

## **The last key Due Diligence that a potential Franchisee should undertake prior to signing on the dotted line**

**(By Patrick Lui, CEO National Business Sales)**

You have done your thorough Due Diligence on a Franchise system that you have decided to buy into. You like the Franchisor and they like you! You think this Franchise is perfect for you and they also think likewise. Well, looks like a perfect marriage ready for the altar?

Well most of the time, this is likely to be a “happily married ever after” story! But what happens after you have bought the franchise and some time down the track you become sick or for some unforeseen circumstances, you need to exit the franchise system. You simply sell the franchise! Right? Well, its not that simple! Selling a franchise is not as simple as selling your own business. When you sell your non franchised business, you can sell to whoever you like and whatever price and whatever terms you want! But when you sell a franchise, you know that the franchise will have to qualify and accept the new franchisee. That is totally understandable as one of the key successes to a franchise system is in choosing the right franchisee. Fair enough and most reputable franchisors have very fair exit strategies for franchisees. But like any industry, there are ethical and unethical operators.

Being one of the largest business brokerages in S.E. Qld transacting about 100 businesses worth in excess of \$40 million in 2004-05, we at NBS (National Business Sales) have seen cases that put the exiting franchisee in a very unfair and sometimes in an untenable situation. When a franchisee wants to sell the franchise, he/she tends to go to the franchisor first for assistance in the exit strategy. Most reputable and ethical franchisors would help them find another franchisee quickly. But when you have an unethical franchisor (and you won't know until you want to sell), think what could happen when they are only interested in selling their own new franchise? Your franchisee then becomes a competing franchise, don't they! Your “listing” will be at the bottom of the drawer!

Well, the smart franchisee would sooner or later find that out and enlist a business broker to do the job! Well, that works most of the time when dealing with ethical franchisors. But what we at NBS have seen is that in spite of finding qualified buyers (i.e. the franchisor is happy with the potential buyer); the franchise manager would often entice your buyer to buy their new franchise rather than yours. What is even more despicable is that some ruthless franchisors may have a secret agenda – to buy your franchise! Normally a fair franchisor would honestly tell you up front that they want your franchise and are happy pay you the market price. But unfortunately when you are dealing with an unethical franchisor, sooner or later you find out that they will invent some excuse to keep rejecting the buyers that your business brokers have introduced

so that somewhere down their track you will give in to what they want – they want to “steal” it from under your nose! But you can sue for unconscionable conduct or breach of the franchising code, can't you? Maybe yes and maybe no. Often you may not have the time. Say if you are very sick or if you must relocate to a different country shortly, you don't have the luxury nor could you afford to litigate with the vendor because time is of the essence in these situations .

Therefore, before you sign on the dotted line, here's the last due diligence that you have to do! Ask what exit strategies they offer to franchisees in case they decide to sell down the track! Everyone has an exit strategy, including the franchisor themselves, believe me! Furthermore, ask for the list of franchisees that have exited the franchise system and ask them the reasons for the exit! Check that out by calling every single franchisee who has exited the franchise. Believe me, you will be surprised what you will hear! If the franchisor doesn't offer this information, maybe it's not too late to walk away! You always think of an exit strategy prior to investing in shares, buying your home or an investment property; as a smart investor or businessmen, shouldn't you think likewise for your business – perhaps one of your most important assets!