“Franchising 101” Guide

Franchising is a powerful economic force, according to a study conducted for the International Franchise Association’s Educational Foundation by PricewaterhouseCoopers, which found that A franchise opens every 8 minutes in the United States, franchising employs over 21 million people, there are 3,500 franchise concepts in 75 industries (there is life after food). Franchising accounts for 1.53 trillion in sales and 50% of all retail sales and that 1 out of 12 retail business is a franchise?

Yet, we’d be the first to admit that franchising isn’t for everyone.

This is where begins and ends. Not only do we prepare potential franchise owners so that they can make highly informed decisions about purchasing a franchise, we tell them if we don’t think they are well-suited to franchising, starting with directing them to a resource like this one, so that they better understand what franchising is about.

If you are going to understand only one thing about franchising, it should be this:

When a company has a great idea and wants to expand distribution of that idea, they can either try to raise millions of dollars (not an easy task), or they can franchise their idea. Through successful franchising, not only does the originator of the business idea have an opportunity to flourish from expansion, but each individual franchise owner can potentially benefit from the Franchisor’s experience and success. But understand: a franchise’s primary purpose is to “sell franchises.”

That being said, they couldn’t sell a franchise unless they had happy, successful owners. So the better companies have taken every step toward helping you succeed. In fact, the last thing they want is for you to fail -- which is one of the reasons why they spend so much time “qualifying” you before they sell you a franchise. That’s right. You must qualify for purchasing a franchise Ï they are not simply “lined up” ready to take your money.

How Does One Qualify For A Franchise?

Most franchise companies have set forth a number of criteria against which you will be qualified, such as:

- ✓ financials they don’t want you to be “overextended” on your purchase, thereby putting pressure on your ability to succeed, so most franchises have minimum liquidity and net worth requirements for investors.
- ✓ your skills and/or experience -- should match what they have learned from other owners are required to succeed
- ✓ your personality -- is suited to the role you would need to play as an owner
- ✓ your support system – (partner, wife, husband, family) are there to back you emotionally.

Unfortunately, most potential buyers go about searching for a franchise like they would buy a refrigerator. They fall in love with the franchise product or service without really knowing whether or not it would make a good investment. There are many well-known brands out there that don't allow you to make much money on your investment unless you own quite a few units or, they are considered "mature" and the real money has already been made. You, quite simply, have to know what you are doing.

The better route is to use a franchise coach like me who can help you assess your skills, needs, wants, desires, goals, and match you to the franchise opportunities that would be right for you.
My service is free-of-charge and can save you from many mistakes and much frustration. Buying a franchise is a lot like buying a house and you should provide the same level of attention.

What Should I Look For?

A good Franchisor will have considerably reduced the inherent risks of setting up a new business in several possible ways:

- ✓ they will have proven that their business system works well, and can be reproduced consistently
- ✓ they will have tested their idea, by means of at least one (but preferably more) test market operations which they operated for a minimum of a year in a typical location
- ✓ they will have justified their royalty payments by providing a significant number of support services for their owners, thus freeing owners to concentrate on building their business

Will the franchise be risk-free? Of course not; there is a human factor to consider (the franchisee) as well as many other factors, and therefore no franchisor can promise success. But franchising has demonstrated time and time again its ability to reduce risk versus the option of starting a business without the benefit of a franchise system.

What Can I Expect to Pay?

Most franchisors charge an initial fee (often referred to as the franchisee fee) to cover the upfront costs of "setting up" the franchisee in business. These companies have often spent a great deal of money to establish, prove, document -- and then market -- their Franchise System. The initial fee is simply a means of their recovering some of these expenses.

However, ongoing support of the new franchisee requires additional funding. There will be certain out-of-pocket expenses required of the new owner for real estate leases, for build-out, for equipment, for licenses, etc. There will be capital expenses to market the concept, to pay employees, etc. Plus, ongoing fees (Royalties) are usually taken monthly by the franchisor, as a percentage of the franchise owner's gross income, or a flat monthly fee is charged.

Therefore, the total initial investment for a particular franchise is estimated in that franchise company's Uniform Franchise Disclosure Document (UFFD or FDD) so that prospective owners can estimate ALL costs associated with starting up their new business.

What Are The Advantages and Disadvantages of Franchising?

Advantages:

- ✓ There is an already successful model to view and evaluate and your rights are clearly delineated in a contract.

- ✓ Instead of needing to think through thousands of details, your franchise provides you support. During the start-up of the business, they may provide assistance with site selection, supply of equipment, assistance from experienced staff during the launch period and selection and purchase of stock. Better franchisors are committed to providing you ongoing support as their income is dependent upon your success.

- ✓ The franchise's brand name can add an aura and drawing power to your business.
- ✓ Training in both general management and skills specific to your franchise is provided. Significant administration and management functions may be provided by the franchisor.
- ✓ Advertising and/or marketing support building your clientele is provided.

- ✓ A detailed Operations Manual provides you a resource to support you in just about every eventuality your business could experience.
- ✓ A designated territory is often provided to avoid overlap within the Franchise system.

Disadvantages:

- ✓ You will not be in a position to exercise 100% control over all aspects of your business. But why would you want this? You're BUYING expertise and experience when you purchase a franchise, so 100% control would be counter-productive. You should understand this fundamental point from the beginning if you want to be successful.
- ✓ If a franchise in another town or country has problems that draw national attention, it could adversely affect your sales. (Such as the tainted food fiasco that injured Taco Bell's reputation in 2006.) This is why UFDD's from the better franchise companies often have very strict rules - they are there for YOUR protection.
- ✓ If you're not terribly good at taking directions from others, then perhaps franchising isn't for you, because you must be able to follow the system that your franchise company provides you. A franchisor has the right to terminate your contract if you do not remain in compliance with your contract with them.
- ✓ An average contract with a franchise is for 10 years -- but not a lifetime. As you near the end of your contract, you can sell your franchise, or you can choose to renew.
- ✓ Every franchise receives ongoing monthly royalty payments from its franchisees for the ongoing support they provide usually in the form of a flat fee or a percent of gross sales. If you are uncomfortable with this concept, then perhaps franchising isn't right for you.

How Do I Avoid Mistakes?

In the right circumstances, franchising reduces the risk of getting into business. Nevertheless, your process of investigation should be extensive and methodical. Most initial buyers will say, "I don't even know what questions to ask." If this is true for you, allow me to point the way for you.

Start now, and study up:

- ✓ Learn about franchising. Read books, attend seminars, etc, and become familiar with terminology. I will be happy to refer appropriate resources for you.
- ✓ Examine your motives for going into business. And be realistic. Even the best franchises can test your patience that first year of operation. If you aren't particularly good at seeing things through, then franchise ownership may not be the right way for you to go.
- ✓ You will need the support of your family and should discuss your plans with them. In fact, most states require both husband and wife sign a franchise agreement so encourage your spouse be part of your investigation process.
- ✓ Study the concept – I will help you know what to examine, what to learn, what will work for your skills.
- ✓ Study the UFDD/FDD -- the Franchisor must provide you with a disclosure document that delineates all of the pertinent facts relative to their opportunity. If they do not offer you one before asking you to sign a contract, they are breaking the law.