

choosing the RIGHT TIME

WITH THE ECONOMY IMPROVING, DANIEL CLOETE OF WESTPAC ASKS, 'IS THIS THE RIGHT TIME TO BUY A FRANCHISE?'



⇒ As with most things in life, the answer to the question 'Is this the right time to buy a franchise?' is 'It depends'. Some of the factors it depends on are the industry you are considering entering, the state of the economy, the type of funding available for your franchise of choice, the age, abilities and aspirations of the buyer and even the maturity of the franchise system you are contemplating.

INDUSTRY

The various types of service franchises (home services, commercial services and other categories) are often attractive because they generally require less capital and can offer a higher return on investment, although this may represent a higher risk in some cases. Such franchises may be suitable for a younger person with a lot of drive but not a lot of capital, or perhaps for someone looking at buying a job or seeking a complete change of lifestyle.

The capital required for a food or retail franchise may influence the ability of some people to enter the market, but people from a corporate background may find this the perfect solution to going into business for themselves. The right time for them would be when they feel they have accumulated some business acumen but are looking for a new challenge and financial independence.

Whatever the industry, you may have a choice between new and

established franchises. A number of businesses are currently converting to a franchise model or entering the market in New Zealand. Getting in on the ground floor with a new franchise can offer the best choice of franchise territories or the highest capital gains, but you need to be comfortable that the business has real potential. Equally, some established franchises are also on the expansion trail as the economy starts moving again – which bring us to a different type of timing.

ECONOMIC CYCLE

In the last two years, many potential franchisees have been reluctant to invest heavily in retail, real estate or other sectors strongly influenced by the economic downturn. Lack of confidence has deterred many potential franchisees in other areas, too. But, in general, many franchise models have proven very robust. When the economy looks stronger, interest in all types of economic activity increases and the same is true of franchises. More realistic rents, low relative interest rates (compared to historic levels), availability of quality employees and good retail locations are all factors supporting profitability and growth.

Of course, all these factors are dynamic. Interest rates may start to move up again or the economy grow more slowly, but most good franchises should be able to weather this and it should not be a primary consideration when deciding when to start a business.

AVAILABILITY OF FUNDING?

The availability of funding could make this the perfect time to go into business. If you talk to a specialist franchise banker who really knows the industry, you will quickly find out that not all franchise systems are equal in terms of stability and profitability. The fact that a bank is prepared to fund against a particular franchise may create the opportunity for you to buy a much more substantial business and get ahead much quicker.

This funding advantage has become even more pronounced through the credit crisis, when funding for small independent businesses became much more difficult. Strong franchise systems that proved themselves through the down cycle were able to continue to adjust their business models and invest in re-imaging and new products. They find themselves in a very strong position to obtain funding compared to their competitors at the moment.

LIFE & LIFESTYLE

Here we have to consider the age and aims of the person interested in business. Younger people tend to have little capital but may have a lot of drive and ideas. They may be prepared to shelve other commitments and work long, unsociable or extra part-time hours while they build a business.

People in their forties and fifties are more likely to be in a position to look for sizeable businesses requiring significant capital but offering higher earning and capital growth potential. They are also more likely to have family or other responsibilities that make more regular hours more attractive. On the other hand, they may look for a franchise that offers smaller returns but more flexibility to allow them to follow other interests.

BUSINESS LIFE CYCLE

All businesses tend to follow the same life cycle. The steps are: identifying the new opportunity; start-up followed by natural growth; then sale or succession or, alternatively, maturity/downturn which will need to be followed by diversification and identifying new opportunities again to get a new cycle of business expansion and growth.

In terms of timing, a critical factor in decision-making is the position on the life cycle of the selected business. In some mature industries, the prices paid for existing franchises could be high while margins are starting to compress and competition is entering the market. Unless the franchisor shows definite signs of introducing new concepts and reinvesting in the system to ensure it stays competitive, this is probably *not* a good time to invest in a franchise from such a group. If the franchise is in a natural growth phase, however, the sooner you make the decision to get involved, the better.

SUMMARY

To summarise, deciding the best time to go into a franchise business depends on your own objectives, drive, capital and abilities more than external factors. Once you have determined that the time is right for you personally, the actual *type* of business you may select will then be influenced by other factors such as the funding available, and the industry and business life cycle, as well as economic conditions. The variety of franchises on the market means that there will always be some real opportunities available – whatever time it is. ■

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