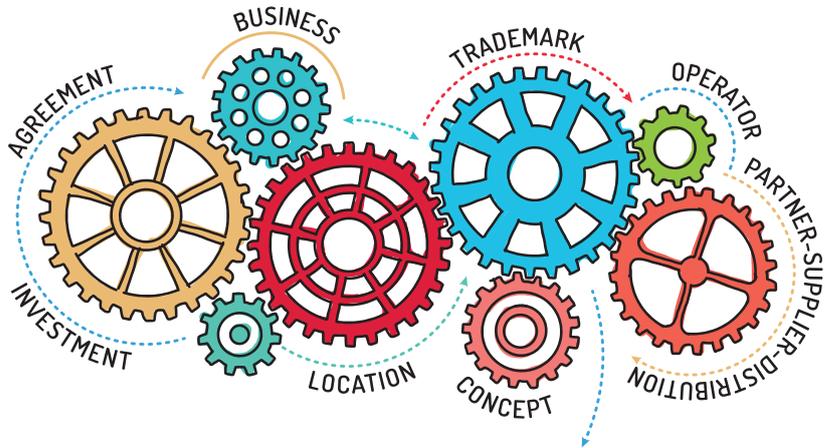


Buying a Franchise System

Written by Nick Stevens



I am often asked “what is the perfect business”, or “what business would you buy”? The truth is there is no such thing as the perfect business. Every business will have a “fishhook” in it somewhere. So with this in mind, what stands out as a great business model that will fit your requirements and lifestyle?

A “Franchise System” or “Master Franchise” is well worth consideration. An established business in this industry will come with franchisees who are “flying the flag” and working every day in business. This should mean that the business model has been proven to be profitable by these franchisees.

Some of the Standout Benefits are as Follows:

Homebased: More often than not they will be home based and are very transportable. So they can really be operated from anywhere that has broadband services – the bach, the boat or while away on holiday.

Real Estate: As it is home based there is no lease liability to worry about.

Stock: More often than not there is no stock or minimal stock.

Debtors: Franchisees are normally paying royalties on a weekly or monthly direct debit basis, so no outstanding debts to chase.

Human Resources: Normally there is a small overhead / staff structure. eg; franchise support, accounts and marketing personnel. However these can always be outsourced. Less staff equals less hassles.

Things to Watch for, or Understand:

Tangible Asset Value: This will normally be a very low percentage of the asking price. At the end of the day you are purchasing a “box of contracts” (Franchise Agreements). So if you are the sort of person looking for a strong asset backing, this may not be for you.

Two Income Accelerators: Typically, a Franchise System or Master Franchise will have two income streams. The first is the income generated from the ongoing royalty and the second is from the sale of each franchise. Depending on the nature or industry the sale of the franchise will be an important and ongoing source of revenue. Typically, as a system starts, the majority of the income will be from franchise sales. As the system starts to mature the royalty will start to catch-up and overtake the franchise sale income as a percentage of income. This “twin income accelerator” is more noticeable in the service type industry.

Term of Franchise Agreements: If the term is short or there are a number of franchisees coming to the end of their franchise term, you

should get an understanding if they are going to stay with the system or look to exit. If they are looking at exiting the system, do they have a plan in place to do so? If the value to enter the system is low, there is always the danger that they may walk and just write-off the initial franchise fee. So you will need to get an understanding if the current Franchisor has an exit / renewal plan in place for all of its franchisees.

Size of Franchise Territory: It is important to have an understanding of the size of each franchise territory, if the system is set up this way. If the territory is large and there are no minimum performance criteria in the franchise agreement, then this can be a real barrier to growth. For example, a franchisee may have a large area with plenty of growth potential but they might be quite content just working part time in the business for a minimal income. This will slow the long term growth of the area until that franchisee exits the system and you make changes to the territory size.

Growth: You need to have an understanding of how many more franchisees the system can grow to before saturation. Look at the number of franchise sales over the past few years. Has this started to slow or are there only a few territories remaining. Selling franchise territories is not your only growth strategy, you will also need to have a focus to teach your franchisees to grow their businesses by working smarter.

Over the years I have seen people purchase and grow both complete Franchise Systems and Masters. I have also seen these grow and resell again. Most Franchisors talk about the flexibility a franchise system will give them. What I can say is that when a system does come to the market I find there is a high demand for a well-structured franchise system or master franchises and offers are never far away.

If this segment of the market does interest you, please feel free to call to discuss in more detail or register your interest for possible future listings.



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Nick has owned several businesses and worked in many more, clearly he understands the many challenges facing business owners, including how to get the very best price when selling their business. Coming from a strong sales and marketing background, Nick has personally helped 160 business owners market and sell their businesses over the last 7 years.