

If you are looking at buying a business, it is vital to ensure that it is right for you and your particular needs. Never, ever buy a business assuming 'She'll be right' just because you have seen the name around or because other people have already bought in. What you want to find is a franchise that suits your own abilities, ambitions and lifestyle.

When you buy a franchise, you will be relying upon the value of the brand and the quality of the franchise system, product or service to achieve these goals. Therefore, a lot depends upon the fit between you and the business and the quality of training and support you will receive.

Because franchising is so diverse, it is not possible to provide a list that would be applicable to everyone. There are over 200 suggested questions here, so we recommend you put a mark against the most appropriate questions from the following and use them as a basis for creating your own check list.

Although there is no franchise law in New Zealand to determine what information a franchisor must give you, most franchisors should provide a disclosure document that will include many of the answers. You should read this thoroughly and discuss it with your professional advisers. Depending on your own level of knowledge of, say, financial matters, you may prefer to get your advisers to ask some of these questions on your behalf.

The areas that you will want to examine may be divided into:

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Business Experience

One of the most important things that a new franchisee buys is the experience of the franchisor. Almost every successful franchisor will admit that they made many mistakes in the early days of their own operations, and it is the wisdom and experience they gained through these that they are able to pass on. The new franchisee pays partly to learn from someone else's mistakes.

It is, therefore, vital that the franchisor has experience of running the sort of business that he or she is franchising. They may already have successful franchised operations up and running; if not, they should have had a pilot operation running (on the same basis as the proposed franchise) for at least twelve months. This applies equally to locally-developed systems and franchises brought in from overseas. What works in Australia or the US will not necessarily work here without some adjustment.

Look at the background of the franchisor company, and the people involved, too. Here are some questions to ask:

- How many years of experience do you have in this industry? In this business? What is the previous relevant experience of the key people?
- How many franchised businesses do you have at the moment?
- How many company-owned stores do you run?
- Did you run your own pilot scheme before franchising? If not, why not? In the case of a new franchise, how long have you been running the pilot scheme, and how successful is it? Can I see the figures? Do you intend to keep running a company-owned business as well as franchising? How many outlets? What guarantee is there that they will not compete with franchised outlets?
- What is the extent of your own cash involvement in the business?
- Has any franchised business of yours ever failed? *Beware "hidden failures". They may not count an ailing franchise that was sold just prior to going into liquidation, or was bought back by the franchisor and resold.*
- What mistakes have you made and learned from?
- Are you a member of the Franchise Association of New Zealand? *If not, there is no requirement that the franchisor must provide a disclosure document, offer a seven-day "cooling-off" period after signing, or include mediation provisions in the franchise agreement. Some non-member franchisors will include these provisions but that does not make them compliant with the Association's Code of Practice.*

Research

Although the franchisor should provide you with information about the franchising company and the industry in which it operates, it is important that you check the quality of this information for yourself. It is better to put the effort in at this stage and take some extra time making your decision, rather than discover significant errors later. Find out from sources other than the franchisor about the history of the industry and probable future developments. Buy and read the industry journals and [use the Internet](#).

Above all, ask questions. Ask the franchisor:

- What do you see as the future of the industry you are in? Where does this company stand in its industry? What do you do to keep up with developments?
- Is there a viable market for the franchise's product/service? Is there still room for growth? What is its market positioning, e.g., price, image, quality? How does the franchisor maintain margins? How dependent is the business on price competitiveness? How good is the competition? *These questions apply in all industries, from retail to lawnmowing.*
- What direction is the franchise company moving in? For example, is it adopting new technology as it becomes available/affordable? Is this important? How will new technology affect costs for franchisees?
- What exclusive rights to a territory do I get? Can my territory be eroded by the franchisor? At a later stage, can I sell off part of it if I choose to? How do you define a territory, e.g., how many businesses, homes, geographical area, people, type of population? Do I get first option on an additional territory?
- Could you outline the process and the likely timing from here to starting operations, e.g., assessments/interviews, legal, financing, shopfitting, training periods with the franchisor and in the territory?
- Who finds a site/conducts market research, etc.? How is it done?
- What initial services do you offer?
- Can I have a complete list of your franchisees? Can I contact them by phone and visit if appropriate? May I choose who I interview? *Beware of only being given a list of 'approved' franchisees to visit.*
- May I look at your bank reference? Can I see the Profit & Loss for your existing operations? Your balance sheet?
- Please name any other referees I may approach.

It is important to get a feel for how ethical a franchisor is. It is difficult to ask questions that uncover this, but try to find out about their reputation from external sources and ask the franchisees themselves. Always ask several sources, and don't be afraid to take up references - that is what they are for.

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Financial/Costs

Buying a franchise involves various different costs: initial and ongoing fees, training fees, stock, shop-fitting or vehicles, and so on. If the franchisor provides a good disclosure document, all of these will be documented clearly to avoid any potential confusion or embarrassment at a later stage. However, it is a good idea to ensure you have all the following clearly laid down *in writing*. Ask the franchisor:

- What are the total costs? Are they paid all in one go, or in stages? What is the timing? What do the costs include? What capital costs will be incurred in addition to this price, and what for? *Check details of the franchise fee and other up-front costs such as training, legal and shopfitting or vehicles, then the level of ongoing fees or royalties.*
- How much working capital (i.e., cash to run the business, cover wages and other overheads) do I need? *Starting a business with insufficient capital can be fatal.*
- Do you provide projections for my proposed business? What are these based on? *For legal reasons, many franchisors will not produce specific projections but will provide actual figures for existing operations.*
- May I see actual accounts that confirm (or otherwise) your projections? How relevant are these to my proposed territory or site? What makes you say that?
- Do these figures take my salary/drawings and depreciation into account?
- Is there any form of work or income guarantee? How much? Does it vary with the amount I invest? How long does this apply for? When will it be paid? What are the conditions? Have you ever paid out on this guarantee?
- What assistance do you provide in obtaining finance?
- Have you already made special arrangements with any banks? Please outline what these are. What level of cash/equity will I need to qualify for finance?
- Do I buy or lease the necessary equipment? What are the options?

- Will I own all the equipment needed to run the business when I have cleared off the borrowing from the finance company?
- How do you, the franchisor, make your money? *This may affect the way the franchisor takes care of his franchisees - for example, a franchisor who makes his income from **selling** franchises is unlikely to be able to offer much in the way of ongoing support.* What royalty is charged, and how is it calculated?
- Do I have to buy all or just scheduled items from the franchisor? Are there any other fees? What levels of support or assistance do I get for the royalty? *It is important here to assess value for money, not just percentage figures.*
- How open are financial details within the franchise? For example, does the franchisor declare the level of any mark-ups or commissions paid by suppliers? Are the sales figures or financial results of other franchisees shared for purposes of comparison? *Sharing information within franchise systems is important because it allows you to benchmark your performance against that of other people using the same system.*
- What are the profitability and cash flow projections for my market and others? *Look at sales, cost of sales, overheads.*

Once you have the answers to the above, you should sit down with your financial adviser and, based on conservative assumptions in financial projections, ask yourself: What level of income can I make? How much can I take from the business, and when? Does this meet my needs or aspirations?

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[Marketing](#)

Marketing is fundamental to the value of a franchise - it is the pulling power of the name above the door or written on the side of the vehicle that should more than justify the ongoing royalties the franchisee pays. Ask the franchisor:

- What kinds of marketing programmes do you run for the product or service offered by the franchisees? May I see examples? How are marketing programmes decided on? What kind of consultation is there with franchisees about what they want/need? What is the process for evaluating success?
- What dollar value is spent on marketing (both advertising and promotions)? How is marketing funded? How accountable is the franchisor for the funds? Is a percentage allocated for local promotions? Am I required to spend additionally on promotions in my area? How much? Is supplier support available?
- Do you have a launch package for a new franchised territory? What experience is this based on? What does it include? Who pays?
- What help will I receive in arranging local advertising and promotions? Are there standard promotions (eg. artwork and radio adverts) available for my use?
- Please show me examples of marketing material you provide, e.g., point of sale material and promotional literature such as brochures, leaflets, sales presenters and standard advertisements. Who pays, and what is the cost?
- How do I make sales? How do I get leads? Do you provide an initial customer base? Do I need to cold-call? Do you provide training in this area? Do I need to have sales experience?
- Is there a centralised 0800 number for the franchise? How are leads from it allocated to individual franchisees?
- Is there a website promoting the franchise? How are leads allocated? Can customers buy direct from the website? If so, how are franchisees recompensed?
- Does the franchise carry out database-related promotions to customers? How is the database created and managed? Can franchisees choose which offers are made to which customers?

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[Legal](#)

The franchise agreement is the basis not only of the purchase of the franchise, but also of the ongoing relationship that must exist between franchisor and franchisee. It is not the same as a straight sale-and-purchase agreement because of this ongoing aspect, and must be examined on behalf of the purchaser by a lawyer with franchising experience. A good franchising lawyer will know what is reasonable and what isn't, so it is worth [using a specialist](#) .

The following questions are provided for guidance in the early stages, but do not replace a proper legal examination of the agreement. Ask the franchisor:

- How soon in my investigation of the franchise can I take away a franchise agreement for a legal opinion? Is the agreement negotiable? *The usual answer to this is 'no', although some specific variation may be reasonable especially if it is a fairly new franchise.*
- Is there a disclosure document which meets the requirements of the Franchise Association's Code of Practice? Do I get this at least 14 days prior to signing the franchise agreement, as required by the Code?

- Do you have minimum performance criteria, or a minimum fee, or a minimum purchase level for goods? How realistic/stretching are they? What happens if I don't meet them? How secure is the franchise tenure?
- How is my compliance with the franchise system measured? What happens if I don't comply? How long do I have to remedy any problems?
- What is the term (length) of the franchise agreement? What happens at the end? Do I have the automatic right of renewal? If not, what is the position?
- What if I want to sell my business? What is the procedure? Do I have to sell it back to you, or can I sell it externally, and what approval do you need to give? What restrictions are there affecting my right to sell the business? Do you help me to find a new owner? Do you charge a fee? Does a new owner get a new full term on the franchise agreement, or take over my existing one? Who would train any new owner? If it is the franchisor, is any fee payable for training?
- What insurances am I required to have? Do you have an arrangement with a broker or company offering special rates?
- If premises are required, are they bought or leased? Do you take the head lease and sublet to me, or do I lease direct? Please clarify the arrangements for this.
- How does the length of the lease compare with the term of the franchise agreement? What happens if my lease is not renewed?
- What would happen if you misjudged the site?
- How can I be sure you will do what you promise?
- What will happen if I don't like the business? On what basis can I terminate the agreement?
- On what basis can the franchisor terminate the agreement? *Most franchise agreements will have a number of standard and sometimes frightening-looking clauses. Take legal advice to determine whether these are reasonable or not.*

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[Selection & Training](#)

Selecting the right people is the single most important thing a franchisor can do. If a franchise consists of people who have little aptitude or taste for the business, they will constantly underperform, take up the franchisor's resources, and consequently drag the whole system down. Selecting the right people and training them well, on the other hand, will help the franchise fly - to the benefit of everyone.

Make sure that the franchisor has thought about the type of people who suit the business, and is careful to ensure prospective franchisees fit that profile. Ask the franchisor:

- How do you assess the suitability of individuals? Do you use any franchise-specific profiling tools tailored to your own business?
- On what basis do you choose your franchisees? How selective are you?
- What are the most important attributes of a successful franchisee, and do they match mine?
- How well am I likely to fit with the organisation in terms of personal standards, aspirations and values? *Assess this for yourself by looking at the company culture. This is very important - if you don't fit, look for another franchise with a different culture.*
- How long does the initial training last? Where does it take place? Who pays for transport, accommodation and meals during training?
- Who conducts training, and how well-equipped are they to do so? What does it cover and in what depth? What is the balance of theoretical and practical training? Is there any practical experience in company outlets or with existing franchisees?
- Has anyone ever failed training? Would you stop at any stage if you felt I was not suitable after all? Would any money I had paid be refunded? What proportion?
- Do you provide ongoing training in the form of courses, workshops, conferences, seminars, regional meetings, refresher or follow-on/advanced courses? Who pays?
- Do you provide training for any staff I employ? Who pays?

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[Support](#)

Getting the business up and running is one thing - keeping it growing and performing well is another. This is where the role of franchise support is crucial to ensure your efforts are constantly directed towards effective activities, and that problems are identified and resolved as quickly as possible. The support offered by the franchisor is part of the reason for the ongoing royalty fee. Ask the franchisor:

- Where is your franchise support office based? What does it consist of?
- Exactly what level of support can I expect and in what areas? How many people are employed by the franchisor? What do they do? How many are in direct support roles, i.e., not just in administrative roles? Is there any technical support, or on-going research and development? Do you have specialists in individual functions as well as generalists who understand the overall business? Can I meet some of your staff?

Many franchises in their early stages have very few employees - however, as a franchise grows, it requires additional support staff to ensure existing franchisees continue to receive service.

- What support would I receive during the opening period of my business?
- What ongoing support services do you provide? Do you have a programme of visits and meetings to monitor progress and advise on improvements? How do you run the support function?
- What would happen if I had operational problems that I was unable to solve? What help would I get?
- How often would I see or hear from you? Is there any support system between franchisees? Would I receive feedback on my performance? How will I know how well I'm doing?
- Can you demonstrate your capacity to provide the follow-up services needed?
- What benchmarking systems do you use? Are comparisons of performance across key areas available to all franchisees? Is there help in analysing areas for improvement? *This is a key advantage of franchises over independent businesses. Technology makes benchmarking easy nowadays and is part of most good franchise systems.*

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Operations

There is no point in thinking about taking on a franchise unless you are convinced that you would enjoy working for yourself, enjoy the day-to-day running of the business, and have the skills or aptitude to do it extremely well. You owe it to yourself to find out:

- What would I actually be doing on a daily basis?
- What will the opening hours of the business be?
- How many hours will I need to work? What are the hours required outside official business hours, e.g., for paperwork? *Check out your own commitment level. What is the match between what is required and what you are prepared to do? Talk to existing franchisees as well as the franchisor.*
- Is the business seasonal? When is the best time to start trading?
- What are the most important keys to success in the business? What are the most common pitfalls?
- Do I need to employ staff, or do all the work myself? What type of people, at what cost? Are the right kind of people readily available in my area?
- Will the business support a family, or will my partner also need to work outside the business? Is there the potential for my partner to work in the business, too? Is it preferable to be on my own or to have someone else with me?
- How do I run the business, and where? What premises and equipment do I need? (e.g., a full retail shopfit or a home office, vehicle and computer).
- Can I spend some time with an existing franchisee or in a company outlet to see if I like it?
- What can I sell and not sell?
- Do you provide operational manuals and instructions? Are they regularly updated? Are they online?
- How will I do my bookkeeping and meet the legal requirements of running a business? Is any administration or bookkeeping included in the support available?
- How soon will I be required to spend money on re-decorating the premises or replacing equipment?
- Do franchisees use a standard computerised accounting package? Is there any custom-designed software? What does it cover: quoting, ordering, invoicing, reporting? Is it integrated with other systems, e.g., tills or stock control? Can I access it via the Internet when away from the business? How often is it upgraded?

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Communications

For a franchise to be responsive to customer needs, successful and, above all, a 'happy family', there must be constant two-way communication between franchisor and franchisee. Ask the franchisor:

- What systems do you have for keeping franchisees in touch with you and each other? E.g., mailings, e-mail, intranet, telephone support, personal visits, newsletters, seminars, regional meetings, conferences.
- Is there a formal system for franchisees to make suggestions or test new ideas?
- What are relationships between the franchisees and between the franchisor and franchisees like?
- Do you have a Franchise Advisory Council and how does it work?

- How are disputes resolved? Is there an alternative disputes resolution procedure? Has it ever been used? What was the outcome?

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Finally

If all the above seems a bit daunting, please don't be put off. Franchisors are used to answering questions about their businesses, and expect to have to satisfy enquirers and their professional advisers as to the integrity of their business. You owe it to yourself to be thorough.

If you are thinking of buying a franchise, it will pay you to sit down and work out what you need to know before you meet with the franchisor. It will probably take several meetings, with increasing levels of detail, before you are in a position to make your decision, so be prepared for that.

The step you are considering is a major one so don't try to do it without taking proper advice. Do everything you can to ensure it will be the best decision you ever make. But remember - you will not be doing this work in isolation. You need to enlist the help of suitable advisers (at least a lawyer and an accountant) to help analyse the franchise relationship and its potential. It will also be their role to explain to you the implications of the various choices you are now making, so don't skimp on this advice.

Finally, please don't be tempted to think that a few hours surfing the Internet is any substitute for doing proper research. There's some great information available on this and other sites but there's no substitute for asking hard questions and getting answers that are individual to your own position and your chosen franchise.

Buying a business affects your family, your finances, and your future. Do everything you can to ensure that it will be the best decision that you ever make.

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