

BUYING A RESALE FRANCHISE BUSINESS



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Hundreds of businesses are sold and resold in any year and we as specialist business brokers receive hundreds of enquiries each year from enthusiastic people looking for the opportunity to enter the world of business. Many are literally ready to buy the first business which appeals. Others will take a lot more care and go through the necessary process of carefully thinking through the many and varied elements involved in owning and operating a business. And of course there are those who enjoy looking and looking... and keep looking, but who will never be able to buy a business because it does require you to move away from the security of regular paid employment.

Each scenario is quite OK and each client has a different set of needs depending on their personal and/or family circumstances.

Key points to consider

Entering the franchise world offers a number of advantages to those who may be a little overawed about the uncertainty and the inevitable challenges facing a new business owner, especially first-timers. If it is your first business then there are a number of points you need to consider or acknowledge up front;

- Will you be working hands-on fulltime, part time or having the business operate under management?
- Will family members be working in the business?
- Are your family members also

enthusiastic about buying a business?

- Should you buy a franchise or non-franchise?
- Should you buy a new franchise site or an existing franchise business?
- How much will you need to borrow?
- What type of business are you looking for... food, retail, service, automotive etc?
- Are you ready to devote the time and energy needed - can you handle a 7 day week business?
- What lifestyle changes will you need to make?

Business brokers

There are hundreds of businesses (both franchise and non-franchise) for sale at any given time. So take your time, consult family, friends and advisors and reach your goal in a systematic manner. There are many business brokers looking for your business as well. Selecting a business broker to assist you in the process is an equally important decision for you to make. I recommend you look for a broker who has the experience and track record to afford you the necessary level of professional support and assistance – remember this service is free to you as a purchaser. To know that your broker is here today to help you buy a business, and will still be around when you are ready to sell your business at some future date, is a comforting feeling.

As a potential buyer you should be able to

receive a comprehensive business profile which provides information on the day-to-day operations, franchisor background, details of the lease, royalties, franchise fees, sales data and financials and other valuable information. This document gives you a chance to study the business at your own pace and often in consultation with your solicitor, accountants or financiers.

Otherwise why would you buy a business for say \$500,000 based on a few scrap notes and questionable financial data?

Buying a franchise

One of the strongest reasons I recommend a franchise business, especially for first-timers, is the enormous level of support and scrutiny available. Remember that franchisors want you to be successful - this means they make more money as well – a win/win situation. Good franchisors will have a network of support field officers who will assist you in helping better present your retail operation and thereby increase your sales and therefore profitability.

Another point to remember is that prior to your taking over a particular franchise business the franchisor has a legal obligation to ensure as much as possible that you are fully aware of the positives and negatives of the business and have been adequately trained to give you the best possible chance of succeeding in the business venture. You will need to show that you have thoroughly researched and understand the business as well as the

specific financials relating to that store.

A franchise business offers you a brand name, broad advertising, initial and ongoing training, established systems and a product range which your franchisor has identified as being in demand hence helping to increase your sales and profitability. And believe it or not you may even benefit from the occasional nudge from the franchisor if your business is deemed to be not as productive as possible.

I strongly believe that the greatest asset in any business, no matter how large or small, is the integral involvement of the owner. The energy, enthusiasm and drive which a motivated owner can bring to any business is easily passed on to staff and readily visible to customers.

Many people appreciate these support parameters although, having said that, if you are a person who prefers to operate autonomously then perhaps purchasing a franchise business is not for you.

Why is the business for sale?

Potential buyers often have the perception that businesses are on sale because the vendors are losing money, so they spend a lot of unproductive time focused on ... 'what's wrong with it?' and why they should not buy it. Whilst certainly this is the case with some businesses, a great many businesses have much to offer and should be seen as 'potential opportunities' for personal and capital growth. The reality is that there are a lot of businesses on the market simply because the vendor is:

- Dealing with critical family or health concerns
- No longer enjoying the experience
- Looking to change direction again
- In financial difficulty because of over-borrowing in the first instance

As a potential buyer none of these points should present you with serious concern. Vendors may be pressed to sell quickly and therefore prepared to reduce their asking price. Frankly, if the business parameters suit you then simply make up your own mind based on the facts as they stand e.g. sales,

costs, profitability, staffing needs and whether you like the nature of the business itself.

Due diligence

This process can be as comprehensive and as detailed as it takes for you to reach your level of comfort about the business. This is usually done in consultation with your legal, accounting and financial advisors. Your accountant will examine the financials and may seek clarification regarding any areas of concern.

Your solicitor will help you carefully scrutinise the mountain of paperwork presented to you by the franchisor e.g. the franchise agreements, disclosure documents, franchising code of conduct, matters regarding leases, sub-leases and licenses. This will be followed by the usual processing of contracts and scrutiny until time of settlement.

Meeting with franchisors

I believe this element of the overall exercise is somewhat under-rated. Often buyers have the view that this meeting is all one-way - about being approved by the franchisor. You should also understand that as you are contemplating entering their franchise world with a significant personal and financial commitment then YOU also have the right to ask and demand answers from the franchisor about their products, training and support programs, long term vision for future growth, their financial and goodwill investment in their franchisees and a whole range of related subjects.

Most importantly, what assistance do they provide when you indicate you wish to resell at a later stage? The better franchisors will have dedicated staff specifically to assist and facilitate the process. The franchisor's scrutiny of the claimed sales and profitability of the business which has been presented to you should also be seen as a valuable source of comfort for you.

Very few franchisors today are interested in approving a prospective buyer unless they show a firm commitment to being a hands-on owner operator. Experience shows that while stores operating under

management can still perform satisfactorily, those stores which have the presence of the owner will inevitably do a lot better.

Family support

Family support is also an important key to success in running a successful family business. Family dysfunction and financial stresses are major contributors to the decline of a business. Particularly for first timers, I suggest that you focus on learning how to run the business, enjoy the experience and the challenges you will face, and ensure you have sufficient cash flow to live comfortably through the fluctuations which are inevitable in business.

On the other hand, the pleasures of running a business which is growing in sales and profitability, as a direct result of your 110 per cent commitment is wonderfully satisfying and will inevitably give you financial rewards and can open the way for you to seek out more challenging business opportunities, including multi-sites within the franchise.

Another important feature of running a business requires you to deal with customers, yes customers. Do not underestimate just how demanding this can be on your nervous system. Spending 8-12 hours per day dealing with customers, staff issues, suppliers, franchisors and family distractions can be a real drain. Are you up to it?

Go for it!

Well, having come this far don't panic! It's OK to be a little nervous. Your franchisor will ensure you are well trained and ready to take over the business. Get ready to enjoy the ride - give it your very best and if you make a sound financial return, well done. If it does become a struggle and you need to eventually resell then believe me, the experience will have still been well worth it. ❖

For further information, please feel free to contact Ahmet Ali for a confidential chat about business opportunities which may suit your needs. Mob. 0400650770 www.aabusinessbrokers.com.au email. ahmet@aabusinessbrokers.com.au

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