



STOP ... before you even think of starting or buying a franchise ...



If someone starts another coffee franchise I am going to scream.

Just because you have a great idea, or a great product, doesn't mean there is a market for it. Even worse, it does not mean that there aren't already 27 other companies competing for a small slice of the market.

One of the great things about Australian business people is that we're extremely entrepreneurial. But that's a double edged sword. Sometimes we start or join franchises and think we'll 'give it a go', without having any understanding of what the market will sustain over the long term.

You've got to remember, even if everyone in Australia wanted three coffees a day, there still isn't enough room for 30 different coffee shop franchises, let alone another juice franchise.

Franchising is a great business system, one where you combine a great system for running a business and producing a profit, with great people who have an equity interest and thus will do a much better job.

That said, it doesn't mean every company on the planet is able to be franchised, or franchised well.

So, here are the top eight things I want you to focus on to make sure the money you're investing, if you're thinking of building or buying a great franchise, is going to pay off.

- 1. How many other same type franchises are out there?** Chances are if there is a lot of competition, two things are present, the best 'sites' are taken and when you are looking to sell a franchise they will compare you with every similar company.
- 2. How many people want to buy a business in the areas you are trading?** Let's say you want to set up a franchise in Victoria, how many people week in, week out, are actually buying a business. In fact, you should find out how many franchises each and every competitor sold last year to give you an idea of what your sales will be.
- 3. How many customers a day does the business need?** When you're buying a franchise, you've got to do some basic math on how many customers the business will need per day, or even per hour to break even

and then to make a reasonable profit. Most companies I look at need far more customers per day, every single day, than is reasonable given the market or site they are going into.

4. Check the demographic growth? When you know who your ideal customer is, check into whether that group is growing or diminishing in the area you want to put the business. If you want to build a business you need to know the customer base is growing with you.

5. How many competitors for the franchisee? The hard work begins when you have to get your franchisee profitable. And, if you're the franchisee, you need to seriously examine the market size and the number of competitors you face. More competitors will often lead to reduced prices, margins and therefore lower success.

6. What is the profit margin? One of the keys to a successful franchise is the profit margin. Given the franchisee pays a royalty, there needs to be a serious profit margin built into the business model to pay for this. The buying power of the group usually covers far more than the royalty fees.

7. Do you build long-term customers? Almost every successful business is created whereby customers don't just buy from you once, they are with you for a serious period of time. If you buy into a business that only has one product, and a customer buys from you once and then you never see them again, you are generally going to find profitability lacking.

8. And finally, will I enjoy the day to day? Buying a business is seriously about a change in lifestyle. If you enjoy something you will read about it, study it and become really good at it. If it's something you think of as hard work, you're doing it for the money, and you don't enjoy it, you'll never be as successful as you could be.

Your ultimate decision maker

Success in franchising and every business enterprise is all about the team you are with. If you are looking to join a franchise, remember that it's the team you are joining, the leadership and the other franchisees who will help you, guide you and show you about success.

When people ask me to fund their new business or franchise venture, I look first at the people, second at the idea. Yes the idea has to be solid, but the people are still the most important. 