

Buying a Franchise – Do your homework

Buying a franchise business is different to buying a regular business. Often it is a major investment and you may need to put your personal assets up as security to buy a franchise. It is vital you take the time to satisfy yourself that you know exactly what is involved, and what you can expect.

1. Investigate

- Find out as much as you can about the system you are interested in – talk to the franchisor, meet with them and establish whether or not you will be comfortable working under the franchise system and taking instructions from the people in control. Just as they will want to approve you – you should approve them!
- Talk to other franchisees – this will give you a good idea of what it is really like to be a franchisee and the level of support you can expect from the franchisor.
- If the franchise is premises based, visit the premises during trading hours to see the business in operation.
- If this is a brand new franchise then visit the proposed premises on several occasions to get an idea of the foot traffic, who is the competition and how busy are they?
- If you are purchasing an existing franchise business you should ask as many questions as possible of the vendor about the business, the franchise system and how it works in practice.
- Review the manual – a well run franchise system will have a well written manual which gives you all the information you need to run the business. It is common practice now for manuals to be online rather than consist of large folders of written material.
- Refer to our [Information Guide: Buying a Franchise – Due Diligence Checklist](#).

2. Money matters

- Get as much information as you can about the business – look at the accounts. If you are buying an existing franchise ask your accountant to review the books. Prepare a Business Plan.
- Work out how much money you will need to purchase the business/franchise and how much you will need for working capital once you commence the business.

- If you are getting funding compare offers from two or more lenders – you will be surprised at the differences between the major banks.
- If you are buying a brand new business which is being established by the franchisor – find out exactly what you are getting for your money, how much it will cost and when are payment and other documents due? The franchisor should be able to provide you with a list of equipment and plans you are purchasing. Make sure you are very clear on what you are paying for and what is included in the amount you are paying the franchisor and what extra cost you would be up for.

3. Understand the Legal Stuff

- Find out what documents you will be asked to sign?
- Get legal advice before you sign anything.
- Make sure you understand your rights and obligations under each document.
- If a lease is involved, find out if you can have some involvement in negotiating the terms of the lease or if it is an existing lease make sure you understand your obligations.
- Refer to our [Information Guide: What is in a Franchise Agreement?](#)

92 Parnell Road, Auckland 1052 | P O Box 37851, Parnell, Auckland 1152
P: +64 9 307 3324 | F: +64 9 307 3325 | www.mllaw.co.nz | info@mllaw.co.nz

Important: This information is provided as a guide only and is not intended to be legal advice. You are strongly recommended to consult the services of an experienced intellectual property lawyer if you are contemplating legal activity of this type.

4. What is the process?

Each franchisor has a different process which it requires its new franchisees to go through before they are to become a franchisee. Usually there is an initial interview and you will most likely be required to complete a detailed application form and provide financial information. Once you are accepted as a franchisee the next step is likely to be some training which you will need to undertake before you can start the business. You will also need to review and sign the franchise agreement. Ask the franchisor what their process is:

- Find out if there are any extra costs involved for instance an application fee or deposit, a training fee
- Where is the training to be held? What costs will be involved?
- What happens if you decide not to proceed – how much money will get repaid to you?
- Ask when you will obtain a copy of the franchise documentation?
- Refer to our [Information Guide: Buying a Franchise – What are you really buying?](#)

5. Get specialist advice

Is it vital that you get advice from a specialist franchise lawyer? They will know what is normal and not normal in a franchise agreement. They will have knowledge of other franchise agreements and will be able to give you advice on how this franchise agreement compares to other. They may also already have knowledge about the franchise system you are interested in.

Getting advice from an accountant who specialises in providing advice to franchisees is also important. An experienced franchise accountant will be able to assist you to decide whether or not purchasing the franchise is likely to be a good investment for you or not.

Make sure you get your specialist advice at the right time. Speaking with your franchise lawyer and franchise accountant at an early stage can save you time and money and prevent you from making costly mistakes. You don't know what you don't know! If you are buying an existing franchise business it is vital that you speak with your franchise lawyer **before** you sign an agreement for sale and purchase to ensure you get the advice on the clauses you need in the agreement to protect you and save you time and money.

6. Get your structure right

Your accountant will be able to assist you in deciding which structure you should use for the purchase of the franchise. Most people incorporate a company to be the franchisee/tenant. Your accountant and lawyer will also be able to give you advice as to whether or not you should think about establishing a family trust to hold your personal assets.

7. Can you be a franchisee?

You need to ask yourself – can you be a franchisee? Are you comfortable with following instructions and not having much flexibility to do your own thing? To experience the rewards that come with owning your own business you will need to be prepared for a very heavy workload and to work in the business yourself.

Important: this information is provided as a guide only and is not intended to be legal advice. You are strongly recommended to consult the services of an experienced franchise lawyer if you are considering purchasing a franchise.

We can help!

Please contact us if you need any assistance with the above. We'd love to help you. Please call for more information.



Rory MacDonald by phone
(09) 307 3324 or by email
rory@mllaw.co.nz