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SELLING

CHOOSING THE TIME **TO CASH OUT**

Selling a franchise requires detailed preparation, writes ***Tony Kaye***

DANIEL Ting and Nick Kassim decided to sell their Muffin Break franchise at Brisbane's Westfield Garden City Shopping Centre because of time constraints and a need for capital.

The brothers-in-law bought the premium franchise outlet in 2002 and are keen to sell so they can use their funds for other projects.

The franchise at Mount Gravatt turns over about $570,000, for a net profit of about $90,000.

"The business is going well for a good return," Ting says. "There's no negative reason why we're selling. It's because of the time involved in managing the business full-time and we want to free up the capital.

"In a franchise you've got to be prepared to work in it. The owner's presence is paramount, and at the moment we are having to take turns running the business."

Preparation: Rod Young says intending sellers should create a list of the features of the business **Picture: David Crosling**

Franchise consultancy DC Strategy estimates about 60,000 franchisees and 850 franchisers are operating in Australia, and at any one time up to 20 per cent of them (about 10,000 to 12,000) are for sale.

"The thing I see quite commonly is very poor preparation," DC Strategy executive director Rod Young says.

"I strongly encourage franchisees to prepare an information memorandum on their business, which actually highlights the features and benefits of the business and the features and benefits of the franchise network.

"It's amazing how many people attempt to sell their own businesses but do no preparation, put in no time and invest no money in marketing. It's like selling your house. There's no point in trying to sell your house with a one-line ad in the newspaper and not putting a board up. You can't just expect the franchiser to help you and direct inquiries to you."

Selling a franchise without adequate preparation increases the risk that the full value of the business will not be realised or it may even struggle to find a buyer. The sale process may take six months or more.

Other key considerations in selling include:

- Ensuring all the reporting information in the business is up to date to maximise its value and present the business in its best light.
- Ensuring compliance with the operations manual before putting the franchise on the market, as the franchiser may have the right to refuse to agree to the sale until the location is bought up to standard.
- Ensuring the franchise agreement is reviewed and the franchiser is informed of an impending sale.
- Ensuring a prospective purchaser has leasehold security at the franchise location.

Franchise Advisory Centre director Jason Gehrke says people going into franchising need to have an exit strategy.

"In a franchise you contract for a certain time. The average franchise agreement is five years in Australia," he says. "Many people decide to sell after the business has peaked and there is a possibility of it going into decline. Timing is very important."

Well-developed franchises will be able to identify when a franchise is approaching its peak and help the franchisee identify the best time to sell, Gehrke says.

"Another consideration is that the buyer must be approved by the franchiser, and in some instances the franchiser will withhold approval because the buyer has not met all the criteria," he says. "Somebody who fronts up with the cash isn't automatically going to be approved."

Most franchises that are growing will be advertising for new franchisees, which can help a franchisee wanting to sell their business find a buyer, he says.

"A franchisee should not rely on that alone to sell their business, and should do some marketing and talk to specialist business brokers."

The franchiser must be kept in the loop at all times. "If a franchisee decides to sell a business, the first thing they should do is to notify the franchiser to set a time frame that will work for everyone."

Franchise and Business Opportunities