

# What to know before buying a franchise.

In Australia today there is a franchise operating in almost every type of business category, with varying levels of complexity and cost.

Prior to buying a franchise, potential franchisees should do the following:

- Assess your own reasons for wanting to own a franchise business.
- Assess the lifestyle and income implications of owning and operating a business.
- Narrow your franchise searches to a few systems, then request further information.
- Ensure you have adequate borrowing capacity, including working capital, to successfully establish this type of business.
- Be sure you receive and evaluate all disclosure material during the application process.
- Be sure you receive legal and accounting advice from lawyers and accounts with franchise experience before making any final commitment.
- Use the cooling off period to check your facts and figures and determine if you still want to proceed.



This is not an exhaustive list to consider prior to buying, but if you work through these steps you will be better informed as you make this big decision.

## Franchise cost and fees

In all agreements, franchisors directly or indirectly collect payments from franchisees for the right to use their brand, and to participate in their system.

Franchise fees can range (for up-front franchise fees and set-up) from as little as \$10,000 to as much as \$1 million or more.

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

Additionally, a further fixed or percentage of turnover fee may be applied to cover the cost of group marketing.

## Get advice

It is always essential that anyone considering becoming a franchisee receives competent professional advice from qualified and experienced advisors.

The FCA directs potential franchisees to consultants, accountants and lawyers who specialise in franchising.

The Franchisee Guide is an ideal reference book for potential franchisees. It contains all the questions to ask yourself - and your potential franchisor - before purchasing a business.

Members of the FCA have committed to the mandatory Franchising Code of Conduct and the FCA Member Standards. This, in addition to common law rights, increases protection for franchisees.

If you would like to check if a business is a member, contact the FCA on 1300 669 030



To find out more, visit [www.franchise.org.au](http://www.franchise.org.au)

## Common questions

### What laws regulate franchising?

Franchising in Australia is regulated by the Franchising Code of Conduct (the Code), administered by the Australian Competition and Consumer Commission (ACCC).

The Code provides for a number of franchisee protection mechanisms and a prospective franchisee should read the Code prior to buying a franchise in order to fully understand their rights.

### How long does a franchise agreement last?

Franchise terms are individual to each system. Generally, most franchises are granted for five to seven year terms, with an option to renew for a corresponding period.

Individual franchisees who wish to exit their businesses, in most cases can sell their business at any point with the franchisor's consent.

On the renewal of a franchise agreement, the franchisor is again required to provide disclosure information and franchisees should again obtain legal advice, especially if there are changes to the agreement upon renewal.

### Should I talk to other franchisees?

Absolutely. A list of franchisees should be included as part of the disclosure information that the franchisors must provide by law to potential franchisees.

Use your own judgement about the information that is provided, and bear in mind that if you proceed these franchisees may be your future colleagues.

### What are the fees and royalties?

A fee can include the up-front amount paid to the franchisor for the use of their name, know-how, operating systems, etc. This is one component of the overall start-up cost of a new franchise.

Ongoing fees (or royalties) are usually paid to the franchisor for providing business, management and technical support, marketing etc. This fee may be a fixed percentage of the franchisee's turnover, or a flat fee may be levied every month irrespective of turnover.

### What happens if I have a dispute with my franchisor?

If you have a dispute with your franchisor you need to identify the underlying issues of the dispute and attempt to resolve these through mediation. Disputes may occur from a misunderstanding of an aspect of the franchise relationship, which is outlined up-front in the franchise agreement.

Litigation is considered a last resort for extreme dispute cases where mediation has not been successful.