

How to Research, Evaluate and Buy a Franchise

A realistic look at franchise systems

By

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INTRODUCTION

There is so much information available on franchising. How do you know where to start? How do you know who to believe? Some of the information you find is out of date. Some is overly enthusiastic toward franchising. Other information is anti-franchising.

It is vital that you learn how to sift through the hype *and* the bashing. The right franchise can mean a secure financial future. The wrong one can send you into bankruptcy. Franchises may have proven business formulas, but those formulas don't mean automatic success. What they give you is better odds for success.

If you chose the right franchise for your personality, your interests and your finances, the match can propel you into a future you really enjoy. Let us show you how to research franchise opportunities, evaluate them, and ultimately "buy" one that offers the lowest risk for the highest return.

But first let's make sure you understand what franchising really is, and what it is not. This will guarantee that you are on the same page as the franchisor when it comes time to move past research.

FRANCHISING BASICS

You may think you already know what a franchise is, and you may be right. What if you aren't? It always makes sense to go back and make sure you know what you know. You might discover you've missed something important.

There are two definitions that you must have straight from the start. Franchisor and franchisee. A franchisor is the company that has the franchise. McDonalds or Kentucky Fried Chicken for example. You are the franchisee. Your rights as a franchisee will be discussed later.

What Is A Franchise?

There are many different definitions of a franchise. There is only one that counts. It's the franchisor's! The typical definition goes something like this:

Franchising is a method of market expansion utilized by a successful business entity that wants to expand its distribution of services or products through retail entities owned by independent operators. The independent operators use the trademarks or service marks, marketing techniques, and controls of the expanding business entity in return for the payment of fees and royalties to the expanding business entity.

Another variation goes like this:

The business format franchise is the grant of a license by one person (the franchisor) to another (the franchisee), which entitles the franchisee to trade under the trade mark/trade name of the franchisor and to make use of an entire package, comprising all the elements necessary to establish a previously untrained person in the business and to run it with continual assistance on a predetermined basis.

Are you still with me after that lengthy passage? There are other franchise formats, but this book focuses on business format franchises. Did you notice that franchisors grant licenses to trade? Technically, you can't buy a franchise. You just lease the rights to use

the franchisor's name and business system for a while. You can do this for a term established by the franchisor in a franchise agreement. Five years is typical.

At the same time, there is an element of ownership involved. You are responsible for the operations of the franchise. You must pay the bills. You do the hiring and firing. You almost do everything the owner of a business would do. For this reason, we are going to use "buy" and "owner" throughout this book. The term lessee, besides suggesting you are only a renter, just does not describe a franchisee adequately. You will see franchisee often enough.

The Three Main Elements Of A Business Format Franchise

1) The business concept or business model.

This can evolve over time. In fact, to remain a successful entity, the franchisor must continually adapt their business concept.

Taco Bell provides an easy example. The trademark for this fast food franchise had long been the burrito, tostada, and taco. The franchise has remained competitive by offering more variety and allowing more customization by their customers.

For years, Taco Bell® was a lunch and dinner only option. They were missing the breakfast trade. Taco Bell® franchisees can now stay open 24 hrs. and offer breakfast burritos in strategic locations.

The business model is like a blueprint. It lays out the plans for building a successful business. Its purpose is to eliminate as many of the risks as possible which new business owners face. If the blueprint isn't market tested by the franchisor's own operations, you are asking for financial woes. We will discuss [due diligence](#) later.

2) The process of initiation and training

This is an important phase. Many franchisors look for people who have almost no experience in the franchise area. This is especially true for food service

ARE YOU FRANCHISE MATERIAL?

Are you perfect franchise material? Franchisors take a very scientific approach toward the selection of franchisees. It is now quite common to test a franchisee to see if he/she meets a profile that the franchisor has found works in their system. A good self evaluation at this stage will help you decide if franchising will work for you.

Evaluating Yourself

There are certain traits that fit a person to franchising. Other traits suggest you would be a poor fit for a franchise system. Some perfectly good traits for running a business for yourself, don't fit well with franchising. Independence is one of them. Franchisors need people who take direction. A franchise doesn't want a maverick.

Are you a person who has always been willing to work hard? This trait will serve you well. Franchisors have found that working hard is more valuable than creativity. As Thomas Edison once said, "Invention is 5% inspiration, and 95% perspiration." The franchisor has already done the inventing. They expect you to put in the perspiration. They're also looking for someone who is willing to put in the hours, however long they may be. If you are longing to set your own work schedule, choose your franchise wisely. Most don't allow that luxury.

The desire to receive benefits and rewards from your work isn't considered quite as positive a trait. The fear is that your desire to feel rewarded by your work might interfere with your motivation if things get tough.

If you're a person that's always been able to put money aside, franchisors are going to like you. If you're conservative financially, this can be a good trait as well. If you've always struggled with having enough money, it could be a mark against you, but not if it has made you prudent in the use of money.

Franchisors look for someone who finds it easy to take directions from others. Do you see a supervisor's instructions as an opportunity to learn and do a task better? Or do you secretly resent having to take instruction? Recognizing that it is often necessary to take directions is a second best. If your attitude is, "That's acceptable as long as you don't

require it all the time,” you will feel frustrated much of the time by a franchisor’s requirements.

If having to work under pressure makes you feel sick, being an employee is far easier. Running a franchise is fraught with pressure. You must be able to keep your cool when everything seems to be falling apart. It’s not uncommon to have the phone ringing, an angry customer at the counter, and an employee asking you a question all at the same time. This will go on day after day. Don’t fool yourself into thinking you can handle stress better once you own a franchise than you do today.

The person who has the ability to sell things has a strong advantage in the franchise market. Sales are a major part of almost every franchise system. Even if your sales skills are a little weak at this stage, if you have a good grasp of what makes people tick, most franchisors will see your potential. As long as you like people, you can learn sales.

Your concept of how to reach success also matters. If you think that you have to have luck on your side, you’re setting yourself up for failure. Franchisors are looking for people who are willing to take risks. Knowing how to network and meet the right people is something you can learn, but it isn’t essential to success. Wanting to be happy in your work doesn’t hurt.

Franchises of course find it valuable if a franchisee has strong business and sales skills already. A variety of life experiences is also an asset. Good general business knowledge and skills makes it easier to weather those initial months or even years when profit margins are low pay and labour hours are high.

It isn’t always a bad thing though, if you have not had a lot of business experience. What really matters is an aptitude for learning business. If you’ve always been able to manage a cheque book, you can learn other business skills. Business is more than managing money, even though money is a major part of business success.

Franchisors know that business success follows people who have an appetite to learn more about what they’re doing. This is actually more important than extensive business experience or physical stamina. A great deal of business management has to do with flexibility and an open mind. A strong desire to learn is a valuable asset, both personally and professionally. It is often necessary in order to advance your business as well.

CHOOSE THE RIGHT FRANCHISE

Franchises come with different profiles. Some are sales driven. Some are solution driven. And some just seem to happen. The right person was in the right place and created a franchise that works because the owner knows how to delegate. As Dennis L. Foster says in his book, *The Complete Franchise Book*, the perfect franchise is one that “suits your personality as snugly as it fits your desires, abilities, and pocketbook.”

Some franchises were started by sales geniuses. They continue to be operated that way. That is why they are sales driven. If you hate sales, you might already be wondering if you should go into franchising. If you do want to go into franchising anyway, avoid a sales driven franchise. It’s always important to consider the personality of a franchise as well as its financial possibilities.

Some franchises have the organized problem solver personality. This type of franchise provides clear structure and operating procedures. You will always know how things should be run. This type of franchise is perfect for someone who can think for themselves, but enjoys having some structure in their lives.

Then there are the franchises you can compare to a likable guy. These franchises don’t dictate your every action. They prefer to delegate and provide guidelines. They tend to approach their system with common sense. This franchise personality is excellent for someone who needs a little freedom in operating their franchise.

Is there one question that you should be asking above all the rest? Probably not. There are many that are important. It doesn’t hurt to ask a set of competing franchisors this though, “What do you do for your franchisees that your competitors don’t?” You may discover a whole set of questions in their answers!

Looking At The Options

One of the things that makes franchising so attractive is the sheer variety available. You have a choice of retail franchises, hotel franchises, foodservice franchises, personal service franchises, property service franchises, automobile services, and business services. Let’s look at a few of the options each of these categories offers:

AVOID THE MOST COMMON PROBLEMS BEFORE YOU START

Depending On A Franchise Broker's Advice

It's very important to realize that a franchise broker works for franchisors, not for you. Remember that he/she has a vested interest in getting you to sign a franchise account with one of the companies he provides his/her living.

Even franchise advisers aren't always independent. If you go with an adviser, you still need to do the background check. Find out where their income comes from. Do they get commissions? If their income is commission based, that should be a tip-off that there is a conflict of interest—a possible conflict with your interests.

No matter how honest your franchise salesperson may be, there's a natural tendency to be positive about the person who pays you commissions. Realize this. It may save you a lot of heartbreak.

Emotional Franchise Purchases

Remember we said earlier that a franchise does its best to help you fall in love with it. Their hope is that you will become mentally committed to the ideal and that you will do your due diligence search. This is especially true of less than scrupulous franchisors.

Being led by emotion rather than logic is a recipe for disaster. It's impossible to remove emotions from the equation, but logic needs to rule. For example, you may have grown up eating Krispy Creme® donuts. You may love Krispy Creme® donuts. But if you let your emotions control your decision to open a Krispy Creme® franchise, you might completely ignore the fact that the location you've selected is in the middle of a very health conscious community. Are you likely to experience success with such a commonly bashed product?

Another side of emotional franchise purchases involves the "sizzle" of the sales promotion. This is like getting you to buy a boat that can't float, because the salesman convinces you of all the pleasure boating gives people who own boats. Many franchise