Additional Due Diligence

As we have heard in previous units of this pre-entry franchise education program, it is essential to get professional advice before signing a franchise agreement.

The Franchising Code of Conduct facilitates this by recommending you get accounting, legal and business advice. It also requires a minimum 14-day period from when the franchisor provides you with a disclosure document before you can legally sign a franchise agreement. This 14-day timeframe provides an opportunity to get the necessary advice.

If you feel you are not yet ready after the 14 days, or need more time to obtain advice and undertake other research into the franchise offer, then don’t be afraid to tell the franchisor you need more time. Be cautious of any attempt to rush you into signing a franchise agreement before you are ready.

By the same token, if during the disclosure period you come to the conclusion that the franchise you have been considering is no longer for you, then you should withdraw from the process gracefully and before you have incurred further costs.

Remember - a broken engagement is better than a messy divorce.

Here are ten tips on further due diligence you can do in your assessment of a franchise offer:

**Tip #1 – Get advice from experienced advisors**

Make sure the legal, accounting and business professionals to whom you are going for advice are actually experienced in franchising.

Many potential franchisees often assume their family lawyer, who may have done their wills or some property conveyancing for them previously, will be franchise experts.

This is unlikely to be the case and as a result, the potential franchisee could end up with poor advice, or a more expensive bill as a result of the extra time the advisor needs to get up to speed in dealing with the matter.

**Tip #2 – Read everything**

In addition to getting professional advice, you must invest the time and effort to read the franchise agreement and disclosure document (and anything else provided) for yourself. This will put you in a better position to understand the advice from your professional advisors, and to get a better sense of the extent of the obligations you will be undertaking.
Tip #3 – Speak to current and former franchisees

The disclosure document will include a list of contact details for current franchisees, as well as former franchisees who have left the franchise system in the last three years.

(This will be the case for all established systems, however brand new franchises may not have any current or any former franchisees to disclose in this list).

Where possible, try to contact as many current and former franchisees as possible to discuss your interest in the franchise, and their experiences with the franchise too. This can provide great insight into the business and its ability to succeed, as well as reveal potential concerns.

Tip #4 – Talk with current or potential customers

Speak with current and potential customers to get an idea of the demand for the business’ goods and services, and how the brand will be perceived in its intended destination. This can be an informal type of market research that may lead to a more detailed assessment at a later stage.

Tip #5 – Verify the information you have received

As much as possible, you should verify the information presented to you in the disclosure or other documents. For example, if the franchisor’s site selection methodology indicates the territory has a certain population of homeowners, or that a certain number of cars go past a proposed shopfront, you should try to independently verify the figures provided.

You can do this by obtaining information from the Australian Bureau of Statistics (www.abs.gov.au), plus local and state government agencies, as well as landlords and providers of demographic information and modelling.

Tip #6 – Undertake web searches

In this day and age, the world is more interconnected than ever, making it easier to find out information about an organisation and the people behind it.

Common web searches on the franchise and its directors or executives worth considering are:

- Google (www.google.com.au): To see just what comes up. Also try other search engines such as www.bing.com.au and www.yahoo.com.au;
Australian Competition & Consumer Commission (www.accc.gov.au): The ACCC polices the Trade Practises Act and the Franchising Code of Conduct, so if a company or an individual has breached either, chances are that a search of the ACCC website will reveal their name and the relevant circumstances.

Australian Securities & Investments Commission (www.asic.gov.au): ASIC regulates the conduct of companies in Australia, and maintains a range of information about companies including a list of directors.

The Australian Stock Exchange (www.asx.com.au): The ASX website may be relevant if you are considering a franchise which is part of a public company. On this website you can find information about the company, its share price and its announcements to the stock exchange, including annual reports and dividend information.

Australasian Legal Information Institute (www.austlii.edu.au): This website contains a list of legal judgements for both State and Commonwealth courts. A search of this site will identify court action relevant to the franchise.

IP Australia (www.ipaustralia.gov.au): To confirm the franchise has registered the trademarks it has claimed in its disclosure document.

Tip #7 – Engage your partner/spouse, family and friends

A franchise investment will often involve borrowing against assets that may be jointly owned by a couple, so it is vital that a partner or spouse who may not be expecting to be involved in the business is at least involved in the selection and due diligence process.

Similarly, many franchisors may consider the moral and emotional support of your spouse or partner in their assessment of you as a potential franchise candidate. Likewise with family or any friends, particularly if they are to be involved in the business in some way.

Tip #8 – Assess your own living costs

While at first the requirement to assess your own living costs may not seem relevant to buying a franchise, it is. The reason is simple: If your monthly household expenditure is high, you have to ask yourself if the franchise you are proposing to buy can consistently deliver a large enough income for you to meet your household costs.

Tip #9 – Do a business plan
Many franchisors will need a business plan before granting you a franchise, accountants will need them (or help you create them) to determine the viability of the business, and banks will need one before lending to most businesses.

Many banks offer templates on business planning, as well as a number of business planning tools. State and government agencies can also help individuals and groups in preparing and presenting a business plan. (See www.business.gov.au).

**Tip #10 – Take your time**

To properly research a franchise offer takes time, patience, and a little money. Rushing the process could lead to a disastrous outcome. It is far better to take a bit longer and do it right than to rush into a hasty decision and overlook key items of vital information.

The amount of time and effort you put into your due diligence should be proportional to the size of the investment you are considering.

**Conclusion**

This is a sample list of tips and you may well think of other things you can do to research a franchise before signing on the dotted line.

There are no short cuts, and the more thorough you can be with your due diligence the less surprises you will have later on.

Finally, if you are not satisfied with what you learn during the due diligence process, take more time for further research or do not buy the franchise.

Remember – a broken engagement is better than a messy divorce.