

Acquiring a Franchise



YOUR CA AND BUSINESS ADVISORY SERVICES

**The Business Advisory Services Committee
The Canadian Institute of Chartered Accountants**

Every business can benefit significantly by consulting your chartered accountant about business advisory services. CAs are skilled in accounting, auditing and tax services - and a lot more!

CAs can help you with:

- profitability improvement
- financing and loan applications
- obtaining government grants and other financial assistance
- developing management information systems
- cost accounting
- planning and budgeting
- forecasting and evaluation
- risk assessment and insurance planning
- planning compensation programs
- business valuation
- feasibility studies for business expansion
- starting a new business
- acquiring a franchise
- planning for retirement and/or business succession
- integrating business tax planning with estate tax planning.

These business advisory services are cost-effective because CAs have the knowledge of clients' organizations, operations, finances, personnel and tax situations.

Acquiring a Franchise

Acquiring a franchise should be approached with the same care and preparation as starting your own independent business. There is no magic formula to guarantee profits. You, as the business operator, are ultimately responsible for the success or failure of the venture. You need to investigate and analyze the product or service, the market, the return on investment, the track record of the franchisor and the type of agreement into which you will be entering. That's why obtaining proper professional help is so important.

Most importantly, you must decide if franchising is right for you. Weigh the advantages and disadvantages.

The Advantages

Assistance in such matters as site selection, building construction supervision, obtaining financing, staff training and support during the difficult break in period.

- On-going problem-solving capacities which include the resources to hire specialists in head office in such areas as cost control, marketing and sales, and research and development.
 - A well-known tradename or symbol.
 - Credit access you might not otherwise have. Financial institutions are usually more willing to lend money to an entrepreneur who is backed by a successful franchisor than they are to the completely independent entrepreneur.
 - The ability to purchase bulk supplies at a reduced cost.
 - A reduced risk of failure. Statistics show a higher success rate for the franchisee in surviving the first few critical years as opposed to the independent entrepreneur opening a small business.
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The Disadvantages

- Some franchisors collect a fee for the granting of the franchise and provide little on-going help. Even if support is provided there may be problems.
- You may be required to use services and supplies provided by the franchisor which could be purchased more cheaply elsewhere.
- If the franchisor operates from another jurisdiction and obligations are not fulfilled, it can be difficult, if not impossible to achieve legal redress.
- Profits may be less than you are led to believe. The cost of the services provided by the franchisor comes off the top of your sales revenue and could add up to 10% or more of that revenue.
- There may be little flexibility of operation if the franchisor has rigid standards and procedures.
- Tradenames and symbols may not bring in as much business as hoped.
- Misleading promises by franchisors could mean loss of your investment.
- The franchisor could "oversaturate" the market, unless your geographical market is clearly set out in the agreement.

Four Steps to Avoid Franchise Trouble

- Find out who's behind it -- It is vital to know who the people behind the franchise are and how much financial stability they have.
 - Make sure you have enough capital -- Do an objective review of your personal and financial capacities, including short and long term objectives.
 - Determine whether demand will last -- Evaluate the product or service with an eye to its staying power.
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- Get expert advice -- To find out what kind of support services the franchisor offers, professional advisers will examine the various marketing, operational, training and advertising manuals, and provide financial and legal guidance.

Why Your CA?

Your CA can outline an organized approach you should follow. This will save time, money and frustration in the long run.

Your CA can assist in both your self assessment and investigation of the franchise. Your CA can help you decide if you are suited to franchising by evaluating the type of business you want to run, where you would locate, how much money you have to spend and what income you expect.

Your CA can also help you sort through the franchise choices to find the one that's best for you. Your chartered accountant can examine factors such as the company's business concept, uniqueness, operating procedures, acquisition cost, profitability, management style, expansion possibilities and franchisee relations.

A chartered accountant who is well-versed in small business operations and familiar with franchised businesses can be an excellent source of advice; particularly a CA who is knowledgeable about the business in which you have an interest (for example, a service company, a retail store, a restaurant).

Once you're started, your CA can help you develop a business plan and assist with tax planning, financial projections and accounting and auditing.
