



Franchise Resales—Part II

Due Diligence Tips

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Buying an existing franchise will give you a real franchise education! Here is a primer on how to go about looking at an existing franchise:

- 1) **Be discreet.** Most sellers will not broadcast that the business is for sale. This is good for you, and for the seller. Selling a business takes time, and it is in everyone's best interest that employees and customers don't spend time worrying about "what ifs."
- 2) **Investigate the franchisor.** Do this just as you would if you were interested in purchasing a new franchise. Do this first – before spending time investigating the existing franchise unit. Remember, you will be signing a multi-year agreement with the franchisor, not the seller. You need to like the business and believe that you and the franchisor will work well together. See chapters 10-12 of the franchise book The Educated Franchisee for specific steps to take in evaluating the franchise opportunity.
- 3) **Meet the Owner.** Once you are satisfied that the franchise matches your skill set and can meet your financial and lifestyle needs, make an appointment with the owner of the franchise unit you are considering. You will need to gather a lot of franchise information, including why s/he wants to sell, and you'll want to examine the history of the franchise's financial performance. The seller should provide balance sheets, income statements, tax returns and other financial statements. Check them with the franchisor to see how they match up with other franchisees' figures. Find an accountant experienced with this type of business who will look over the figures as well. This information will be critical to your decision and will obviously be a determining factor in arriving at the price you will offer.
- 4) **Call Other Franchisees.** It is unlikely the selling franchise owner will tell you the downsides of the business. You will have to do your due diligence to find out if there are internal or external issues that make the business undesirable. Speak to other franchisees to get a feeling regarding their level of success and then apply what you have learned to the local franchise you are consid-



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ering purchasing.

- 5) **Research External Changes.** You may also want to pay a visit to Town Hall and ask if any big projects are slated for the area where the franchise is located. These types of projects can be positive or negative. You need to know what is happening in the area where the business will be and be comfortable that any changes that may happen.
- 6) **Learn About the Employees.** If you are happy with the answers you get to the above questions, move on to questions about employees. What are their salaries? What hours do they work? Are they skilled? Are they likely to stay on? Are there any employment contracts or understandings, salary disputes, etc. outstanding?
- 7) **Survey the Physical Plant.** If things are going well, ask about location and equipment, which will further help you put a value on the business. You want to know the status and terms of the lease, the temperament and availability of the landlord, and the value, age and condition of all equipment and vehicles.

To ensure buying an existing franchise will be successful, you must do your research. Be sure you like the business model and the franchise management team. Be certain you'll like what you'll do each day. Understand the financials. Hire experts to help you in your evaluation. Dig deep for information within the company and within the community. And remember that buying a business is a negotiation. Make sure the price is fair and that you have the skills to make the business a great success.

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The Educated Franchisee is dedicated to franchise education through the sharing of franchise information. Our objective is –

“To create educated franchise buyers that have clearly defined objectives and are able to recognize the right, or wrong, franchise when they see it. An educated franchise buyer will move into the franchisee role with their expectations properly set and will have a heightened potential for success within the franchise system creating a win/win for all involved.

To get more franchise information about how to stack the deck in your favor –

Visit our website at www.educatedfranchisee.com or

Purchase our franchise book – [The Educated Franchisee](#) by Rick Bisio, Franchise Consultant or Contact author directly at rbisio@educatedfranchisee.com or call 941 778 4660.



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