

Disclosure documents revisited

As a result of various pressures, retrenched people often use their severance/retirement package to invest in franchises. Without making 100% sure that they are buying into a sustainable concept, they run the risk of losing everything. For this reason one has to resort to legislation to protect people against their own misjudgements, says Eric Parker, leading franchise expert and MD for FranchisingPlus. André Diederichs, Old Mutual's franchise specialist spoke to Parker about the ramifications of a disclosure document between franchisors and franchisees.

Diederichs: How can a disclosure document help a franchisee to make the right decisions?

Parker: Doing your homework thoroughly holds the key to making a success of a franchise, and a disclosure document has been designed to do just that. Although a disclosure document is not regarded as a legal document, it has been allowed into evidence in court cases as an official document between franchisors and franchisees.

Diederichs: What should a franchisee do if certain information is withheld in a disclosure document?

Parker: Regardless of what is contained in a disclosure document, it is in your own best interest to do a comprehensive assessment of what you intend buying into. This means apart from carefully scrutinising the franchisor's proposed disclosure document, you should do your own independent investigation to gather as much additional information as possible to enable you to make a well-informed decision of whether to buy or not.

Diederichs: What additional information is required?

Parker: There are four key considerations, namely, 1. Get a written update from the franchisor's auditor on the length of time the franchise has been a running concern, and to ascertain whether or not the business is technically sound. 2. Establish if there has been any litigation against any of the franchisor's directors, or partners. 3. Obtain a list of current franchisees and talk openly to them by asking questions like "Are you pleased with your choice of franchise," and "Are you satisfied with your returns?" 4. Lastly, check and verify the franchise's income and expenditure statements, review the balance sheet and ensure that you have a copy of the franchise's financial forecasts.

The outcome of these four areas should determine whether or not your potential franchise is a sound investment.

Diederichs: In your view, what is the crux when investing in a franchise?

Parker: Have your checks and balances in place by considering the aforementioned issues in conjunction with the disclosure document, and most importantly let common sense prevail! Of the 400 to 500 different franchise concepts available at any given time, I would personally only consider investing in about 40 of them. Half of the 40, the so-called big brands such as Pick n Pay and Dischem, have long waiting lists. To find a suitable and sustainable franchise requires meticulous research and investigation.

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