

FRANCHISEE CHECKLIST

On the Franchise Business

1. How long has the Company been franchising the business?
2. How many franchisees/franchise owners are there and have any of these been approached (suggested minimum – three)?
3. What does the Head Office organisation consist of, ie. management/sales support etc, what services do they offer you?
4. Have you details of the Franchisor's bankers and have you taken references from this or any other source?
5. Have you seen the Balance Sheet/trading figures of the Franchisor, how much capital has he/she invested (net worth/profitability)?
6. Has the franchise system had any failures and have these been discussed with you?
7. How does the Franchisor recruit franchisees, is he/she selective, do you need any experience?
8. Have you looked at other systems?
9. Is the Franchisor a member of the Franchise Association of New Zealand?

Costs and Projections

1. How much does the franchise cost and what does this include? What is the cost of additional equipment etc?
2. What ongoing costs does the Franchisor charge ie, monthly management fees on turnover, marketing levy, mark up on goods/products provided?
3. Does your Business Plan provide for working capital?
4. What are the projected profitability ratios, are all of your overhead costs included in the Business Plan (not merely those provided in a template provided by the Franchisor)?
5. Have you seen actual figures of existing Franchisees/Franchise owners to confirm projections?
6. Did the Franchisor run a pilot operation before franchising or is the system still under test?
7. Has the Franchisor any financing arrangements in place ie. Leasing etc. for necessary equipment, will you own the equipment upon repayment?
8. How soon will you have to refurbish premises/replace equipment etc?
9. Have you become acquainted with a bank which has a specialist franchising unit? (We can provide suggestions if necessary).

Methods and Business

1. Is the business seasonal, is there a good time to start trading, what are the stipulated opening times.
2. Is there a minimum monthly turnover figure stated in the Franchise legal agreement?
3. If goods are provided from the Franchisor, are you obligated to purchase a minimum amount?
4. Do you have you a copy of the Franchise Agreement and has this been fully explained to you by a solicitor with a good knowledge of franchising?
5. Are you allocated an exclusive territory and is this suitable to you?
6. How long is the Franchise licence granted for, is it renewable and are there additional charges payable on renewal?
7. Are you able to sell the business, are there any restrictions imposed on you, can you terminate if business does not suit you?

Support

1. What training is available, initial and ongoing?
2. Have you met the full team, i.e. the support staff that will help you?
3. Do you receive full instructions and Operational Manuals on the method of the business including book-keeping systems?
4. What support is available if you get into difficulties and do not produce anticipated trading figures?
5. Does the Franchisor arrange seminars/meetings of all Franchisees/Franchise Owners and/or publish newsletters to help you?

Location

1. Is this chosen by the Franchisor?
2. Is it a good location?
3. Do premises have to be leased, or subleased from the Franchisor?
4. How do the provisions of the lease fit with the franchise agreement?

Intellectual Property

1. Are there trademarks, logos and other copyright items?
2. What is their legal status?
3. What rights are there to use them?
4. What profile do the logos, trademarks and franchise name have?
5. Does the Franchisor undertake to enforce and protect intellectual property rights?

Marketing

1. Who controls marketing?
2. Is the Franchisor to market/advertise on behalf of all franchised outlets? If so, to what extent?
3. Does the Franchisor vet all marketing?
4. Is there a marketing levy?
5. Is a marketing subsidy payable to franchisee?
6. Does the Franchisor charge a levy to its own outlets?
7. What are the rules around social media?

Purchasing Requirements

1. What restrictions apply to the sourcing of:
 - a. Equipment?
 - b. Services and other products?
2. Does the Franchisor charge a mark-up?
3. What protection does the Franchisee have against price increases?
4. Do purchase requirements offend competition law provisions?
5. Can the Franchisee buy elsewhere if it meets required standards? Are these standards reasonable?

6. What does the operating manual say about purchase requirements?

Guarantors

1. Is a guarantee required? If so, by whom?
2. Are guarantee provisions reasonable?

Temporary Operations

1. Are there provisions for temporary operation in the event of death or illness of the Franchisee?
Are these reasonable?

Structure

1. Do you have an appropriate business structure from which to operate your Franchise?
2. If you have other assets, are they protected?

How can I Assist

If this list seems daunting, I am happy to join a meeting with you and your franchisor to work through these questions and discuss their answers post meeting. This will assist you in making your final decisions.

