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Are your franchise systems up to scratch

Like all businesses, franchises need effective financial systems to survive and prosper. Unlike other businesses, though, a franchise is often offered to a prospective franchisee as a going concern, with little or no scope to change the established structure, processes or systems already in place. It's critical that, as a prospective owner of a franchise business, you clearly understand what systems underpin the franchise's day-to-day operations and cash flow.

The right financial systems

Leading businesses are using cloud-based accounting systems to keep track of their financial performance, including areas such as expenses, turnover and profit. These systems should also provide links back to the business owner's bank, financial advisers and, in the case of a franchisee, to the master franchisor. The best systems offer a range of features that make it very easy

for businesspeople to enter data and see at a glance how their business is performing on a day-to-day basis, through hard-copy reports and online dashboards. These systems are quick, efficient, very effective and generally not expensive.

Business planning

Ideally, the franchisor should also provide franchisees with templates for business plans, operational processes, sales and marketing strategies and other planning formats. There should also be a clear understanding of

what the franchisor expects in terms of activities around these – and how the costs will be shared between the individual operator and the franchisor.

Support from 'head office'

Franchisees should also be able to access advice and support on financial and compliance matters from the team at the master franchisor.

In our experience, these levels of support tend to vary from franchise to franchise, but you should at least be

getting a clear understanding of expected revenue versus start-up costs when you first take over the business, along with support from the franchisor to help you set a revenue budget. They should also be able to help you make projections along the way and readjust these as the realities of running a business become apparent.

Help from external advisers

Does the master franchisor have a list of approved advisers – accountants, lawyers, other financial and management experts – who are easy to access, located close by, come with a reputable brand and are easy to deal with? The ideal for any franchisee is to continue using your own trusted advisers, while still having access to these experts if you need them.

Advisory firms that have worked with your peers in the franchise network will have great advice and lessons to pass on to you, and these should not be supplied along with fees higher than you would pay elsewhere.

Tax compliance

You will be liable to meet all tax requirements and you should be expected to manage these yourself. But it will still be useful to have access to some advice, systems or support from head office, if only to learn from other franchisees' experiences and tips in this area. It's not hard to provide a tax compliance calendar, along with advice

on submitting business activity and income activity forms, and arranging payment plans with the ATO if required. This is often one of the most challenging aspects of business management, especially if you're new to the experience, and one where we believe more franchisors could be doing better for their franchisees.

Financing for the business

Some franchisors will have finance arrangements with banks and other lenders, to assist franchisees in acquiring the capital required to buy the franchise and get it started. The best of these arrangements will include favourable repayment terms, across a number of years with a

competitive interest rate and an interest-only repayment option. They should also include the option to renew, extend or renegotiate the loan, along with some type of business banking relationship, with a dedicated bank officer to act as an adviser to the franchisee.

Business structure assistance

Does your prospective franchise include detailed information about how the business should be structured? Does the franchisor provide advice on owning the franchise through a trust, to ensure your personal assets are protected from any business failures?

This might be expecting a bit too much, but franchisors should at least be clear about 'best practice' structures for the franchise ownership, and be flexible when facing a franchisee's requirements in this area.

Advice you won't get from the franchiser

Following on from the last point, it's also worth consulting your lawyer or accountant to get a better idea of how to manage your business structure so it remains separate from your personal affairs and is run in the most tax-efficient way possible. You will also need advice around owning versus leasing assets, tax minimisation, asset protection and succession planning if you're aiming to involve your children or other relatives in the business.

Understanding just what you need to know is critical when looking at – and deciding whether to buy into – a franchise business. If you can cover all these bases and your franchisor is helping to provide this information along the way, then you are off to a great start.

Bernard Marin is the founder of Marin Accountants

This article is intended to provide general information only and has been prepared without taking into account any particular individual's financial situation or needs.

We recommend you take financial advice specific to your situation before making any financial decision.