

THE QUICK GUIDE TO BUYING A FRANCHISE

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When you buy a franchised business, you are probably only going to do it once. So it's well worth investing a bit of time, thought, and possibly money to get it right first time.

Whilst you read an entire book on the subject, you can quickly gain an understanding the basic fundamental steps you need to take along the way. This quick guide will help you do that.

If you need more advice in these areas, you can easily obtain it from others sources, such at the British Franchise Association.

The following is general advice for any franchise.

STEP 1: Start With the Type of Business

There is no point in doing anything that does not appeal to you, so the starting point has to be identifying product or service areas that interest and inspire you. Then you need to consider other factors, such as its longevity, risk factors, and quality of life issues.

Ask yourself questions like:

- Am I interested by the product or service?
- Does the business have longevity? Will it be around in 10 years time?
- What risks are involved? Do I require premises?
- Will I be in one location or will I be travelling around?
- Am I working on my own, or with other people?
- How do my strengths and weaknesses relate to the requirements of the business?

Make some simple lists, such as Advantages & Disadvantages of a product/service, and your own Strengths & Weaknesses. Share them with someone who knows you well.

If you don't like the business, don't buy the franchise! If you do like it, go on to the second step...

STEP 2: Find the Right Franchisor

You have now decided on the type of business that interests you. There may be several, of course, in which case you can apply these principles to all of them.

Treat choosing the franchisor a bit like a finding a marriage partner! If you rush into it, without the full facts, you could be in for many years of heartache and financial misery! It's quite possible to avoid this altogether, or to add least reduce the risk of it to an absolute minimum.

The key to success is to find the right franchisor. Start by making a list of all those in the sector, and try and work out who is the market leader. Generally, if you find the market leader, you have probably found your ideal choice.

Investigate the following:

- Are they the market leader? If so, understand why.
- Are they BFA Members? If not, why not? (Do not be fooled by lame excuses).
- How long have they been in business? Beware of 'ground floor' opportunities – they may never leave it.
- How have they handled your enquiry? This could be a key indicator of their style/efficiency.

Get as much information as you can on as many players in the market as you can find. Run some Google searches on them. Get their accounts. Talk to their customers. Basically collect data.

If you feel good about one or more of them, you now need to go and see them.

STEP 3: The Visit

Your understanding of their business and your feelings about it will leap forward from a visit to their Head Office. Prepare a list of questions in advance. You now have the opportunity to see first hand:

- What do their premises look like? Are they professional and in keeping with a leading business? Are they clean and tidy?
- How were you treated on arrival?
- Who interviewed you? Did you feel comfortable with them?
- How interested were they in you and your background? Or was the focus on persuading you to take on their business?
- Were they open and honest in answering your list of questions?
- What information have you been given to take away?

It's amazing how true that expression is "everything comes from the top". Look for the clues. Do you want to get 'married' to these people?!

If you like what you see, then you are ready for Step 4...

STEP 4: Talking to their Franchisees

You should have left with a list of at least 3 franchisees you can now call. You should have chosen these from a list of all franchisees – do not accept a 'spoon fed' list!

Make sure you ring all of them, and again have a list of questions ready to ask. Invariably those franchisees will have been through a similar process themselves, and you should find them very helpful.

If you can, it would be good to go and meet some of them and to view their business. If you are buying an established franchise (i.e. a resale) this will have to happen at

some stage, but a visit to another franchisee could still provide invaluable information.

STEP 5: Resale or Start Up?

Do you want to start up situation or would you prefer to buy an established business? Depending on the franchisor, you may have limited choice. For example, the territory you want may have already been granted several years ago and will only come available as a resale opportunity. This is not necessarily a bad thing.

The key Advantages and Disadvantages of resales versus start ups can be summarised below:

Typical Resale Situation	
Advantages	Disadvantages
Established customer base	Usually have to pay for 'goodwill'
Ability to verify success	Greater capital requirement
Immediate income	
Lower risk overall	

Typical Start Up Situation	
Advantages	Disadvantages
Lower capital outlay	No immediate income
Potentially greater capital gain	Inability to verify success
	Higher risk overall

Clearly buying an established franchise is more preferable, providing:

- You can establish that the information you are provided with (i.e. sales history, accounts, customer base etc.) is true and accurate;
- You do not overpay for the 'goodwill' (i.e. the benefit of an established income).

The key to determining both of these is doing thorough homework and taking good professional advice...

STEP 6: Careful Due Diligence

Due diligence is the process of checking everything is in order before you part with any money or sign a legal agreement. There are various parts to this process.

Knowing What You Are Buying

If you are taking on a start up franchise, be absolutely clear what you are being provided with in terms of products or services from the franchisor. You should expect nothing less than an itemised list.

In the case of buying a resale franchise, you need to be clear that any goodwill value will give you an adequate return on your capital. How long will it take to earn the capital back with the income the business will generate? This is critical and you would be well advised to talk to both a bank and an accountant about the figures.

The second, and obvious factor surrounding a resale is can you rely on their figures? There are numerous ways you can check them (for example looking at their VAT Returns over the years). Again, the best way to do this is to speak to an accountant for advice. Even if you do not get them to carry out the checks, they can tell you what to look for. This will not cost a great deal of money.

The Franchise Agreements

The Franchise Agreement is the backbone of the relationship between franchisee and franchisor. However long or tedious it may appear, you need to read it. Whilst there may be a lot of legal jargon at the beginning or end, the basic obligations of the franchisee should be set out in relatively plain English somewhere near the start. Make sure you understand them.

You also need to get a lawyer to read it. This is both to check the 'jargon' and to ensure there are no irregularities. A good lawyer will also point out to you any obligations which may appear to be excessively onerous by franchise agreement standards.

Expect the franchise agreement to appear a bit one-sided in their favour. This is relatively normal in the UK, and reflects the fact that a good franchisor will want to protect their interests from a potentially problematical incoming franchisee.

Do not expect an established franchisor to start altering their agreement just for you. If they are prepared to do this, it suggests their agreement is not well thought out or they are desperate to recruit you. However, what you can frequently do is ask for a 'Side Letter' – this is an attachment to the agreement giving you reassurance on a particular point or agreeing to some variation. This is a useful tip.

Other Legal Agreements

If you are buying a resale, there needs to be a business transfer agreement between you and the vendor. The franchisor is likely to have a standard agreement in place.

Again, it would be sensible to read and understand this yourself as well as taking professional legal advice. You need to be clear on what warranties you are being given (i.e. what guarantees are in place if things are not what they appear or go wrong?).

STEP 6: And Finally...

Remember the best predictor of the future is likely to be the past. You have the ability to look at the past in detail... make sure you do. Past reputation and performance counts for a great deal!

Franchising has a great success record in the UK, and the chances of you being a part of that are excellent, particularly if you invest the time and effort in selecting the right business for you.

Good luck!

Any questions, comments or suggestions on this document would be welcome. Please feel free to contact Simon-hulme@card-connection.co.uk