

What to consider when purchasing a franchise

 By [Jeremy Lang](#)

9 Jul 2013

The local franchise industry is growing at a progressive rate and according to Franchise South Africa, the country currently boasts over 400 franchise systems and approximately 23,000 franchise outlets.

This fast-growing sector presents an attractive investment opportunity for entrepreneurs, as purchasing a franchise can offer various benefits. Franchisees have the advantage of owning an established product or service that is already familiar to the public, as well as a pre-sold consumer base and household brand-name recognition.

Although the industry offers many opportunities, it is important that entrepreneurs do in-depth research before investing in a franchise. The key to finding a franchise that will generate returns requires insight as to what is being purchased. Due diligence should be conducted in the same manner when purchasing a franchise, as when opening any new business.

I have some tips for potential franchisees:

Know the industry: Choose a franchise in an industry that you are familiar with, as this industry knowledge is an important tool for searching and evaluating business opportunities. Not only will this best suit your background, but it will also aid in your success.

It is also important to have previous experience in an outlet of a franchise that you intend to buy. Should you not have previous experience, choosing a franchise with a thorough franchisee training course will act as a good entry platform.

Choose within your budget: Calculate what you are able to afford. This amount should include the finances you are able to raise, save and will be able to borrow. When calculating the budget, keep the following factors in mind: firstly, too much finance can ruin a venture, so be wary of overburdening your business with too much borrowed capital.

Secondly, calculate the entire investment required, including set-up costs and working capital. Do not limit your funding to include only the franchise fee.

Review the franchisor: The first two steps should dramatically narrow down your search and allow you to focus on a particular franchise. The third step includes investigating the franchisor. Look over the documentation the group provides, but also find out as much as you are able to about the reputation and financial help of the franchise.

Being a member of the Franchise Association of South Africa counts in the favour of a franchisee, but it does not guarantee success.

Speak to franchisees and ex-franchisees: This is probably the most important exercise in the process. A franchisor should be able to give you a fully updated list of franchisees and ex-franchisees, as well as their contact details. If you are interested in purchasing an outlet or a franchise group, test all the assertions with the franchisees before making a decision. Comparing their levels of support, the quality of their training, the profitability of the business, and the integrity of the franchisor's business dealings, will give you a better understanding of your potential purchase.

Investigate the location: Suitability of the location of your outlet, or, in the case of non-retail franchises, the area in which you are going to operate in, is key. An in-depth knowledge of the surrounding market is vital to the success of your business. Make use of expert marketers or neighbouring franchisors for advice, but also do your own independent research to help ascertain your market.

Get the value calculation right: Ensure you are not overpaying for the franchise outlet that you have in mind, whether it is a new or existing one. After conducting your research make a concerted effort to consult an accountant to check your financial projections and value calculations. Although they are costly, industry specialists are an asset for any business.

Get legal advice and knowledge: The franchise agreement the franchisor will give you to sign is a crucial document detailing the rights and obligations of you and the franchisor. Ensure a lawyer, preferably one with knowledge about the franchising sector, goes through the document with you, not only to make sure that it is fair to you, but also to explain any clause that you may not understand.

In the end, it depends on you: The strongest franchise brand can still fail, but with the correct leadership and management this can be avoided. Just like any other business, operational and cash-flow management needs to be realistic.

Bear in mind that a hands-on management approach is also required. If you are an experienced independent business owner, and this is your first attempt at franchising, it is also important to remember that you will need to become accustomed to operating according to the rules of the group.

About Business Partners Limited:

Business Partners Limited is a specialist risk finance company for formal small and medium enterprises (SMEs) in South Africa, and selected African countries. The company actively supports entrepreneurial growth by providing financing, specialist sectoral knowledge and added-value services for viable small and medium businesses. Visit www.businesspartners.co.za for more information.

ABOUT JEREMY LANG

Jeremy Lang is Regional General Manager at Business Partners Limited.
▫ What to consider when purchasing a franchise - 9 Jul 2013

[View my profile and articles...](#)

For more, visit: <https://www.bizcommunity.com>