the start.

- ▶ What are the peaks and troughs of the business?
- ▶ What is the average turnover of franchisees?
- ▶ What is the typical make-up or characteristics of franchisees?
- ▶ How many multi-store franchisees are there?

This is a really good indicator of how a franchise is doing. If a franchisee isn't willing to buy a second store, that's a pretty good sign that there's something wrong. If a franchisee owns multiple stores, he or she was obviously very happy with the first one so they bought a second. They were also able to fund it, which is important because they've either funded it through profits or the bank liked them enough to lend them the money.

3. FRANCHISEE SUPPORT

It is important to understand the support the franchisor offers the franchisees and how this relationship works.

- ▶ As part of your initial investment what training is provided?
- ▶ What ongoing support does the franchisor provide?
- ▶ How often will you be talking to the franchisor?
- ▶ How often will they visit the store?
- ▶ Do they review the performance of the stores regularly?
- ▶ How often are franchisee reviews conducted?
- ▶ Does the franchisor offer assistance to help you improve?



FRANCHISING CHECKLIST

4. FRANCHISE AGREEMENT

Many franchise groups want to sell you a store and that's it. You need to clearly understand the franchise agreement and understand how the fees you are paying provide value to the business.

- ▶ What marketing support is available to help you succeed?
- ▶ Who is the main contact for you as a franchisee once you start?
- ▶ What support do franchisees have with each other?
- ▶ How does the franchisor and franchisees collaborate and communicate?
- ▶ How is the franchisee feedback captured and regularly addressed?

5. GET TO KNOW THE FRANCHISEES

Consider meeting or speaking to other franchisees before you buy, particularly if you have any doubts or and really want to try before you. This will give you the opportunity to hear how the stores run on a daily basis and answer any operational questions you may have. Spending a day with a franchisee will give you hands-on experience and assist with your final decision. Drill down to industry and operation specifics.

- ▶ How are they doing?
- ▶ Are they happy?
- ▶ What's the relationship like with the franchisor?
- ▶ Even just down to simple things - are they making money? Is it profitable for them?
- ▶ If they had their time over would they do it again?

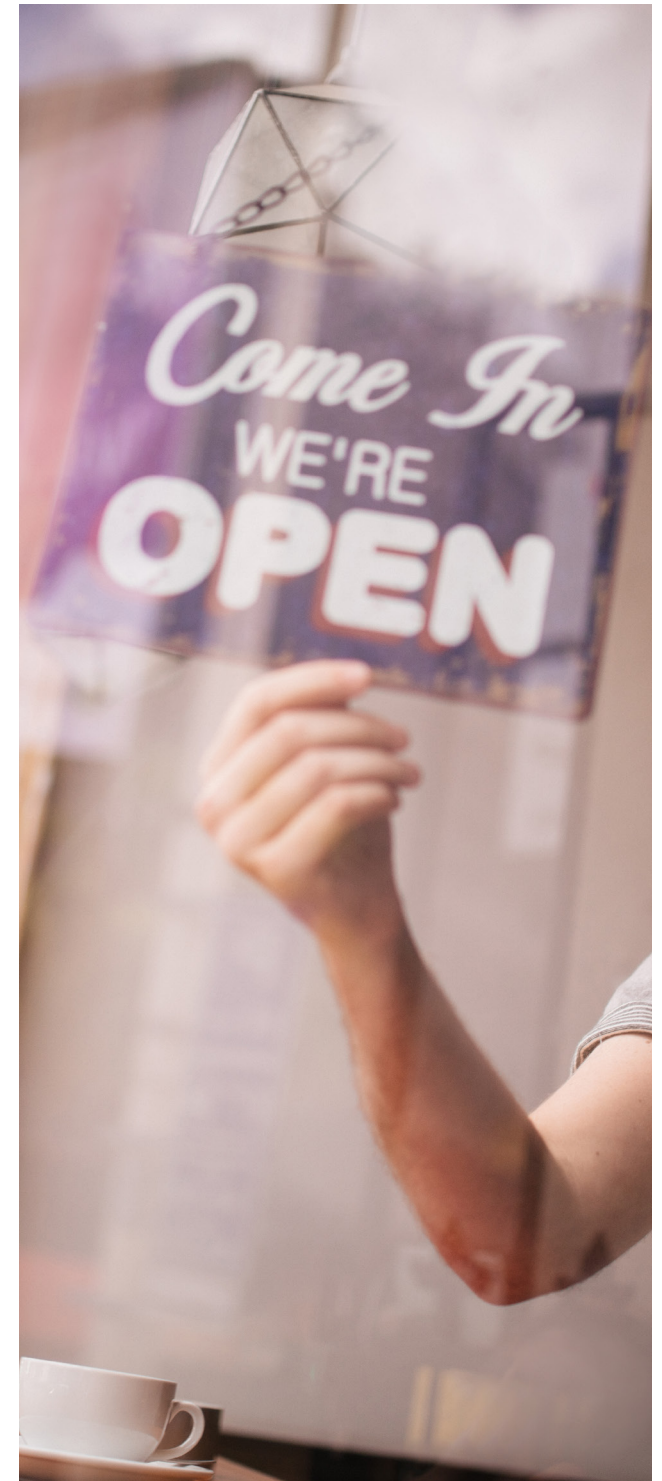
FRANCHISING HELP, TAILORED FOR YOU

The franchising industry is facing a unique set of challenges, including economic volatility, heightened competition, and potential legislative challenges. BDO draws on experience serving the franchising industry to help our clients looking to buy a franchise, navigating challenges for business owners and identify opportunities for growth.

Our Franchise experts provide services across a wide range of areas for franchisors and franchisees:

- ▶ Assessment and strategy
- ▶ Compliance – bookkeeping, reporting, payroll
- ▶ Debt advisory & finance assistance
- ▶ Due diligence
- ▶ Franchising business advisory and performance monitoring
- ▶ Is franchising right for you?
- ▶ Risk management
- ▶ Systems, policies and processes.

At any part of the due diligence process it is important to seek professional guidance or support if you are unsure of any information or want a second opinion. If this checklist highlights more questions, or if you would like to find out more about how BDO can help you assess the viability of a franchise, contact us for a complimentary one hour consultation.





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