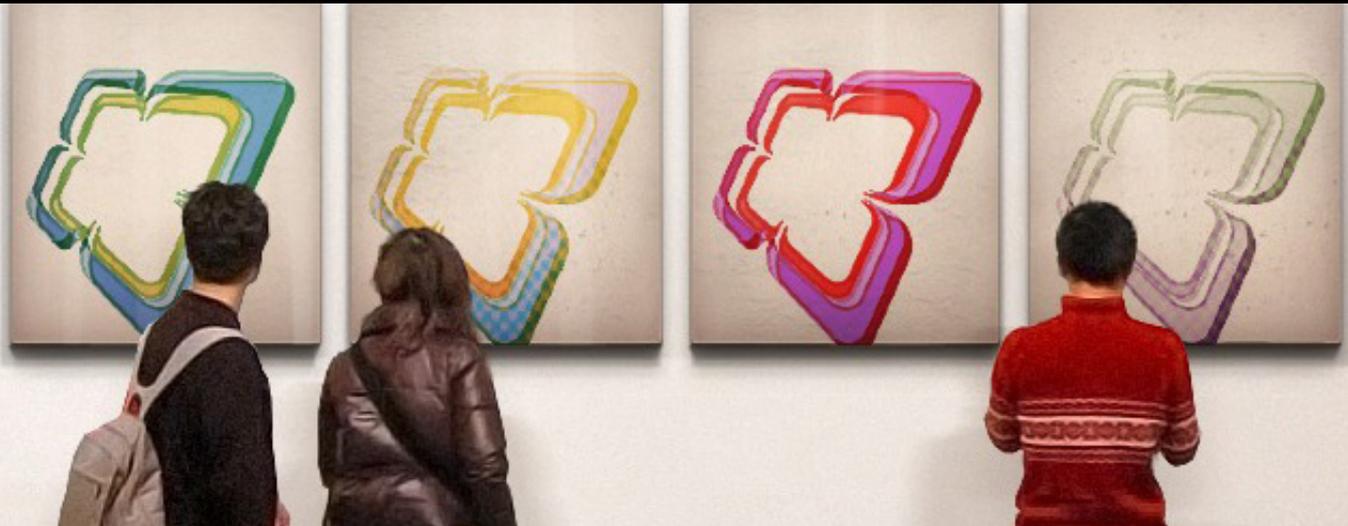


# Considering Franchising?

The Value of Acquiring & Understanding Advice Prior to Purchasing a Franchise



## Introduction

Buying a franchise is probably the biggest decision in a small business investor's business life. Franchising offers unparalleled opportunities to be one's own boss, and it can be easy for an investor to be swept up in the moment and miss some of the vital steps that can protect investors, their livelihood and dream.

Five percent of businesses in Australia use some kind of franchise system.<sup>1</sup> \$131 billion in revenue is generated from franchising, a figure which is 14% of the GDP.<sup>2</sup>

There is a confusing variety of franchises available: with 1,180 business format franchises in Australia in 2012, and 73,000 distinct business units operating as franchises.<sup>3</sup>

But there are pitfalls which can only be avoided by receiving appropriate advice.



“40% of businesses fail within six years”

## Risky Business

While franchising can be a safe springboard from which to start a business based on an already recognised brand, almost 40% of businesses fail within six years<sup>4</sup> with some estimates placing this figure as high as 50%.<sup>5</sup>

One of the leading causes of these business failures is a fundamental misunderstanding of the franchise relationship.<sup>6</sup> When the franchisee and franchisor have differing ideas about the relationship, these misunderstandings can cause friction and lead to mistakes, extra costs and, ultimately, business failure, effectively sabotaging the business before it begins.<sup>7</sup>

Another often misunderstood aspect of franchising is the legal rights and obligations within the franchise relationship. It can be difficult for anyone without legal training to comprehend a Franchise Agreement completely since it is often full of legal jargon, making it difficult to read and to understand.



## Challenges/Consequences

Many people think legal advice is too expensive, not useful, and that it will somehow get in the way of their dream of owning a franchise. At Franchise Ease we call this “opportunity frenzy”: the blind pursuit of a business opportunity based on a dream completely devoid of the commercial reality surrounding the franchisee.

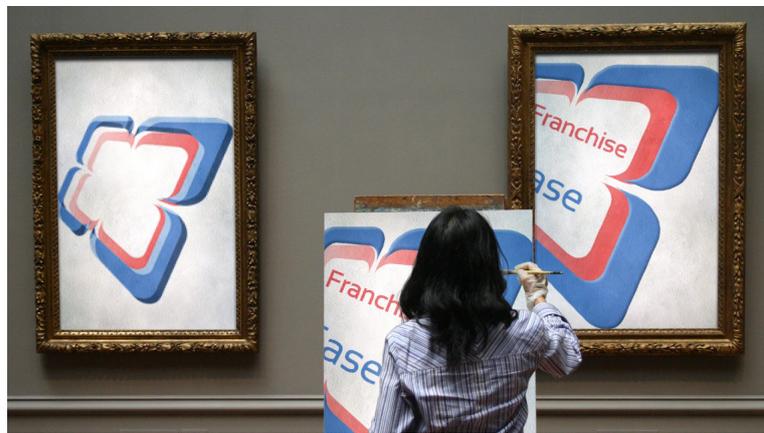
A Franchise Agreement is a contract at law. Once signed, it binds all parties. Big business knows this and so correctly sees the cost of legal advice as an intrinsic business operating cost. The best time to get advice is before signing it.

If a failure to understand a part of the Franchising Agreement leads to a failure to deliver contractual obligations, then the franchisee can be liable for restitution; a dispute that is likely to end up in the commercial claims court.

This will often be costly for the franchisee, regardless of the legal outcome. Court attendance is a hindrance on the operation of their business and can lead to commercial losses. Furthermore, legal fees can rapidly accrue and, if the court’s judgement is adverse, large penalties can be charged, making the whole experience potentially ruinously expensive for the franchisee.

Often the fear of being over-charged on legal fees with hidden costs will prevent legal advice being sought.<sup>8</sup> The perception that it will be more expensive than the original quote and increasingly unaffordable can contribute to the decision. This can be the riskiest decision a franchisee can make.

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## Fixed Fees and Plain English

It can be a relief to the franchisee to know that it is possible to gain straightforward legal advice at a reasonable cost. This small investment can not only set a franchise up for future business success, but can save them more than the upfront fee by protecting them against legal action through thorough education of the franchisee.

Franchise Ease is an example of how a franchisee can obtain easily understood legal advice for an agreed fee.

Franchise Ease charges a fixed fee allowing for the franchisee’s budget to cover this vital expense. By knowing the costs up front, it is easier to effectively place these necessary costs into your budget before you start.

Franchise Ease specialises in explaining the terms of franchise agreements in plain English so that franchisees understand what is expected of them before they enter into binding agreements.

This can save a potential franchisee from taking on a business that they can see will be unsuited to them. Having the terms of the contract explained fully can avoid costly business mistakes.

Sound legal advice can help potential franchisees understand their Franchise Agreement, what they need to do, and what they can expect from the relationship. Legal advice prior to entering into a franchise relationship is a vital element of the resilience building required in the franchisee community.<sup>9</sup>

Dreams begin with responsibilities. Just as franchising is the dream of many investors, there is a responsibility to make smart decisions, take advice early, and in this way protect their investment. A consultation can be the difference between success and failure.



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