



There's a wide range of franchise business options available. Picture: Herald Sun *Source:* Herald Sun

THERE is no such thing as the best franchise. The question should be: What is the best franchise for you?

One person might be successful running a McDonald's restaurant, considered by many as the daddy of all franchises, but for others it might be a struggle to make it work..

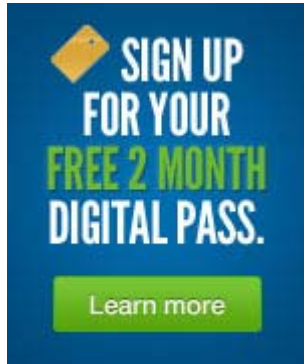
You are technically buying a job, but there is no guarantee you'll make a million doing it.

DUE DILIGENCE

Jason Gehrke, the director of the Franchise Advisory Centre, says that for every \$1000 the franchise is going to cost, you should spend an hour on due diligence.

"Economic turmoil provides good opportunities for entrepreneurs to launch businesses and to tap into new markets and introduce new products and services," he says.

Gehrke says often if you tried to start a similar business, you'd spend more as people often underestimate the capital required, and this shortfall is the killer of small businesses.



"But franchising won't make you immune," he says.

Entrepreneur Michael Sherlock, who co-founded and turned Brumby's Bakeries into such a success that it was later bought by the Retail Food Group in a hostile takeover, says people need to do their homework before leaping in.

"Go and sit outside the prospective store and count the customers," he says in his new book *Jumpshift!*

"Spend a week there and try to figure out how many people turn up, at what times, and what the average spend per customer is.

"Franchising can be a lot of hard work but it can be so rewarding. Work hard, follow the system and don't continually argue with head office.

"If you really want to change the system, then either sell or comply."

Sherlock cautions against placing too much importance on titles such as franchisee of the year awards.

"The trick is to obtain the right balance between working on the business and working in it," he says.

GROWTH

PricewaterhouseCoopers private clients partner Greg Hodson says nationally franchisor revenue has risen, on average, by 17 per cent and profit by 22 per cent.

"Franchisee revenue is also up, on average, to 12 per cent exceeding last year's 10 per cent forecast. And, profit is up too, to 13 per cent to meet last year's target," he says.

"Good luck has nothing to do with the franchise sector's strong year-on-year results."

Hodson says the key ingredients are a proven and replicable business model, franchisees with "skin in the game", extensive operational and marketing

support, and branding, marketing and buying power that comes from strength in numbers.

Tightening lending criteria and reduced risk tolerance continue to make obtaining finance difficult.

"Despite the sector's success, the banks continue to make the accreditation process extremely difficult and have been inconsistent in their lending approach to the sector over the past 12 months," he says.

WHICH ONE?

Website whichfranchise.net.au says you can expect to pay about \$300,000 to buy into a Healthy Habits or bb's cafe, while a Price Attack, Brumby's or Chemex franchise will set you back \$350,000.

The Coffee Club franchises sell for \$400,000 and Clark Rubber stores \$500,000.

Australian franchises are big business turning over \$81 billion a year, and for every \$100 spent in Australia, \$10 is spent by or in a franchise.

AMP financial planner Dianne Charman says franchising has become the fastest-growing business model in Australia, with more than 50,000 franchises.

"So, what is a franchise and will buying one make you your first million? Possibly. However, you need to be prepared to play by the rules and follow the plan set out by the franchisor," she says.

"When you buy a franchise you are basically buying someone else's business or brand, along with all the processes and marketing that comes with it.

"In essence, you are buying a business in a box.

"Much of the hard work has been done for you.

"Product development, production processes, branding and marketing, are all there on a platter waiting for you to serve up to the public."

NUMBER CRUNCH

It is important to work with your accountant before jumping into any business.

All franchises will have a start-up cost, some greater than others. The cost will depend greatly on the type of franchise you choose.

Franchise fees can range in price (for up-front fees and set-up) from as little as \$5000 for a mowing business to as much as \$1 million or more for a McDonald's restaurant.

Typically, franchisees are also required to pay ongoing fees for support, which may be a fixed monthly amount or calculated as a percentage of their turnover.

Monthly amounts may start at \$50, while percentage fees may range from 2-15 per cent.

Some franchises will have a geographic boundary from which they can draw their customers. Real estate agents work by a postcode area and can only list and show properties in that area.

Similarly, you may find your dog washing or gardening franchise has limitations and you need to be aware of these before you jump in.

GET ADVICE

James Hooper, an HLB Mann Judd partner, says franchise agreements need to be perused by a professional, preferably a lawyer and accountant with appropriate advice, to ensure the franchisee understands what they are signing up for.

“A franchisee needs to understand that there is generally a capital payment upfront for the franchise, the ongoing franchise payment each month, advertising and marketing fees paid,” he says.

“They also need to understand that the franchise agreement will conclude at a point in time (notwithstanding there will probably be options to renew), which may affect their ability to potentially on-sell to a third party.”

DO YOUR HOMEWORK

Preparation is the key to success and to avoiding legal disputes if relations turn sour, says commercial law firm Kelly & Co.

Kelly & Co partner Luke Dale, who has represented both franchisees and franchisors, says a lack of knowledge is often the biggest cause of problems for franchisees.

“No one should buy into a franchise without doing sufficient research and getting appropriate advice,” he said.

Dale says the most difficult legal disputes arise when a franchise agreement comes to an end or is terminated early.

This is because franchisees are often either unprepared or simply unaware that this could happen.

“Franchisees who have not done their homework and sought legal advice at the outset can be left in a vulnerable position when a franchise agreement ends.

“In the event that a franchisee wants to end their franchise agreement early for example, because they have realised the franchise model will not be successful enough for them to earn a sufficient income they may have to pay ongoing fees to the franchisor even after the agreement has ended due to the nature of the contract they signed.

“Another important scenario for a franchisee to consider is what happens if the franchisor is made insolvent.

“How will that situation impact on the franchisee's business, lease and the future of the trading brand?”

MUMPRENEUR

There's a slew of franchises aimed at women often surrounding health and fitness.

Melbourne entrepreneur Michelle Wright, a former primary school teacher, saw a large gap in the personal training market several years ago when, after having her own children, she wanted to regain health and fitness.

She found that pregnant and post-natal women had limited options available to them in terms of tailored fitness classes and made the decision to use her educational skills to set up her own niche business.

Her mishfit personal training business was born which offers a combination of group classes and one-on-one sessions, catering to women of all ages including those with pelvic instability and pelvic floor issues.

It has 88 franchises available across Victoria, which have been split into geographical territories based on the number of families in each area rather than postcodes.

WHERE THE OPPORTUNITIES ARE

Administration and support services (including travel agencies, cleaning, gardening, lawn mowing) 15%

Professional, scientific and technical 4%

Accommodation and food 17%

Retail trade 26%

Other 6%

Financial and insurance services 5%

Arts and recreation services 3%

Education and training 6%

Other services (including pet services, auto repairs, IT) 11%

Rental, hire and real estate services 7%

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