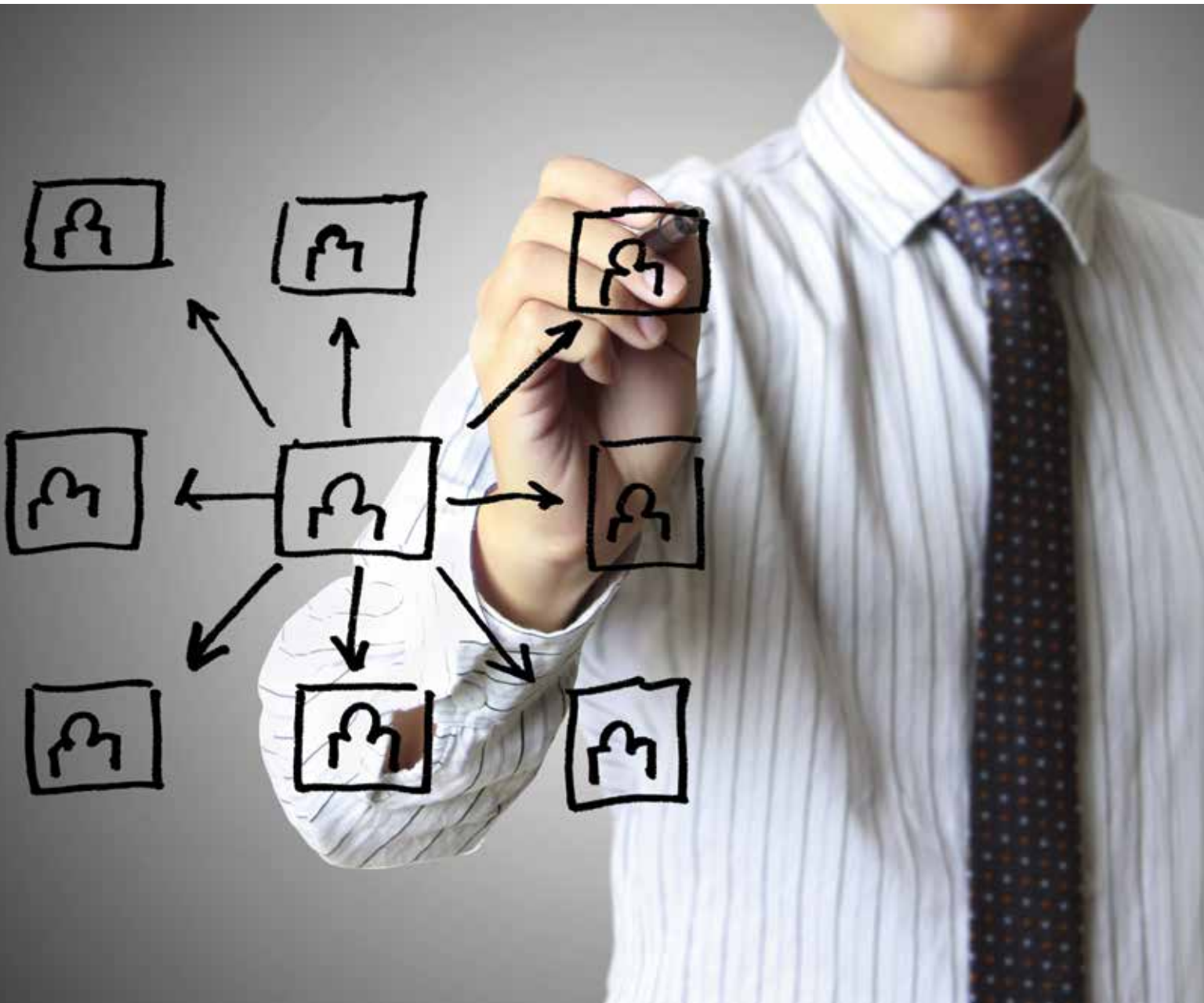


Buying a Franchise



The authority on selling businesses

Franchising is often described as being like a marriage – a long-term relationship where both parties must trust and respect one another. The ongoing nature of the franchise relationship makes choosing the right partner a crucial decision.

The following will give you an idea of the process involved in buying a franchise and what to expect. The process may vary between franchises, however each of these steps will probably be included in one way or another.

1. Planning

Behind every successful business is sound planning. Your planning should include identifying the capital you have to invest, skills and resources you have available, industries that excite you, businesses that suit your lifestyle and family, and preferred locations. Make your criteria realistic. Don't over leverage, and maintain a reserve in the event the business may require more working capital in the future. Finding the perfect business is difficult - if you find a franchise that fits your criteria make contact.

2. Making Contact

With more than 300 franchises available in New Zealand there are a lot of opportunities to select from. To speed up the process your first call should be to LINK as we represent many franchise systems. In our initial meeting we can assist you in identifying the types of franchises suited to your skills and finances.

We have a range of franchise resales and new business opportunities, giving you an excellent introduction to the franchise industry. If you have a specific franchise you have already identified you want to find out more information about, then we would commence by sending you an information pack.

3. Information Pack

The information pack you receive will usually contain an introductory letter, a brochure (or 'franchise overview'), a confidentiality agreement and possibly an application form. The purpose of this pack is to give you a broad outline of the business and its track record - its products and services, history and cost.

It will often spell out the skills the franchisee needs, such as 'ability to motivate a team' or 'enjoys the outdoor life'. This brochure will be an outline only, and you are not expected to make the decision to buy a franchise based upon it.

If after reviewing the information pack you like the business, your next step will be to complete the confidentiality agreement and schedule a meeting to discuss it in detail.

Steps to Buying a Franchise

4. Confidentiality Agreement

Completing the confidentiality agreement does not commit you in any way, it merely shows you are serious about investigating that franchise and want more information. Most franchisors will require you to sign this to confirm that you will not disclose information about their business to any third party other than your professional advisor (Accountant, Bank Manager or Lawyer). This protects the franchisor against commercially sensitive information falling into the hands of their competitors – if you buy this franchise you too will expect the franchisor to protect the system in which you have invested your hard earned money.

5. First Meeting

The first meeting is likely to be informal and will give you time to find out more about the franchise. If you are looking to go into business with a spouse or partner, it is important that they attend the meeting as well. Keep them involved throughout the process. Most franchisors interview both partners.

Prepare for this meeting by studying the information you have already and by finding out as much as you can about the franchise. Be ready to ask questions – the franchisor expects it and in return you will be asked questions. The franchisor wants an 'overview' of you as a potential franchisee - they want to know about your relevant experience and understand what motivates you to consider buying this franchise.

This first meeting should give you a clearer idea of whether this opportunity is the right 'fit' for you. If after this meeting you are interested in proceeding further, your next step will be to fill in and return the application form (if you haven't already done so).

6. Application Form

The application form is not a formal contract and does not commit you to anything. It will ask some standard questions such as your previous work and business experience, and referees (both personal and business). It may also ask some questions about any partners that may be involved and your financial position.

The franchisor needs to ensure you have the funds and security to purchase the franchise as well as the working capital to get started. Being under capitalised is one of the most common reasons for business failure, so you will not be accepted if you don't have sufficient capital. It is vital that full, honest and complete details are given to the franchisor so they can determine your chances of success. All reputable franchisors will treat this information in complete confidence.

Planning should include identifying the capital you have to invest, skills and resources you have available, industries that excite you and preferred locations.

To speed up the process of finding a franchise, your first call should be to LINK as we represent many franchise systems.



11. Professional Advice

You will now have a clear picture of the franchise and whether you want to join. Now is the time to seek professional advice – commercial, financial and legal.

You will need an accountant to verify the financial information provided by the franchisor, and to help you formulate your business plan. You'll also need a lawyer to examine and explain the franchise agreement to you – to ensure you understand it. Some franchisors require a solicitors and accountants certificate to verify you have received this advice. Use advisors who have experience in franchising – they can provide better advice than those who don't.

Your advisors may not approve or endorse your choice of franchise; they are paid to be cautious on your behalf and to point out potential pitfalls. Don't be too discouraged or back out of a franchise you are keen on until you've identified if the issues raised are real. We strongly recommend that you go back to the franchisor with any concerns. Any business involves risk – only you can decide whether you are comfortable with the risk involved.

You should also be prepared with questions from your own research, this way you can make an accurate comparison between different franchise systems.

12. Make Your Decision

With a franchise, you are not in business by yourself, but you are in business for yourself, and it will be your own business. By now you will have collected more information than most business buyers, and be well equipped to make an informed decision. Make your own decision based on your evaluation and risk assessment.

If you decide to purchase and you are accepted as a suitable franchisee then you will be required to pay the franchise fee to the franchisor or brokers trust account to make it secure. Any other payments will be required as per the schedule in the disclosure document.

Congratulations – you are now part of a franchise. Setting up and training for your new business can begin! There are few joys as great as running a profitable business and with the support of the right franchisor, it will be enjoyable.

For further information on buying a franchise visit linkbusiness.co.nz or call us today on 0800 546 528 and ask for one of LINK's Franchise Specialists!

7. Disclosure Document

Once your application has been received by the franchisor you can expect a further meeting. A good franchisor will take care to ensure you are given all the factual, detailed information you need to make your decision to buy the franchise or not. This generally takes the form of a prospectus ('disclosure document').

The disclosure document may contain enough financial information for you to evaluate the opportunity and formulate your own business plan. Financial information given in the disclosure document should be based on realistic figures and actual performance of the franchise.

Some franchisors will ask you to pay a deposit of perhaps several thousand dollars when you lodge your application, or before you receive the disclosure document. This is not uncommon, and is used to identify those who are seriously interested. Any such deposit should be fully refundable if you decide not to purchase the franchise. Make sure you confirm this in writing, and get a receipt.

8. Interview

At this stage, you can also expect to be asked many more personal questions. Just as you have been evaluating the franchise, the franchisor will be evaluating you as a potential franchisee. Franchisors are generally looking for someone who is a team player who can follow guidelines, and listen to advice. Someone who likes dealing with the public, customers and staff. They will also consider the role you will be playing in the franchise and the skills, experience and interests you have.

Franchising may not suit strong independently minded people who aren't interested in following set business models.

As a franchisee you exchange some independence for security, training, support, buying power and 'group grunt'.

Franchisors are looking for 'intrepreneurs' rather than 'entrepreneurs' – people who are prepared to work within the boundaries of a defined system and acknowledge that the franchisor has expert knowledge of the business, while having the drive and ambition to develop and build their own business. This is not an easy combination to find. Top franchisors can afford to be choosy about who they accept, and rightly so - they have to be to protect existing franchisees and their brand. A good franchisor wants to ascertain you have the ability to learn to operate the franchise. Identifying your strengths and weaknesses means the franchisor can tailor your initial training and ongoing support to minimise the risk and maximise the opportunity for you.

9. Franchise Agreement

If both you and the franchisor are happy to proceed at this stage you should also get a copy of the franchise agreement. This is the legal document that forms the framework for the franchise. It is a legally binding contract which defines the relationship, roles and obligations of the franchisor and franchisee. Be sure to seek professional legal advice before signing.

10. Other Franchisees

The disclosure document should contain a list of existing franchisees. Visiting outlets will give you an idea of your day-to-day role. Picture yourself as the business owner/operator. Check you will enjoy working in this environment.



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