

Franchises - Things To Consider

The franchise concept is an incredible one. Gather all of the ingredients specific to a business and formulate a recipe that can be duplicated over and over again by anybody. When someone refers to a "turn key" operation, the most likely example is a properly orchestrated franchise. Although the recipe has been set, it still requires the input and management of the right owner to ensure an individual location is successful.

The Bad News:

A franchise is by no means a guarantee of success. Plus, a new franchise is basically a start up with some advantages. Master Franchisers will do a load of demographic and marketing studies evaluating potential customer base, drive by traffic. etc., but the only thing that they cannot do is guarantee your success nor will they document any specific revenues or profits.

They usually have very slick salespeople and presentation materials but so what? It's really just an educated guess about what "may" happen. When all is said and done, new franchises are to a certain extent, a "build it and pray they will come" strategy. Plus, a new franchise can sometimes mean waiting a year or more for it to be launched.

The Good News:

Franchises can be a good place to begin your entrepreneurial career. If you want to greatly improve your chances of success then buy a franchise resale. Take advantage of one that's already established and successful. This way, you combine the best worlds of a franchise concept, and the track record of an existing business. It just makes more sense.

While it is not always easy to locate resales, there are plenty of them around. The best way to find one is to address your search on two levels: call the Master Franchisers and ask if they can provide you with a resale listing in your area. Second, approach any current owner and ask him/her if they know of any that may be for sale. They will probably tell you that theirs is "for the right" price. In either case, you will get leads to pursue. Of course, you can always go through regular channels such as your local paper, business brokers and online listings.

The other good part of buying an existing franchise is that you can implement all of the same strategies for identifying, negotiating and financing the purchase as you would when buying an existing non-franchised business. As such, it's wise for you to get hold of a good strategy guide for buying an existing business.

The Investigation Advantage With A Franchise

Probably the most attractive feature of buying a franchise from the buyer's point of you is that you can investigate any franchise much easier than an existing non-franchised business. The reason for this is because you will be able to look at other franchises under

the same banner. You can speak with other franchisees in your area and they will be a wealth of information for you.

There is also a disadvantage when investigating and conducting Due Diligence on a franchise as you have to do it on two fronts. You have to check out the business itself of course but of equal or greater importance you have to evaluate the Master Franchiser to be sure that they will deliver everything they are supposed to do.

Your Partner is Your Competitor

The Master Franchiser's agenda is to open up as many locations as possible. While they may all say that they will not dilute the market, rest assured that unless they are contractually obligated to do otherwise they will keep compacting the territory. As they open more and more locations you may wind up competing with your own brand. Once a customer of yours finds another location to be more convenient unless you have a rock solid relationship with that individual you will lose their business.

"As you assisted me in my project to acquire a business, I feel that I should give you some feedback. I completed the purchase of a local automotive franchise resale and I would like to thank you for the useful advice and information you provided me and to wish you well."

**Bryan Richards
Irvine, CA**

How To Make Money in Franchising

The best way to accumulate wealth in franchising is to keep opening up or buying other locations. If you can, stick with one banner or within an affiliated group of companies. This way, your leverage with the Master Franchiser increases and you can also focus on running one particular type of business. You can't dance at all of the weddings so opening up new locations too quickly can cause growth problems. However, as soon as you get the first one on track, look to acquire another one.

Franchise Contracts

Each state has different laws related to franchises that are usually quite intricate. Additionally, the agreements between the franchisee and franchiser differ between companies and many contain clauses that you would never even think exist. As an example, if a franchisee wants to sell their business, most often the franchiser has the first right to buy the business. The reasoning is that they want to be sure that the market doesn't have too many resales available (it hurts them when trying to sell new ones if potentials buyers see too many other franchisees selling). Secondly, they want to protect themselves if they don't feel the potential buyer is right.

Hire an attorney who specializes in franchise law and before you take a second step with any resale franchise, get a copy of the contract between the franchisee and franchiser to properly evaluate what you will be faced with along the road.

In Summary:

Franchises can be ideal for many people. If you want really improve your success rate, then buy an existing location. It will provide you with all of the benefits of a franchise along with the added security of historical data and a proven track record