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**Wednesdays With Redchip**

# Tips for buying a fitness business franchise

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# How should you own the business?

- **Consider**
  - Asset protection
  - Tax effectiveness
  - Expansion opportunities
- **Options**
  - Sole trader
  - Company
  - Trust – discretionary/unit



# How will you manage staff?



- **Employees or contractors?**
  - Different entitlements
  - Assumption – what we call them?
  - Understand who's on the team and how to pay/manage
    - GST or super?
- **Check contractors' terms with current owner**
  - Are there suitable restraints in place?
  - Avoid losing to competitor with change in management – “we don't like this dude!”
  - Important to culture – trainers/instructors

# Who owns the brand?

- Brand = big appeal of buying franchise
- Franchisees will never own the brand, simply gain a license to use it
  - Terms of licence agreement
- Accountable to the franchisor – fees, behaviours
- Rules and restrictions on how the brand is used

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# What are the terms of the lease?

- **Check for:**
  - **Use** – gym or fitness business – do you sell protein shakes?
  - **Make good clause** – what is this?
  - **Options to extend** – location is key
  - **How the rent is reviewed** – i.e. CPI, fixed, market
  - **Type of security required** – bond, BG, personal guarantee
  - **Nuisance issues** – noise/music, TV screens
    - *War story – acoustics and who has to pay?*

# Which assets have a security interest registered over them?

- Basically a mortgage or charge over the assets to secure debt
- Identify assets caught up in mortgage
- Ensure assets released e.g. equipment, stock





# Are there alligators lurking?

- Due diligence clause in Contract allowing you to 'investigate'
- More to follow from 'The Franchising King McLaughlin'
- *Example – gym membership on hold – 'waking the dead'*



# The ins and outs of franchising

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# Key issues

- Why franchising?
- Tips for success
- Things to think about
- Questions to ask
- In the news



# Why start a franchise?



- Access to capital
- Motivated management
- Faster growth and market penetration
- Leverage
- Easier supervision (compared to employees)
- Increased profitability of each outlet
- Reduced risk

# Tips for franchisor success

- ✓ Have a clear vision
- ✓ Make sure the franchise model make sense
- ✓ Get the right advice
- ✓ Share the “secret recipe” with franchisees
- ✓ Be flexible... but not too flexible
- ✓ Be strict..... but not too strict
- ✓ Aim for steady/manageable growth

# Why buy a franchise?

## ✓ **Upside**

- Support from successful franchisor
- Tested business system and marketplace
- Collective buying power
- Collective marketing and advertising
- Brand strength

## ✗ **Downside**

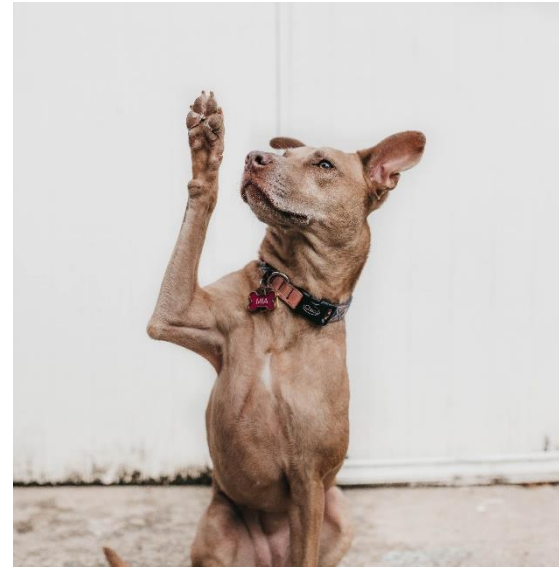
- Generally more expensive
- Pay royalties to franchisor
- Limited time on contract
- Less flexibility
- Connected to success of franchisor
- Separation between ownership and control

# Tips for franchisee success

- ✓ Read the documents
- ✓ Do your due diligence
- ✓ Understand the different roles of the franchisor and franchisee
- ✓ Get the right advice
- ✓ Understand the working capital and time commitment required
- ✓ Choose the right location/territory
- ✓ Speak to current and former franchisees

# Questions to ask other franchisees

- What are franchisees saying about the franchisor?
- What is the turnover rate of franchisees?
- Why did you leave?
- What is it really like to work in this business?
- What support is given?
- Would you buy this franchise again?





# Things to watch out for

- Is the franchisee suited to the particular business?
- Can the franchisee manage the business?
- Is the franchisee suited to being a franchisee (can they follow systems)?
- Is the location of the business suitable?
- Is the business itself viable?



# Parliamentary Report – March 2019



- 71 recommendations made
- Government task force has now released an Issues Paper for comment
- Focus is on 7 “draft principles” drawn from the Parliamentary report
- Submissions due 20 September then a regulatory impact statement will be issued in October

# Questions?

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THANKS FOR ATTENDING

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