

Business rules still apply

Investing in a franchise is about more than just buying a job, and can trip up the unwary. Report: Tony Blackie

to sort the good from the bad. It is vital to interview the family of a potential franchisee to make sure they all understand what running a small business is about. "Many of these people don't realise that they could lose all their savings and even their home and that success is not guaranteed," Young advises.

"They have to have an understanding of the financial issues. The second thing a franchisor needs is a detailed analysis of the financial situation of an applicant. Often people who have lost their jobs have been living on credit. Big warning signs are people who appear too keen to do a deal and just want to know how much they earn and how quickly.

"All small businesses tend to start undercapitalised but if they start with debt then the business is likely to fail as they start to raid the cash register."

Professor Andrew Terry of the Australian School of Business at the University of New South Wales says that while he doesn't like the term, there are people looking to buy themselves

into a job. Most of these people are cashed up, experienced and motivated but there are some, Terry says, who do not know what they are letting themselves in for.

"Often the biggest mistake a franchisor can make is signing on franchisees who are not up to the task. In these times there is a temptation to bypass the carefully developed models of the ideal franchisee and to take advantage of an expanding market," he says.

Terry, who is also governor of the Franchise Council of Australia's Franchise Academy, says that both the franchisor and the prospective franchisee have to take the recruitment process for the business seriously.

While he says that the franchisor needs to be assured of the financial viability of a person buying in, the franchisee needs to assess the viability of the franchisor's financial model.

More importantly they need to evaluate their own suitability to be a franchisee.

A franchisee has to trade off their independence to follow the established systems, which means that highly entrepreneurial people who like to do things their own way are not ideal franchisees.

"Anecdotally, the word is that the ideal franchisee is someone who has come out of the armed forces," Terry says. "They are used to working within a system and tend to be very good at putting in place and working a strategic plan."

The Franchise Academy provides certificate and diploma courses for both franchisors and franchisees. **BRW**



Many of these people don't realise that they could lose all their savings and even their home and that success is not guaranteed

Rod Young, DC Strategy



● The tight labour market and the skills shortages of just a few years ago have been replaced by rising unemployment, swelled by redundancies. There are now plenty of people in the market with enough cash, assets and the desire to buy into a franchise.

Franchising consultant Rod Young of DC Strategy in Melbourne says the increased pool of potential franchisees represents something of a double-edged sword for the system owner looking to expand a franchise network.

"In good times people get paid more than they are worth and they have job security, so they are not interested in taking the inherent risks involved in setting up a small business like a franchise," Young says.

"That was the case until November last year."

He points out that the average return to franchisees in the early stages of running an outlet is about \$70,000 a year and there are as many risks in running a franchise operation as there are in any small business venture.

"Why would you take a risk like that when you can have an employer who takes all the risks and pays you a regular salary?

"The first organisations to make changes are those with lots of fat like financial services, law firms, accounting firms and so on. They are now shedding people. What that does for franchisors is to create an environment like shooting fish in a barrel. Last year, anyone who could fog a mirror got a franchise. Now the franchisor can be more discriminating," Young says.

But he sounds a note of caution to franchise-system owners and operators. While there are more people available to buy into franchises, many of them do not have the right attributes to deliver success for the franchisor.

"Franchisors don't make money out of selling franchises. They make money selling franchises which are then run successfully," he says.

Young says many of the people available to buy franchises still have the mindset of an employee. Additionally, he believes that too few franchise operations and owners have the right experience needed to select the right people.

As it has been so difficult to find franchisees in the past the franchise operations have lost what he calls their "discriminator" – the ability