



Franchising

Some of the most commonly asked questions about Franchising are discussed on this page.

1. What is a Franchise?

A franchise is a contract or arrangement under which one person (the franchisor) permits another (the franchisee) to engage in a business of offering, selling or distributing goods or services under a system controlled by the franchisor which is associated with a trade mark, advertising or a commercial symbol owned by the franchisor.

The term “franchise” is usually used to describe three types of business arrangements:

- a product franchise being an arrangement whereby a distributor acts as an outlet for the products of a manufacturer on terms that give the distributor the exclusive right to sell the products within a specific market.
- a system franchise being an arrangement whereby a franchisor develops a unique or individual manner of doing business and permits the franchisee to use that system in a controlled fashion in the operation of the franchisee’s independently owned business.
- a processing or manufacturing franchise being an arrangement whereby the franchisor provides an essential ingredient or know how to a manufacturer.

The Franchising Code of Conduct regulates franchises in Australia. The Code imposes disclosure responsibilities upon the franchisor before a franchise agreement is entered into and provides a cooling off period for franchisees.

2. What are some of the benefits of a Franchise?

The benefits of a franchise system vary according to the particular franchise system but can include:

- support of the franchisor;
- flow-ons from the franchisor’s advertising, buying power, established goodwill and trademarks;
- use of an already-established business name;
- access to the franchisor’s management systems and industry knowledge;
- reduction of business risk.

3. What are some of the drawbacks of a Franchise?

Some of the drawbacks of a franchise can be:



- less independence through franchisor control of management techniques and, possibly, of supply sources and product/service range;
- reputation of franchise may be affected by factors beyond the franchisee's control;
- could have an unreliable franchisor;
- sale of head franchise;
- defined/limited geographical market.

4. What type of information should I get before I commit to a Franchise?

Before entering into a franchise agreement, you should receive from the franchisor a Disclosure Document which includes a copy of the proposed franchise agreement. You should also ensure you receive the following information:

- A complete description of the business.
- The track record of the franchisor and current motives for franchising.
- Evidence of the franchisor's strategic plan - where is the business heading?
- What the franchisor offers under the agreements, such as name, product, reputation/goodwill, site location, advertising budget and back-up assistance.
- Fees involved, including up-front capital and percentage of takings payable to the franchisor.
- Terms of sale of goods supplied by the franchisor and if you can purchase from outside the franchise network.
- Success/failure of other franchisees in the same business.
- Obligations upon termination of franchise.
- Guidelines for sale of the franchise.
- A franchise Operations Manual, if available.
- The franchise agreement document and the period of franchise.

If you would like further information, or require assistance, please contact us on (02) 4731 5899 or send us an email by clicking on the 'Contact Us' page on our website.