

THE 'ADOLESCENCE' OF A FRANCHISEE



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The challenging and uncertain time new franchisees must endure between 'you're no longer required in our organisation' to 'welcome to your new business'.

The 'urgent, top priority' appointment with your boss of many years and the HR Manager comes as quite a shock to you, but you know you must attend. After the small talk has finished you hear the words you never expected to hear: '...and your services are no longer required in our organisation'.

After that it is a bit of a blur, and you cannot understand how the business will be able to operate without you. But, what the heck, they are paying you a great redundancy (at a very low tax rate), to go away and take on a 'career broadening opportunity'.

After the dust settles, the money is in the bank, a few weeks' holiday and then hanging around home for a while, you start to think: 'What shall I do with myself now?'

The options may be a bit limited due to your age, and having been in your previous job for 20 plus years, so someone suggests that, as you basically can't find a 'normal' job, why not go into your own business? Haven't you talked about it for years? How you believe you are a great salesperson, and how all those coffee shops you visit give poor service, and you have always said you could do better? Reality is now hitting you, or you may have to face up to long term unemployment.

1. Do I open 'Bucko's Coffee House'? There is a vacant shop down the road I can lease.
2. Do I buy an existing individual business? The redundancy money is sitting in the bank so I can afford to invest it in something.
3. Do I look at going into an existing or Greenfield franchise opportunity?
4. Maybe there are other franchise opportunities I don't know about?

Looking in the paper (and a copy of *Business Franchise* magazine that a concerned friend sent me), I see that the Business and Franchise

Expo is on our city in a week's time, so maybe I should go along?

The Business and Franchise Expo visit

I walk through the door of the exhibition centre and I am flooded with opportunities. My mind is running fast and the voice in my head is saying:

"I didn't know there were so many types of business on offer! I just about reckon I could make a go of about 70 per cent of these opportunities, but how do I sort out the wheat from the chaff?"

"Dog washing, bin cleaning, coffee making (owning my own store or driving around in a van), lawn mowing, pool cleaning, ice creams, selling mortgages, consulting - the list is huge."

The first question is how much do I have to invest, and what do I LIKE or WANT to do?

In my view, first decision is monetary, and if you have \$300K - \$500K then you can probably afford a retail franchise. Much of the money will go on store fit-out, initial franchise fee, and the capital required to operate (CRTO). The worst you can do (assuming the franchisor does not stop you) is go into a business short of capital or available funds, and then you are having liquidity issues from day one. It is in the franchisor's interest to ensure undercapitalization is not an issue and most franchise systems will have a model to ascertain the funding requirements.

The Service Business options

If you are more in the \$50K - \$200K price range, a more mobile, outdoor, territory based franchise is much more realistic for you. Australia's biggest franchise system (in terms of numbers) is Jim's: mowing, antenna's, electrical tagging, computers, cleaning, etc etc, - Jim probably has one available.

As well as Jim's, there are a huge number

of other territory based, service franchises available. One I shall mention (winner of the 2004 Franchisor of the Year) is PoolWerx, a great outdoor opportunity. If you are going to head in this direction, you need to 'like' what you are going to do, and hopefully have a passion that you are there to help people, not just take their money.

If you are heading into a service based franchise, you need to know what you are buying, and that you are being given a territory with sufficient opportunity for you to make money. Ensure your franchisor has done a proper job of the territory planning, and not the 'beer and pizza' map, where the franchisor, with a few self-centered, early-joining franchisees, have carved the market up over a few beers and pizzas with a black texta on a wall map. Don't let the franchisor get away with not doing the work properly, so there is some logic to the territory you are buying.

The Retail options

You have fair skin, getting a bit old and heavy, and the idea of manual work in the sun is not all that attractive. You decide your heritage may be English (Hitler described them as a nation of shopkeepers), so you believe you are a good salesperson and can sell. The options are endless.

Firstly you need to try and pick something you have a passion for, and secondly, link to a franchise system that you feel comfortable with, and hopefully offers value for money.

Coffee, ice cream, a gym, a bakery - all have franchises on offer, and it is just a matter of what you feel most comfortable doing.

Why won't they answer my simple questions?

Most potential franchisees feel that many of the questions they ask are being avoided or dismissed by their potential franchising

partner, however there is rhyme and reason for this:

A franchisor has to be extremely careful about what they commit to, and any Franchisor that gives 'assurances' on the profit you will make, or the sales that you should expect are heading for trouble. There have been some major legal cases where franchisees (who have not had success with their business) have taken the franchisor to court for misrepresentation. The classic scenario where this occurs is as follows:

1. Franchisee fails and leaves the franchise system normally having lost money and dignity, and has a 'bad' attitude to all concerned.
2. Franchisee meets a lawyer (possibly with resemblance to a Rottweiler!) who asks two questions...
 - a. What did the franchisor tell you that you would sell, or profit you would make that helped you make the decision to go ahead?
 - b. How did they help in selecting the site?

If the answer is they made no commitments, and they did undertake a reasonable amount of due diligence before they approved the

site, then there is probably no issue (or case to answer).

If the answer is "Fred told me I would sell \$22,000 per week after three months and they said I could go wherever I wanted to open the store because their system works well anywhere" – then look out, writs may start flying.

Good franchise systems, (on the threat of staff sackings), instill in their staff that they cannot make any sales or profit commitments, and that a proper process should be undertaken internally to back up the site selection decision. You may not be privy to this work, but a good franchise system will be doing it, and keeping it on file in case they have to practice saying 'Yes, Your Honour' one day, in explaining how they selected or approved the site!

A good franchise system should be able to explain the process they go through, and give you confidence that the new site you open has a very good chance of success, and not just a 'wet finger in the air' decision. One company was accused by a Judge of using the **SWAG** approach to site selection... **Scientific Wild A@\$#& Guess!**

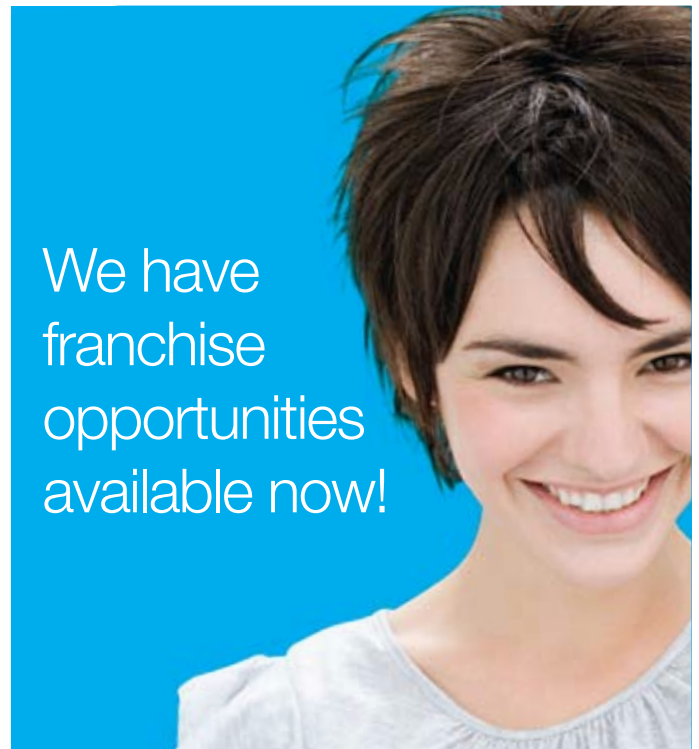
Whilst it is always a gamble in where you locate your business, you can increase the odds in your favour by undertaking good 'due diligence' and knowing the system you are joining does its homework as well.

Summary

No matter what franchise system you select to join, make sure you do your homework, and make sure they do their homework. You need to feel comfortable that the territory you buy, or the site you select to open your new venture in has been properly evaluated, and is not the result of the SWAG approach to site selection.

Select well Grasshopper! ❖

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