

DUE DILIGENCE IS FRANCHISING RIGHT FOR YOU?

The essential guide to evaluating if Franchising is the right choice for your next business venture.

Discover the key questions you must ask yourself and your prospective franchisor as part of your due-diligence process.



THE
METAMORPHOSIS PROJECT

BE MORE GIVE MORE HAVE MORE



One of Australia's leading authorities on franchise profitability and success mindset, founder of the Metamorphosis Project and author of the upcoming book, "The Psychology for the Hungry Franchisee."

ABOUT THE AUTHOR



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Emmanuel Martin is one of Australia's leading authorities on franchise profitability and author of the upcoming book, *"The Psychology for the Hungry Franchisee."*

Emmanuel has had a unique journey in franchising. While working in a senior management role at one of Australia's biggest franchise brands, Gloria Jeans Coffees, he spent most of his time with its franchisees, many of them who were finding it hard to achieve profitability and emotional freedom.

With a team of dedicated coaches and mentors he turned these failing businesses around and increased the profitability of both the franchisee and franchisor.

He is the founder of the boutique franchise consulting firm, The Metamorphosis Project, that helps franchisors and franchisees achieve greater levels of profitability.



Started in 2016, The Metamorphosis Project helps and nurtures select 'Franchisors of Choice' who believe in putting their 'Franchisees First' through the belief that Franchisors prosper when Franchisees thrive, both financially and emotionally.

Currently, the company is excited to be launching a ground breaking Due-Diligence service for aspiring franchisees in association with Eden Exchanges.

FOREWARD

Congratulations on getting your hands on this very special and practical document.

The contents of what you will read and absorb in this paper will significantly help you in your franchise discovery journey.

Talking of journeys, just like life, running a franchise business is also a journey. A journey starts with a beginning and ends in a destination.

This document will help you determine if the franchising journey is the right one for you. It all comes down to your ultimate choosing, your own informed choice, both conscious and subconscious.

Before we begin, I would like to take you back a few years, to my own journey, the learnings and experiences of which gave me the knowledge and clarity to provide the practical contents of this document.

I worked for many years in a senior leadership role for a large Australian owned franchisor, Gloria Jeans Coffees. As a Commercial Finance Manager, my primary role was to measure and ultimately influence the profitability of the company.

After a couple of years, the very simple but profound realisation dawned on me that the franchisor's profitability and survival depended on the profitability and the survival of the franchisee. This vital coexistence between franchisor and franchisee led me down a new journey which changed my life forever. This journey had a purpose.

I was determined to increase the profitability of the franchisee network for Gloria Jeans Coffees, which would lead to greater profitability for the company I was working for. It sounded great in theory.

That is, until I stepped into the real franchising world, the world of franchising and the franchisee.

I spent the next two years traveling to every part of Australia, often days at a time. Together with a team that I had built, we visited nearly 200 Gloria Jeans Coffee Houses with one primary focus.

Our aim was to connect with the franchisees, understand their challenges and opportunities and more importantly coach and mentor them to greater profitability and emotionally happiness. This is also where I came to the revelation that emotional strength (I will call this mindset from this point) and profitability went hand in hand.

During this journey I gathered many stories, case studies and information that was the basis for starting my consulting voyage. It is with this knowledge and credible information gathered through this unique experience that I present this document on the fundamentals of choosing the right franchise.

I wish you a happy journey, wherever the road takes you, and if it is the franchising path, congratulations, strap yourself to your seat, it will be a topsy turvy but highly challenging ride, if you are up to it!

Emmanuel Martin CPA, June 2018

INTRODUCTION

The fact that you are reading this would most likely mean that you are in the exciting and important phase of evaluating if a franchised business is suited to you.

Going back to our journey, franchising is one of many roads available to you to start or grow a business.

Even if you ultimately decide on choosing the franchising path on your journey, you will still need to pick your vehicle, one that will take you towards your destination or goal.

Think of the vehicle as the actual franchise model that you may end up choosing!

Will you want a car, perhaps a motorbike, maybe it's a simple bicycle, or it could be a big bus! The choices are enormous. But here is the fascinating part. Based on your unique personality, strengths, weakness and behavioural profile, a particular type of vehicle will be best suited to you. Can you imagine someone who enjoys the freedom and thrill of riding a Harley Davidson motorbike buying a five-door family station wagon?

In this context, the choice of vehicle in the franchising road represents the type of franchising model that you can choose. To name a few, you can buy a retail café franchise, invest in a nine to five professional services franchise, embark on a franchise that helps people with securing finance or run a franchise that helps you make your neighbour's pet smelling and feeling clean!

You are spoilt for choice but once again, read the paragraph above, the type of franchise you choose must be suited to your strengths, personality, and behavioural profile.

I still have one more choice for you to make in this journey story!

Let's imagine that you have carried out a very effective due-diligence (more on due-diligence soon) process. You have now decided that you want to start your franchising journey in a new family five door station wagon (the vehicle or the type of franchise system). It took you a while to decide, but now you are ready?

Wait! There is one more major choice to make.

Which brand of the new (not used) family five door station wagon are you going to pick?

Are you going to choose a Kia, Toyota, Mazda or Mitsubishi? Maybe you want a European brand of car? Is it going to be a Peugeot, Skoda or Volkswagen? How about splurging some of your hard-earned money on a luxury brand? Can you imagine yourself sitting behind the wheel of a shiny Mercedes Benz or a BMW?

Yes, prospective franchisees, there are a lot of choices and informed decisions to be made!

In summary, you will first need to decide if the franchising road is the road you want to take your future business journey on. If this is the case, then you need to choose the type of franchise model or the vehicle in which you want to ride and then finally the specific franchise brand of vehicle you want to go on this journey.

So, let's go shopping...

Part 1

Is the Franchising Road suitable for you?

Owning a franchised business can be a very rewarding and profitable road to drive on but it is not suited for everybody.

The Franchise Industry is well established in Australia and is becoming highly regulated through legislative safeguards. This is a positive move for both franchisors and franchisees.

While the franchising industry has its recent share of bad publicity there are no shortage of profitable and rewarding franchise models and brands, both local and international, to choose from.

The central theme of your entire franchise journey, more importantly in the crucial discovery or due-diligence phase, is the concept of choice and the power of asking yourself the right questions, which will allow you to make an informed and appropriate choice.

This is the perfect time to introduce the idea of due-diligence (for even those who are familiar with it, please read the following section, as I will be bringing a new element of thought to the traditional process of due-diligence.)

Put simply, due-diligence is the systematic process of working out and ultimately deciding on whether to embark on an intended journey. In franchising terms, it is the effective and efficient process of gathering the right information needed to make the decision on whether to proceed with the franchising journey.



Going back to our journey example, due-diligence is the process of deciding if you want to go down the franchising road and if so, which vehicle (franchise model) you want to drive in, and finally which brand of vehicle (franchise brand) you want to invest your money in.

While traditional franchise due-diligence is about gathering and analysing external information such as financial data, franchisor company profile, preparing business plans and communicating with existing franchisees, I stress the importance of another form of due-diligence as a first step, for without this first step, the traditional due-diligence process will not be effective. I call this internal or due-diligence.

Part 1 Cont.

Internal (Self) Due-Diligence

The internal due-diligence process, which is widely ignored in mainstream thought, came from the learnings on my franchise journey through corporate life and eventually consulting.

I have coached and mentored hundreds of franchisees over the years, and the number one determinant of franchisee success (or conversely franchise failure) was the state of the franchisee's mindset.

What is the definition of mindset? Put simply, the best definition I have come across in my research, especially about neuroscience, states that mindset is the brain in action.

While my upcoming book, *"The Psychology of the Hungry Franchisee"* covers this topic in greater detail, for the purposes of this document, internal due-diligence includes a core set of questions that a prospective franchisee needs to ask themselves before they begin the second stage, standard due-diligence.

Research has shown that people achieve their goals and dreams when they act in line with individual values that are important to themselves. The questions that I have included below need to be answered truthfully without long conscious reasoning or thought. The answers will provide the fuel for your franchising journey.

For this exercise, preferably answer these questions in a quiet environment, away from distraction. Be alert and relaxed when writing your answers. Yes, write your answers, rather than answering them in your mind.



If you are thinking of going into franchising with a partner ask them to do this exercise separately and if possible compare answers at a convenient stage.

Remember, don't over-analyse the following questions. Just write down whatever comes to your mind. I have included some notes for each of these questions later in the document. Please read the notes only after you have answered the below questions.

Part 1 Cont.

Franchise Specific Questions

1. *Do I want to run a business based on my own unique ideas, processes, systems and cultural values?*
2. *Do I want to be 100% responsible for my own business with no external input or feedback (apart from my business partner, family, advisors, etc.)?*
3. *Do I want to run a business where another external party (apart from my business partner, family, etc.) does NOT have the right to inspect the premises, the financial and operational records either without notice or reasonable notice?*
4. *Do I want to run a business where I do not have to pay an external party (apart from my business partner) a percentage of my sales?*

Self-Specific Questions

1. *What are my unique strengths?*
2. *What are the greatest achievements in my life so far?*
3. *What are the things that I make me happy?*
4. *How many hours a week do I want to work in my business?*
5. *How many hours a week do I want to spend time with family and friends?*
6. *How many hours a week do I want to spend time on my own, doing things that I enjoy the most?*
7. *What are the values that are important to me in my life?*



8. *What are my weaknesses?*
9. *Have I had any sales or team leadership experience?*
10. *How many days of holidays would you like to take in a year?*

The big WHY question

1. *What is my big WHY of potentially becoming a franchisee?*

Once you have answered these questions, take some time to go through them again and add or delete as necessary.

You would have noticed that the questions were broken down into three parts. The answers to the Franchise specific questions will determine if Franchising would be a possible road to take in starting your own business.

The answers to the Self-specific questions will determine if you have the right mindset to potentially become a franchisee. However, the answer to the big WHY question is the most important. I will explain this soon.

Notes

Notes to the Franchise Specific Questions

1. *Do I want to run a business based on my own unique ideas, processes, systems and cultural values?*

If you answered yes to this question, understand that the main benefit of owning a franchise is for a 'ready made,' hopefully, tried and tested operational system that is virtual 'plug and play.' If you want to create a business based on your own ideas, process, systems, and values, franchising may not be suitable for you.

If you answered no, franchising may be an option for you.

2. *Do I want to be 100% responsible for my own business with no external input or feedback (apart from my business partner, family, advisors, etc.)?*

If you answered yes to this question, understand the franchisor will generally provide significant input and feedback in running the business. Franchisors require franchisees to maintain quality standards and compliance. If you want to be 100% responsible for your own business with no external input or feedback, franchising may not be suitable for you.

If you answered no, franchising may be an option for you.

3. *Do I want to run a business where another external party (apart from my business partner, family, etc.) does NOT have the right to inspect the premises, the financial and operational records either without notice or reasonable notice?*

If you answered yes to this question, understand the franchisor has the right to inspect your business premises (if applicable), financial and operational records with or without notice (subject to your franchise agreement). If you do not feel comfortable with this process, franchising may not be suitable for you.

If you answered no, franchising may be an option for you.

4. *Do I want to run a business where I do not have to pay an external party (apart from my business partner) a percentage of my sales?*

If you answered yes to this question, understand the franchisor will usually take a percentage of your sales as part of the franchise agreement. If this is not appealing, franchising may not be suitable for you. If you answered no, franchising may be an option for you.

Notes Cont.

Notes to Self-Specific Questions

Answering these questions will help you determine your values and helps with making the right choice of whether to become a franchisee and ultimately which business model you would choose. We will discuss this in the next section.

Notes to big WHY

This is perhaps the most important question of all. What is the real reason why you are contemplating becoming a franchisee? The big WHY is usually answered when you cannot answer WHY anymore.

As an example, if your big WHY was to 'make lots of money,' ask yourself, WHY is making lots of money important to you? When you get the answer for that, say, for example, it was 'so I can help my family,' ask yourself WHY 'do you want to help your family'? You keep asking WHY till there are no more WHY's.

The aim of this is to understand the real reason you are contemplating franchising. Write your big WHY down and never lose it, it will help you later in your franchising journey if it is meant to begin.

Franchising is a proven model of business ownership. For the right person, it can bring great rewards, both financial and non-financial.

So, how are you feeling? Does the franchising road seem right for you? Take your time in deciding. Remember you have the power to make a choice!

If you have decided that you do want to continue exploring the road of franchising, let's turn on the thought engines!

Part 2

Which franchise vehicle do you want to drive?

Now the fun begins, along with more choices to be made.

Franchising is not a once size fits all. There are different types of franchise models that you can choose.

Some of the typical franchise models are retail, real estate, food/hospitality, trade/construction, professional services/consulting and IT.

So, which one is right for you?

Remember our journey example. If you love riding a Harley Davidson would you enjoy driving a five-door family station wagon?

Remember the questions you answered earlier especially the Self-Specific Question section? Well, the answers you provided will help you navigate this part of your due-diligence journey. Some of these questions are repeated below.

Self-Specific Questions

1. *What are my unique strengths?*

Match your unique strengths with the franchise sector. For example, if finance is a strong point, perhaps a finance or banking franchise might suit. You get the idea?

2. *How many hours a week do I want to work in my business?*

3. *How many hours a week do I want to spend time with family and friends?*

4. *How many hours a week do I want to spend time on my own, doing things that I enjoy the most?*

The answers to the above three questions are significant as some franchise models are extremely time-consuming even if you employ a team. Think carefully when choosing the right franchise model if you have time choices to make.

5. *What are the values that are important to me in my life?*

We all have a set of unique values that determine how we live our lives and how we perceive others. We naturally enjoy and excel when we act in line with our highest values. For example, if your core value is Family Focus it would be detrimental to operate and work in a franchise model that consumes long hours at the expense of family time.

Other examples of values in answering this question include Economic, Contribution to others/ society, Connection with others, Learning and Personal Development, Empowerment, and Health. Once core values are established, you should match these against our values and business model.

6. *Have I had any sales or team leadership experience?*

To succeed in franchising, regardless of the type of franchise, you need to be a confident salesperson along with strong leadership skills. While you could outsource these functions, your franchise success depends on both these essential skills.

Part 3

Which franchise brand do you want to own?

Congratulations for making it this far! However, there is one final critical choice to make. Now you get to pick the right brand.

This is where traditional due-diligence comes into play along with a magic set of questions to ask the prospective franchisor. Don't be afraid to ask as many questions as you like. Your success will depend on the quality of questions asked!

Questions to ask the potential franchisor

1. What is your vision or mission statement? How did you come up with it? How do you demonstrate this on a day to day basis?
2. What is your main point of difference? What makes your model unique?
3. Why should I invest my money in your brand? What is the expected Return on Investment?
4. How do your franchisees share and exchange positive ideas?
5. Do you provide ongoing Mentoring and Coaching? What does this look like?
6. How do you help me find potential clients?
7. How do you measure your success as a franchisor?
8. How will you empower me to achieve success?
9. How many new units did you open in the last 12 months?
10. How many units left or did you close in the previous 12 months?



Part 4

Before you start your journey

If you are reading this section, hopefully, you have gained a lot of value and insight into the franchise discovery journey.

I am a big fan of franchising. Watching franchisees succeed gives me a thrill. In fact, my big WHY, in relation to my consulting business, was to see franchisees succeed so that I can live a prosperous and happy life. As I mentioned, we are very excited, in association with Eden Exchanges to provide exceptional due-diligence services to prospective franchisees.

I do hope to see you further on your journey as a very successful franchisees.

Remember, effective due-diligence is crucial before you choose a franchise.

I hope you make a well informed, thoughtful and productive choice.
Happy journey,



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