

DUE DILIGENCE

THE CASE STUDY SERIES: Volume 1

The essential case study helping you to evaluate if Franchising is the right choice for your next business venture.

Discover key issues and perspective as we introduce real cases of small business ventures and franchising.



THE
METAMORPHOSIS PROJECT

BE MORE GIVE MORE HAVE MORE



ABOUT THE AUTHOR



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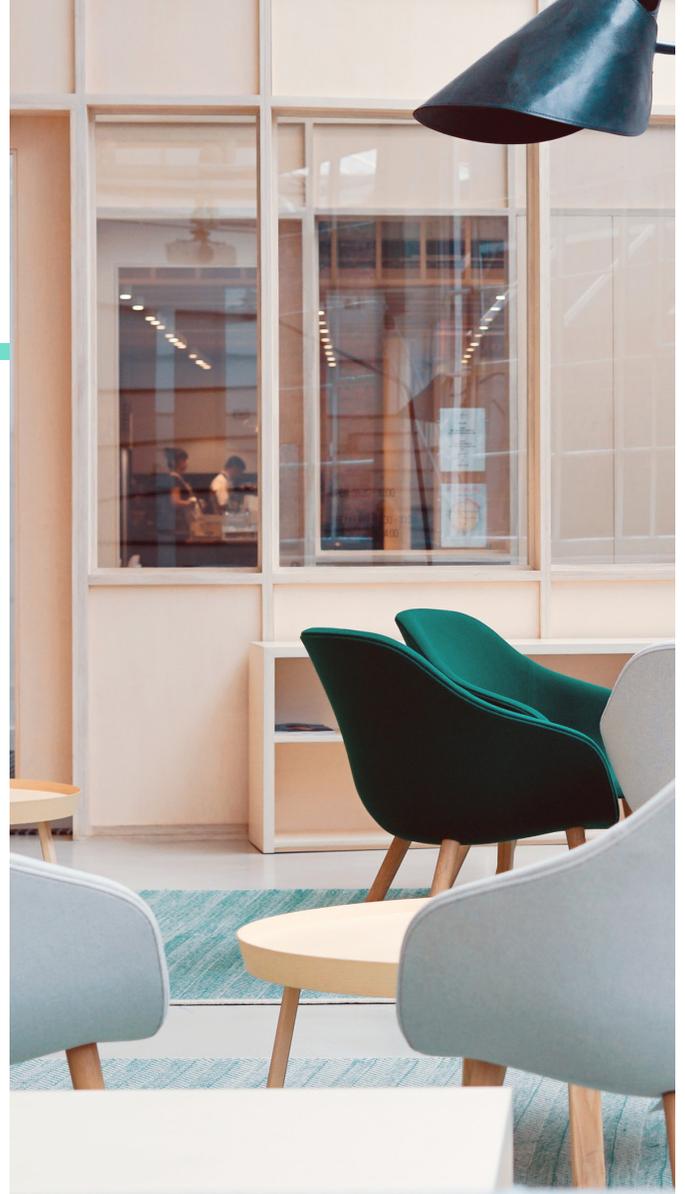
Metamorphosis Project

Emmanuel Martin, a franchise expert, and coach has had an extraordinary journey working with both franchisors and franchisees in building profitability for their businesses. He has seen both the successes and hardships of franchising over the years.

In 2016, he founded The Metamorphosis Project, a consulting business that specialises in helping franchisors and franchisees minimise risk in their business. The company's vision is to 'create a world where franchisors and franchisees fall in love and stay in love.'

Recently, the company has branched into providing an effective and value-added Franchise specific due-diligence process that will help prospective franchisees make informed choices.

The lack of an effective due-diligence process is one of the major reasons of franchise failure.



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.

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INTRODUCTION

Owning and running a franchise business can bring a lot of satisfaction, both financially and emotionally. I know this because I have spent the last few years dedicating my time and energy helping franchisees and franchisors grow their business.

Over these years, I have smiled with joy and felt a sense of immense pride when Franchisees reap the rewards of running very good businesses.

But there are two sides to every story.

I have also seen the ugly and depressing side of Franchising when things go horribly wrong. Too many nights, I have come home with sadness that is hard to describe. These nights of gloom and a sense of despair have been all too common recently.

I can rattle off several and logical reasons, through my experience, of why Franchise businesses fail. And more often than not, the Franchisee is doomed for failure from the very beginning, that's right, from the very beginning.

A few years ago, working for one of Australia's largest Franchised Coffee Chains, I used to run Financial Management and Profitability Induction workshops for new Franchisees. These sessions lasted for a couple of days. The first day was all very exciting, the prospective Franchisees were on a high although anxious, which is understandable. However, as the sessions progressed there would always be worried looks when I started talking about the concept of "Breakeven" which simply means the level of Sales the Franchisee needs to generate to cover all the costs of the business.

At the end of the two-day course, on several occasions, prospective franchisees, who had already paid a significant deposit, would come to me with their 'breakeven' figure (which in many cases they had just worked out from my course). They would painfully explain to me that they didn't think they would be able to sustain the business that they had just paid a non-refundable deposit for, with the forecasted costs (including loans). During that time, it was a conflict of interest for me to provide them with independent financial advice so I would ask them to speak to their accountants.

franchisees would actually forfeit their deposit and walk away from their franchise! My bosses obviously were not too happy, but I would explain to them that we avoiding long-term pain for short-term gain. In my heart and mind, I knew that some of these prospective franchisees made the right choice. They were the lucky ones....

For the countless of franchisees, who did not undertake a professional and effective due-diligence process, the ramifications are enormous when things go pear-shaped. Yes, millions of dollars of hard earned savings go down the drain, but I was traumatised by the human costs, the marriage break-ups, emotional disorders such as depression and anxiety, self-harming addictions, just to name a few.

I can tell you that one of the biggest reasons of franchise failure is the absence of a proper, well thought out and effective due diligence process, one that is focused specifically on the nuances of the franchise industry.

Emmanuel Martin CPA, June 2018

INTRODUCTION Cont.

Yes, there are requirements for all new franchisees to carry out an 'independent' financial assessment of future franchise business performance. But in many cases, prospective franchisees rely on finance professionals who are not 'franchise street smart.' Even worse, many decide to take a shortcut and not skip this process altogether.

Due-Diligence is often focused on financial considerations, but in my experience, the critical factor that is often neglected is the honest and heartfelt assessment of whether the franchise business is suited to the franchisee's mindset, personality, strengths, and lifestyle.

Effective Due-Diligence is about matching a prospective franchise opportunity with the aspiring franchisee's body, mind, and soul.

The Nightmare Chronicles

When Things Go Wrong as a Result of Not Undertaking an Effective Due Diligence Process.



CASE STUDY 1

When Business Partners are not aligned on the decision to buy a franchise.

I often tell my clients that a couple in a romantic relationship, including husbands and wives, working together in business could give rise to more trouble than its worth! While I usually half-heartedly laugh when I make this statement, deep inside there a part of me that worries for their future, due to many experiences of relationships breaking up when a franchise business faces difficulties.

I used to coach and mentor a middle-aged couple in Regional NSW who ran a coffee shop. They had purchased their franchise 5 years prior and were in a lot of financial distress when I first met them. But on my first visit to the store, I sensed that the financial downturn of the business was only the icing on the cake. I sensed deep hostility, resentment, and anger between the couple, who had two young children and had been married for 15 years.

Their heightened sense of resulting energy permeated the store, and the team members hardly smiled.

I took stock of the major issues that faced the business and talked through some general strategic and tactical plans that could have increased store profitability. They both listened, but I didn't feel that it was making a difference. I felt that my ideas were not sinking in.



I worked with this couple over the next few months, but I felt we were not making any headway. And each time I went back, the relationship between the partners was rapidly deteriorating. On several occasions, the couple would openly argue in front of me (and the customers) and blame each other for the poor financial performance of the business.

STUDY 1 Cont.

On one occasion, their children had come back from school, waiting for their parents to close the store. The oldest child, while doing her homework, whispered to me that *"Mum and Dad hate each other and I blame this business for everything."* At that very moment, a huge verbal fight broke out between the owners and I heard loud sobbing. I walked over to the back of the store, along with the children and I saw the mum crouched on the floor. I had assumed that she had slipped, but it was clear that there had been a physical altercation between the couple. Seeing their mum in distress, both the children started to cry. It was devastating.

The husband slammed the door and left the store with the reluctant children, so I sat with the wife with a cup of tea.

I asked *"So why has it come to this?, I am sure you can work with your husband to turn this store around. What is the real issue?"*

She looked at me, tears rolling down her cheek. Her answer was disturbing but not all that surprising to me. *"I didn't want to invest in this business"* she explained to me. *"He was so insistent on buying this shop, I told him I didn't want to work in a business, I wanted to stay home and bring up our children."* I listened. *"I was working in a part-time job at a local florist, and we were making more than enough money to live comfortably. I had an opportunity to see my children grow up. My husband and I were happy, Life was good then".*

She went on to explain that her husband hadn't really considered her needs but saw a fantastic opportunity to buy this store which was being offered at a very good price. He had assured her that she didn't have to work in the business (often).



I asked her whether they had sat together and communicated about the lifestyle implications of owning this business. Her silence was deafening. I knew. I had heard this story several times repeated over and over along the width and breadth of this country.

In my conversation with her that night, I also learned that their relationship had worsened over the last few years. They started communicating less, and their children had to start counseling due to the constant fights at home over the decision to buy and run the business.

Case Study 1 Cont.

I left that night feeling very down, and while I consoled her, I knew that things were past the point of no return.

A few weeks later, I visited the store again, and this time, the husband was working on his own. He looked very tired and worn out. I asked him how the family was and he explained that his wife and children had moved out and were staying at the other end of town. He asked me to wait till he closed the store and we went to the local pub to talk over a beer.

He explained his side of the story. *"Yes, it is true that my wife was against us buying the business. But I felt this was a great choice, and I was hoping that once we started operating the store, she would change her mind"*. Then he sighed and said, *"I guess I should have taken her concerns on board... oh well it's all a bit too late now, what more is there to say"*.

A year later, I went back to drop in and say hello and see how the couple were progressing. I walked into the store and realised that there were new owners. *"What happened to the other owners"* I nervously asked.

The reply was sadly predictable, *"Oh, they are divorced now, and the husband has moved to the city. The wife and the children still live here, and she works in a florist"*. I walked out coming to terms with it all, but it was an all too common occurrence in my travels to shock me anymore.



You see, due-diligence is not all about how much money a business can make. Factors such as lifestyle and other non-financial considerations need to be taken into account at the very beginning before the franchisee signs the bottom line.

As I have said, due-diligence is about aligning your body, mind, and soul. Ignoring one of these factors led to the sad story I just told.

Stay tuned for Case Study 2: When a franchise purchase is not aligned to the Franchisees Lifestyle, and troubles start.

SUMMARY

Before you start your journey

If you are reading this section, hopefully, you have gained a lot of value and insight into the franchise Journey, and how it can all go wrong.

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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