



Working out whether a prospective franchise will be a worthwhile investment is an important step before deciding to take the plunge. Is your franchise value for money? I'll answer that question with another.

What is franchise value? It's a really good, and complicated question. Good, because you need to determine if it is good value for your investment. Complicated because everyone's perception is different.

And so, the answer is often subjective.

What's good value to Peter may not be good value to Paul, or good value to Mary.

So, first work out the questions that will determine your franchise value.

What is franchise value?

How much do you need the income? Will this be a hobby business? Or do you have high living costs to meet and need a strong cash flow? How much time do you have? Do you need something in 60 days, or is six months fine with you? If you're in a hurry you may not have the luxury of looking around for a bargain.

But beware, because in business sales, especially established businesses, bargains are few and far between because the vendor has a figure in mind, and it's probably inflated.

So unless it's a desperate or forced sale they won't budge, initially at least. I won't go into negotiating tactics here but make sure you can handle serious negotiations. You don't need to be a Donald Trump wheeler and dealer, but digging your heels in can be most profitable.

And if it looks too good to be true, beware because it probably is. Make sure you tick all the boxes before committing and resist the temptation to be rushed. There are many opportunities out there.

Now you have an idea of your view of value, here are a few of the boxes you need to tick.

1. Build your advisory team

Tip: before you choose your team ensure they're on board with your dreams and are supporters, not opponents, of your plans.

Who will be on your team? Here are some of the experts you could get to work with you:

Business advisers – they are commercially savvy and know the market. Talking with them as you decide which franchise is right for you is of great value.

Other franchisees – in the group you are joining and other groups. Get their view, their thoughts and advice. You'll get the "insider's view" you need.

Accountants – can help you with the financial aspects of the business, review the figures and compare them with other examples.

Tip: accountants, and indeed most consultants, are trained to be conservative and to look for problems, so be ready to stand up for your decision and defend it resolutely against your critics. And there will be many, from well-meaning family and friends to your advisers.

Lawyers – critical for advice on contracts of sale and franchise agreements, disclosure documents, leases, etc.

Your search engine – a source of infinite information on the industry, the company, its management team and for smart tools to help you in the process.

Tip: check out Business Victoria/Buying a franchise, and cash flow forecasting

And critically, your personal, respected mentors.

2. Does it suit?

You as a person – are you familiar with the industry, does it align with your passion and values. For example, is the franchise selling overpriced or unethical products?

Your character profile – do your own DiSC profile. Free ones are available. Closely review the results and compare your characteristics with those needed for the roles you'll have in your new business.

Do you love sales? Are you good with staff? And importantly, are you confident you can learn. Do you have business experience – it can be a shock!

3. What is the total investment?

If you are buying a brand new franchise outlet you can expect costs to include: franchisor's selling price, including initial franchise fee; training; equipment; stock, vehicle, etc.

If the franchise is an existing business you'll be paying the vendor's asking price – but what about all the extras? You do not want an unexpected bill for \$30,000 for stock arriving after six weeks!

Is the training and support sufficient for those critical first six months, and beyond?

Tip: check out if the franchise has first class operations manuals and software support platforms. Insist on being provided with credible budgets and produce your own business plan. Then get the franchisor to critique your efforts and give you frank and honest feedback. If possible, compare the results with a franchisee in the group.

4. Can you really afford it?

Does this franchise business fit your budget? Carefully review the total investment as in point 3 above. Will the cash flow service your needs?

You will pay a premium for an established business but the results may be more predictable.

Consider if it is a respected brand. This would make it more attractive to customers, which is important for your ultimate resale and franchise value.

Really be clear about what the true costs are. On top of the initial purchase price you'll need working capital to keep you afloat and able to purchase goods. Be wary of a stock level that has been run down for sale – there may be a considerable replacement cost to get it back up.

Tip: negotiate longer trading terms, or settlement discounts.

Other costs to consider:

- stamp duties, GST, other fees and taxes
- franchise legal and accountancy fees
- leasing costs – bonds, advance rent, legal fees
- consultants and any industry fees
- training
- additional monies to your share or marketing fund?
- staffing – recruitment costs.

And finally, do you have sufficient cash reserves to carry you through if initial results are below expectations?

5. Is the price fair?

Consider what it would cost you to set up a similar business. Ask yourself: how much time, effort and risk is this franchise saving me? You need to put a figure on it.

Is there room for improvement? What do you think you can do to add significant profit in 12 months? This is an important consideration because it will represent added value to your asset.

Valuing a business is in part an art, a gut feeling – does it look and feel right? And in part it's a science – statistics and sound logic are crucial.

And remember, in any sale there needs to be a willing buyer and a willing seller, so don't be hassled because ultimately everyone's out to maximise their profit, so buyer beware.

Making the final decision

Completing your research brings you to the most critical moment of all: making a decision.

Go back to your original measure of value. Do you need a job? Are you fed up with your current career path? Unfulfilled and looking for something challenging to do? Is your franchise a possible solution to feeling a lack of control, an inability to build net worth?

Franchising is a wonderful business model for most, but don't become a dreamer. You must be realistic about the future and acknowledge your share of responsibility for your success.

This will be your business to run. Do the research and ask yourself, is your franchise value for money?

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