



Section 3

5 Questions you should ask.

With 18 years of experience in the accounting franchise industry, as first franchisees and now franchisors, Beth & I have seen the growth and demise of franchising systems in this sector. We provide these key questions you need to ask the franchisors salesperson.

Introduction & Executive Summary:

Buying a franchise is a significant investment for you.

It is a far more important decision for you than for the owners and employees of the franchise system, for whom you are another number, another source of income.

If you make the wrong decision, it may fundamentally affect both your life and the lives of those you hold dear.

Yet franchisor recruitment staff are focused on closing the sale, doing the deal, locking you in. They should be focused on the far more important questions:

- Is their system right for you, and are you right for it?
- Will you have to undertake significant study to meet the requirements of the Tax Practitioner Board? Can you handle this as well as develop your business?
- Are you "business-ownership ready" or should you stay in a job?
- AND – what will it take to make you "business-ownership ready", and can they provide?

We have survived being a franchisee in a numbers-focused system and watched fellow franchisees not succeed. We saw the flaws in the franchise recruitment process. And we have seen what it takes to succeed.

After three years as franchisees, we bought 50% of the system and spent four years trying to make a difference. Yup we're the franchisee who bought the franchisor. But it was too late – the culture was set, the system was established and possessed great inertia.



We left that system to start a new one determined to set the standard, to get it right. This is our attempt to provide good advice so that you can make the right decision.

At the end of this section you will find a useful tick list to help you compare the offerings of the various systems.

These are the key points **you** will need to ponder:

- 1 Training at start-up – lip service or genuine?
- 2 What is the level of on-going support & education?
- 3 Is there an exclusive franchise territory?
- 4 Are you taught to market to your territory? So you can grow as big as you desire?
- 5 Do they control your marketing – you pay, they do? So they control the size of your business?
- 6 What are the on-going fees? The relationship between initial investment and royalties.
- 7 Who sets the Key Performance Indicators? AND – if they set them, not you, what are the consequences of not meeting them?
- 8 Do they provide education, supervision and lodgement services to help you to Registered BAS Agent & Registered Tax Agent status?
- 9 What ethical values dominate? Do they walk the talk?
- 10 Tenure in the system? 5 v 7 v 10 years? What are your rights of renewal?
- 11 Who owns the client?
- 12 Do they provide regular updates to pass on to clients, Glossy Newsletters to blow your clients away?
- 13 What does the technology & software cost? Is it geriatric 20th century desktop or 21st century cloud?
- 14 Is their system “written once, used forever” or undergoing constant improvement?
- 15 What is their culture – do they have a Head Office (“We tell you”) or a Support Office (“We help you”)?
- 16 What happens when you are approached by a client from outside your territory?
- 17 Is there friendship and fun in the network, or a dull grind in the franchise?

Each point is on a separate page, to provide space for you to write your own notes.



5.1 Training at start-up – lip service or genuine?

Many years ago we joined a franchise, naively excited at setting up our own business using the expertise of others.

We paid good money.

The franchisor tried to direct us into a territory with little potential for growth. That should have warned us....

Then we received the training – a half day each on two types of bookkeeping software – nothing tailored to our needs, just a “take it or leave it, this is our training” approach. No marketing, no systems.

We were then handed a copy of The Manual and effectively an enjoiner to “go forth and prosper”.

Many of our fellow new franchisees failed to prosper.

Somehow we survived, prospered, and vowed never to put a new franchisee through this if we ever had our own system.

More recently we have seen a number of systems that will offer multi-week residential courses where they train you in the basics. If you are already qualified, why do you need this? And, if you are not experienced in accounting, will a six- or eight- week course prepare you for real world accounting?

Lesson: Some systems provide minimal genuine training, or even inappropriate training at start up, don't have a focus on regular, on-going training and development, and don't provide launch support.

Recommendation: grill the franchise system person on the quality and nature, tailoring and duration of the training. Get their answers in writing. Then check with the franchisees.



5.2 What is the level of on-going support & education

That franchise system we joined provided regular one-day workshops of little value – someone would talk about a software topic without asking what we needed to know, another learned head would yak away about a tax law topic or – on the occasion of an alternate blue moon – how to grow and market our little business.

And even those tapered off as the business grew.

It was – pardon my language – “ego masturbation” for the franchisor, not what the franchisees needed.

Lesson: Some systems are “up themselves”, not franchisee focused.

Recommendation: Ask to see the agenda for a few workshops, maybe even some of the PowerPoints and documents used. Then, in Due Diligence phase, ask the franchisees when the franchisor isn't listening. Get the truth.



5.3 Is there an exclusive franchise territory?

Some systems have “non-exclusive territories” or even no boundaries at all.

Which means if you start to develop a successful business, the franchisor can plonk another franchise in the next street.

We have spoken to victims of this process, and once in, it is hard to tell the franchisor he cannot do that. There are systems which still operate this way.

Other systems will provide a map, and even the demographics of the area at the time of joining.

These latter systems provide security.

Lesson: Ensure you have an exclusive territory, or a defined radius from your operation wherein the franchisor cannot place another franchisee.

Recommendation: No exclusive territory, don't proceed – find a less greedy franchisor.



5.4 Are you taught to market to your territory? So you can grow as big as you desire?

Many systems say “you are good at what you do, but you are not a marketer – we’ll do that for you”. They reinforce your lack of confidence to take advantage of you.

Beware.

He who markets controls the size of the business.

You may end up just owning an expensive job.

You do NOT want to learn the hardest lesson the hard way – despite being qualified accountant, you are not a businessperson. A businessperson's skill #1 is to attract, interact with and retain clients – to market the business. And you **CAN** be trained in this.

Lesson: If they don't teach you how to grow your business, market your business, then you are buying a job.

Recommendation: Grill the franchisor about their marketing education. And ask the franchisees.

5.5 Do they control your marketing – you pay, they do? So they control the size of your business?

Some systems will not only charge fat royalties, but also a fat marketing levy.

Royalties & Marketing Levies totalling 17%, 25% even 30%. You work, they prosper.

They market – but what for? More franchisees or more clients for the existing franchisees?

When they get leads, to whom do they pass these? How do they select the allocations?

Are they using the marketing levy for brand building or lead generation?

Some systems run big advertising budgets. You will have seen adverts on TV, heard them on the radio. Are they looking to generate leads, or build the brand, get more franchisees?

Lessons:

Two here:

- **First, be very wary of high royalties and marketing levies.**
- **Secondly, if you don't control the marketing, you are paying for it, but it won't always be spent building your business.**

Recommendation:

- **Look for systems with low royalties and reasonable marketing levies. Avoid high royalties and marketing levies.**
- **AND ensure that the marketing levy goes into a Trust Account and is spent for the benefit of franchisees, not to grow the franchise system.**

5.6 What are the on-going fees?

Some systems offer low entry and high royalties, marketing levies &c – this is a superficially tempting but very dangerous option!

Worse - there are some who charge both high entry AND high royalties!

You are starting a new business, you have limited capital, and so low entry costs are tempting. But consider this simple example:

	Annual Turnover	Option 1 - low entry, high Royalties	Option 2 - medium entry, low Royalties
	Royalty Rate	25.00%	7.50%
	Set up Investment	\$25,000	\$48,000
Year 1	\$100,000	\$25,000	\$7,500
Year 2	\$200,000	\$50,000	\$15,000
Year 3	\$300,000	\$75,000	\$22,500
Year 4	\$400,000	\$100,000	\$30,000
Year 5	\$500,000	\$125,000	\$37,500
Year 6	\$550,000	\$137,500	\$41,250
Year 7	\$600,000	\$150,000	\$45,000
Year 8	\$650,000	\$162,500	\$48,750
Year 9	\$700,000	\$175,000	\$52,500
Year 10	\$750,000	\$187,500	\$56,250
Total Outlays		\$1,212,500	\$404,250

Lesson: What appears to be good value can sometimes be deceptive. If the franchisor does not provide you with a business plan and financial model, prepare one yourself and test the true cost.

Recommendation: Do not be sucked in by a low initial cost. Look at the total cost of ownership over the life of the franchise. We have seen many people who suffer the long-term pain of the short term gain.

5.7 Who sets the Key Performance Indicators? AND – if they set them, not you, what are the consequences of you not meeting them?

Franchisors want you to have a high turnover so they can charge lots of fees on your revenue base.

Naturally, you also want to have a good income, but are your goals aligned? Agreed by both parties? Or are they set by the Franchisor?

Some franchise systems will have performance minima you have to achieve, and these can be hard to achieve if this is your first business and they don't provide the appropriate support.

And now the real crunch matter – what happens if you fail to achieve **their** KPI's?

There are some systems which will sack a franchisee with minimal or even no compensation if they do not meet the set performance criteria.

Ruthless, uncaring, money-hungry, unscrupulous bastards.

There are also some systems which ask you to set your own goals, and then monitor your performance against them, help you to reset them if necessary. And don't sack you if you fail.

Remember, this is YOUR business, YOUR investment, YOUR commitment – using their systems and rules, locked into the contract they draft.

Lesson: Check who sets the KPI's, budgets, plans – and talk to the franchisees during Due Diligence to find out the real system.

Recommendation: Avoid the systems which tell you what you have to achieve, and especially those that can sack you for not meeting their goals. Consider the systems which focus on helping you achieve your goals.

5.8 Do they provide education, supervision and lodgement services to help you to Registered BAS Agent & Registered Tax Agent status?

By their very nature, franchises in the accounting, bookkeeping and tax sectors work in a highly regulated part of the economy. The ATO and the Tax Practitioner Board keep a close eye on the quality of returns and advice provided.

Does the franchise system look closely at your academic and experience profile before you join?

Does the franchise system counsel you on the pathways to registration?

Does the franchise system encourage you to work towards becoming a Registered BAS Agent or Registered Tax Agent?

Lesson: Some systems want front-end, de-facto employees to feed their back offices, others focus on growing your skills and encourage you to become registered.

Recommendation: Test the promises and claims of the franchisor. Ensure they are helping you grow, not confining you to a job.



5.9 What ethical values dominate? Do they walk the talk?

Some systems do not put out a Values Statement, Mission Statement or similar, or – worse – put one out but don't walk the talk.

Does the Value Statement align with your values? Are the franchisors and their staff ethical? Do existing franchisees consider them ethical exemplars?

Or are they simply there to maximise their revenue from you?

In the negotiations to join a franchise system you have the power.

Once you have joined, they have your money.

Lesson: Make sure you are getting value for money. AND make sure the ethics of the business align with yours.

Recommendation: Identify the spoken / written ethical values and test the reality by talking with the franchisees. Once in the system, you are there for a long time.



5.10 Tenure in the system? 5 v 7 v 10 years? Rights of renewal?

What are you actually buying? The right to use their “system”, their “Intellectual Property”, their brand for a defined period of years. Membership of their club. Then what?

How long do you have to grow a business?

What happens at the end of the licence period?

What assets do you have, and can you sell them, or do you merely surrender them to the franchisor to resell?

If there is a renewal clause, how expensive is it, what protection is there for the value you have built by your efforts?

These are all critical questions – if you have built a client base and goodwill worth \$000k's, you will want to capitalise on that value.

Lesson: Some franchise systems may seek to separate you from the value you have built.

Recommendation: Get a good lawyer to check the renewal clauses if any. If they do not protect your built up value, walk away.



5.11 Who owns the client list?

In the public practice accounting world, loyal paying clients are the key to prosperity.

They are the gold.

But the accounting world in Australia is heavily regulated – an unregistered person or business cannot charge a fee for a BAS or tax service. Hence the need for BAS and Tax Agents in the franchisor to supervise, review, lodge and charge the clients.

Some franchise systems seek to retain the clients. If the franchise contract states the clients belong to the franchisor, check the exit clauses and how your exit price is determined.

Some franchise systems state the client lists are yours to sell – these are better than those systems who retain ownership to the franchisor. BUT – and this is a big but – how does this comply with the requirements of the Tax Practitioner Board? Ask for a detailed written explanation.

Others hold the clients in trust for you until you are registered and able to charge fees in your own right. These are better again – so long as the process is well defined and unambiguous.

Lesson: Know that the client list is the key asset determining the sale value of your business. Ensure that it is yours to sell.

Recommendation: Check the contract very carefully to ensure you will be able to sell the client list when you sell your business. That you are protected. If not, walk away.



5.12 Do they provide regular updates to pass on to clients, Glossy Newsletters to impress and educate your clients?

When you start off your new franchise you probably do not have the expertise to pull together a newsletter yourself, or the funds to source a glossy, professional one from a third party source.

Without the regular contact with the client afforded by you distributing topical and appropriate news tidbits, the effort involved in maintaining client contact can detract from your time devoted to chargeable work.

If the franchise system does not provide regular information in a form you can distribute to your clients under your name, then it is not truly supporting you. Some are excellent, others appalling. Check which the one you are pondering joining is.

Lesson: Support from the franchise system is critical to your success. And this is not only in technical, problem-solving, but also in tools for enhancing client contact.

Recommendation: Ask to see their newsletters, briefings &c. If the quality does not satisfy you, does not engage your attention, then it won't enhance your client relationship.

5.13 What does the technology & software cost? Is it geriatric 20th century desktop or 21st century cloud?

Some systems will sell you their IP, provide some training, and then expect you to make a substantial additional investment in hardware and software. The rationale is “we don’t know what you already have, so here’s the list of what you’ll need – and you can’t work without it...” And it may well include servers and other costly and complex elements.

Some systems will tell you what software to acquire, but not provide it, or even provide preferential deals. And still expect you to provide the hardware.....

Others will provide the basics – maybe a laptop, maybe the first year software licence.

The best will have adopted cloud technology – so, no servers, no costly infrastructure, and no messy software version upgrades, patch installs.

They will also provide you with access to deals not normally available to start-ups. One, for example, provides access to software deals only available to existing BAS or Tax Agents – and even pays the first years fees for you!

A final aspect is that you will encounter clients who insist on sticking with desktop software – and maybe even elderly versions of it. Does the franchisor have a software museum where you can find the right tools to work on the client’s file?

Lesson: check the offer VERY carefully. Ensure you know exactly what you will be up for in additional costs. AND – if in doubt, ask and get the answers in writing.

Recommendation: Only shortlist those who:

- Are using current technology.
- Are using current software.
- Include the required hardware in the offering.
- Include the required software for the first year.
- Provide professional-level software access arrangements.



5.14 Is their system “written once, used forever” or undergoing constant improvement?

Some systems have beautiful, bound, professionally printed manuals. Written a few years ago, stored in the file room and handed out to all newcomers. And possibly obsolete?

And then there are the systems whose manuals are poorly prepared and presented. The key issue is not how pretty they are, but how useful you will find them.

We are in the 21st Century. Manuals and IP should be stored in the cloud, constantly updated. And the content providers should be responsive to franchisee needs.

Lesson: The Manuals and IP are your first point of reference whilst building your business. It is important that they be up to date, written to support you.

Recommendation: During Due Diligence ask the franchisees – not the franchisor – how good the manuals and IP are.



5.15 What is their culture – do they have a Head Office or a Support Office?

This may sound weird, but it is important. Do they have a command structure or a support structure?

Are they telling you what to do, and punishing you when you don't, or are they supporting you in growing your own business?

Are you joining an army as a lowly private, or a network as a peer who may need help?

This is a very important distinction.

Lesson: Do you want to be a cog in someone else's machine or a business owner with a support network?

Recommendation: Only shortlist systems with a Support Office.



5.16 What happens when you are approached by a client from outside your territory?

Some systems confine you to your zone, requiring you to pass on clients to the nearest member.

Others say that if the client has approached you, then you can take them as they want you to do their work, want you to be their trusted advisor.

The reality is there are so many clients, and rapidly diminishing numbers of Registered Tax Agents – so there should be no competition between members of the same network.

Lesson: Don't be "put in jail", unable to take clients who want to work with you.

Recommendation: If the system you are considering confines you to your zone only, then do NOT proceed. Only consider those who want to see you grow and develop.

5.17 Is there friendship and fun in the network, or a dull grind in the franchise?

Some accounting franchise systems are run by deadly serious, earnest folk who are determined to do the right thing, operate within the Franchise Code, and build a good network. They will provide earnest workshops, earnest education and earnest support.

But boring.

Others realise that accountants are degree-qualified professionals, who seek a collegiate network to support their growth, who expect quality education and support, and who respond better to advice than instruction. AND want to have a laugh occasionally. These systems can also work within the Franchise Code, but with a radically different culture.

You are human, you need human interaction. And you need a touch of laughter to lighten your day.

Workshops and conferences, information broadcasts and newsletters all should be provided in an as easy to digest form as possible. With a touch of humour.

Lesson: A dull system is not a good place to be – and you will be in your chosen system for a long time.

Recommendation: During Due Diligence check out the culture as seen by the franchisees.

Checklist for evaluating Franchise Systems

	Question	Brand 1	Brand 2	Brand 3	Brand 4
	Franchise System >>>>>				
1	Training at start-up – lip service or genuine?				
2	What is the level of on-going support & education?				
3	Is there an exclusive franchise territory?				
4	Are you taught to market to your territory? So you can grow as big as you desire?				
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