

# Checklist for evaluating a franchise and franchisor

## Did you know?

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## Main topics:

- Questions you should ask when evaluating a franchise (business)
- Questions you should ask when evaluating a franchisor (business owner)

## Questions you should ask when evaluating a franchise

Checklist questions	Tips to get you prepared	Tick (✓)
Is the franchise already operating or is it new? If it's new, how can sales projections be verified?	If the franchise is already operating, ask for sales reports from previous years. This might give you an indication of projected sales based on similar trends.	
If there are no obvious competitors, what are the chances of them arriving on the scene after you have made an investment?	In the Disclosure Document, pay particular attention to exclusive and non-exclusive rights on the location (territory) and site selection.	
Who will be responsible for advertising?	Some franchisors will take care of this task completely. Others might implement national or state-wide advertising campaigns and leave local advertising to the discretion of the franchisee.	
How will products to be manufactured and/ or supplied by an external supplier be priced?	If the product is to be supplied or manufactured by someone other than you (as franchisee), you will need to find out how the price will be established.	
Will you be required to be personally involved in the operation of the business?	A franchisor may provide an operational manual which includes operating hours, trading days and other operational controls for the business.	
Do you require any technical skills or expertise to operate a particular franchise?	You should consider the suitability of your abilities, skills and personal experience to the nature of the business you are considering buying.	
Is the product protected by patent or liability insurance and is the same protection applied to you as a franchisee?	Ensure that all trademarks or other intellectual property are unique and identifiable and they are not subject to cancellation or pending litigation. If a celebrity name is used, remember that celebrities come and go, and so too can the related franchise.	
If there is a lease included, find out: <ul style="list-style-type: none"> <li>• does the lease permit assignment to any permitted assignee of the franchisee?</li> <li>• does it coincide with the franchise term?</li> <li>• does the lease term provide sufficient time for recovery of capital outlays?</li> </ul>	While retail leases aren't unique to franchises, as a legally binding document you should ensure you understand all provisions of the lease.	
Does the product or service have distinct advantage over their competitors?	The product or service should have a novel or distinctive element about it which clearly distinguishes it from other similar and competitive businesses.	
What is the market trend and potential growth?	If it is in a market area which is in a decline or exploiting a fad or current fashion, it could be short lived.	
How competitive is the price of the products?	There could be alternative sources of products of comparable quality and a lesser price.	
Does the franchisor have their lines of supply properly tied up and	Ensure that the supplier is not able to bypass the franchisor or you and set up their own competitive franchise.	
Is there adequate back up in terms of guarantees and service facilities?	Find out if the franchise agreement prevents franchisees from obtaining supplies from another source other than the franchisor.	

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What is the reputation of the product or service?	Building on an established product or service with existing brand recognition and established reputation and image, may reduce business venture risks.	
If it is a successful franchise newly imported from another country, will it hold a similar appeal in the Australian market?	Make sure it has been market test in Australia by careful and thorough pilot testing.	
Have you reviewed a copy of the franchise operations manual?	The franchise manual should include policies, standards, and procedures on how to operate and manage the franchise.	
Is there an induction program?	Quite often franchisors will provide training on the franchise products and services, customer service, quality assurance, business planning, marketing and how to manage staff.	

### Questions you should ask when evaluating a franchisor

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What is the franchisor's financial (credit) standing and business reputation?	This is sometimes difficult to assess but a good way to make an assessment is to examine Disclosure Document which a franchisor must give you under the Franchising Code of Conduct.	
What is the relationship of the franchisor with existing and ex-franchisees?	The franchisor is required to provide contact details of each ex-franchisee in the last 3 financial years (unless the ex-franchisee requests that it be withheld). Make personal contact with them and discuss the various aspects of their operation.	
Does the franchisor derive profit mostly from the sale of franchises or franchise equipment?	Be sceptical of franchisors whose main activity is the sale of franchises and whose profit is primarily derived from these sales or from the sale of franchise equipment. Part of the Franchisor's ongoing profitability should be related to the recurrent revenues of the franchise.	
Does the franchisor comply with the Franchising Code of Conduct?	The Franchising Code of Conduct sets out the rights and obligations of franchisors and franchisees and is legally binding. Make sure you are familiar with the Code and can assess whether the Franchisor is compliant.	
Has the franchisor met all compliance and registration laws?	Find out if any of these are the franchisee's responsibility. The Business Licence Information Service ( <a href="http://www.business.vic.gov.au/blis">www.business.vic.gov.au/blis</a> ) will be able to give you a list of licences and registrations relevant to the business.	
Is the success of the business which is being franchised based on the charisma of the owner?	Marketing, operations and sales techniques should be based on practical, business-focussed procedures instead of relying on the personality of the franchisor e.g. advertising shouldn't feature the franchise owner.	
Ask about the business record of the directors.	The Code of Conduct requires that franchisors provide details of all directors and key managers in the Disclosure Document. Find out how long they have conducted business in this industry and how long they have sold franchises.	
Is the franchisor authorised to provide you with information related to the franchise?	Accept nothing other than what is put in writing by a member of the organisation with the authority to do so.	
What kind of meetings and events does the franchisor provide?	Some franchisors organise events such as Franchise Advisory Councils (or franchisee representative bodies), state or regional franchise meetings and other national events to encourage knowledge sharing and keep franchisees up to date with the latest changes in the business.	

## ■ Checklist for evaluating a franchise and franchisor

### ■ Watch out

#### Warning signs of scam franchise opportunities:

##### Finance

- heavy initial franchise fees and a requirement that payment be made upfront before any information is released
- claims you can make large amounts of money quickly and with little effort i.e. 'get rich quick' schemes or pyramid schemes
- franchisors whose continuing fee income is too low to support the services which they should provide to their franchisees
- fee arrangements where you have to pay a minimum fixed cash sum regardless of whether or not you do sufficient business
- inconsistent financial information about the businesses profitability is provided

##### Lack of information

- franchise agreement which does not match promises and is vague and lacking in detail
- franchisors/master franchisees who are reluctant to provide any written information
- franchisors who apply pressure to sign franchise agreements
- a reluctance to give details of the other franchisees

##### Inaccurate or insufficient details

- a franchise consultant purporting to offer independent, objective advice, but who is, in reality, offering a franchise for sale on a commission basis
- franchisors who have not invested in company owned and run pilot operations
- a franchise advertised with only a post office box as identification

#### For more information:

- call the Victorian Business Line on 13 22 15
- visit the Business Victoria website at [www.business.vic.gov.au](http://www.business.vic.gov.au)
- visit a Victorian Business Centre (VBC). For a list of VBC locations, go to [www.business.vic.gov.au/vbc](http://www.business.vic.gov.au/vbc)

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