

A close-up photograph of a person's hand gently holding a small green seedling. The seedling has a large, round, green seed pod at its base and several small, feathery green leaves. The background is a soft, out-of-focus green, suggesting a garden or greenhouse setting. The overall image conveys a sense of care, growth, and investment.

BECOMING A FRANCHISEE- WHAT DO YOU NEED TO CONSIDER?

Are you considering starting a business as a franchisee? Do you understand what is required and what you are getting yourself in for?

Starting a business as a franchisee is a sometimes complicated process that requires you to consider many aspects of a new business. Importantly when you become a franchisee you are entering into a business relationship with the franchisor.

What happens when you want to invest in a franchise?

To invest in a franchise, the franchisee (you) must usually pay the franchisor (owner), an initial fee for the rights to the business, training in the business model, and the equipment required to operate the franchise. After the business is set up, you will generally be required to pay the franchisor a regular royalty payment (such as a percentage of gross sales or fees) for the continued use of the franchise model. These payments are generally on a monthly or quarterly basis. When you buy a franchise you are effectively buying a brand that should be protected by a registered trademark and gives you the right to trade using that trademark.

After the franchise agreement has been signed, your business will replicate the franchisor's business model. Usually, the franchisor will assist the franchisee where necessary to ensure that the reputation of the business trademark and model are maintained.

What do you need to consider?

There are a number of different factors that you need to consider when entering into a franchise including:

- The existing brand and its reputation;
- Whether you can you make the payments required by the franchise agreement and still operate a profitable business;



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- Whether you have the time to invest in building the business;
- Which systems and controls does the franchisor have in place that will help you in operating the business;
- If there are other franchisees, contact them and discuss the franchise with them. Has the franchisor delivered on what they promised, how have they dealt with problems and what happens if things don't work out the way that everyone expects;
- If you are leasing premises, how that is set up, is the franchisor or a related entity the tenant and licence space to you; and
- What other fees and charges the franchisor will charge you if you want to renew the franchise for another term, if you want to sell the franchise business, what payments are made to third parties and how are you to purchase your goods and supplies.

As a franchisee you will be required to obtain independent legal advice and independent financial advice in relation to the proposed franchise documentation. You should consider all of these points when you meet with your consultants. You don't know what you don't know so ask lots of questions and make sure that if there is any aspect of the agreement that you don't understand or don't agree with that you ask for clarification or get it changed.

Control of the franchise

Generally, the franchisor will require that the same business model is used by all the franchised businesses. This may include using the same uniforms, business processes, and

signs or logos particular to the business. These help to identify the business and keep the brand consistent to the outside world. You should remember that you are not just buying the right to sell the franchisor's product or service, but the right to use the successful business process of the franchise.

Often the franchisee will pay an advertisement fee to the franchisor so that consistent advertising can be utilised to a larger audience rather than each franchisee attempting to advertise their business on their own. For example, a franchisee may only be able to afford to advertise in a limited area around their business due to the cost. Where multiple franchisees pool their money together, they can often afford advertising that reaches a much larger market and is therefore more beneficial to all of the franchisees as a whole.

While there are many benefits to investing in an already successful franchise business, there can also be drawbacks. As with any investment, you should do your research thoroughly before you make any purchasing decisions. You should ensure that your franchise agreement is fully reviewed by a competent lawyer who can advise you in relation to your rights and obligations under it. Also you should obtain advice from your accountant and financial planner to ensure that you are able to properly operate the business from a financial standpoint.

Jeremy Streten is a lawyer and the author of the Amazon best seller *The Business Legal Lifecycle* which is a guidebook designed to help business owners understand what they are doing in their business from a legal perspective and give them a plan for the future. Jeremy can be contacted at:

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