

Guidelines when considering buying a franchise

May 2, 2016, 7:20am EDT

When people consider the purchase of a franchise, McDonald's, Subway, and Burger King come to mind. But there are hundreds of other franchisors in a wide variety of food, retail, and service businesses that are competing with each other to sell their franchises. The benefits to owning a franchise include:

- Access to a proven business system and a wider customer base, greater brand name recognition, and a stronger market presence.
- Group purchasing discounts, professional marketing, research and development benefits, and continuing education and training.
- Support from the franchisor and other franchisees with similar goals, needs and challenges.



Image provided by Getty Images

Federal law and the laws of many states require franchisors to provide prospective franchisees with a franchise disclosure document (FDD) before the franchisor may sell a franchise to them.

See Also

- 5 strong indicators you should take an entrepreneurial path
- 10 commandments for moving from 'wantrepreneur' to entrepreneur
- 'Vetrepreneurs': How to use entrepreneurship to help military veterans

An FDD is an offering prospectus written in plain English that provides prospective franchisees with answers to 23 specific questions about the franchisor and the franchise. Franchise candidates must have the FDD for at least 14 full days before they can execute a Franchise Agreement or any franchise documents, or pay the franchisor any money.

The FDD must include, among other things:

- Background information about the franchisor and its executives.
- Litigation and bankruptcy history for the franchisor, its affiliates, and their executives.
- Descriptions of the fees payable to the franchisor and the initial investment required to open a franchised business.
- A summary of the primary responsibilities of the franchisor and franchisee.
- The table of contents of the franchisor's operations manuals.
- The names and addresses of the franchisor's current and former franchisees.
- Samples of the contracts franchisees must sign.
- In most cases, audited financial statements for the franchisor for the previous three years.

Here are some guidelines to keep in mind when considering the purchase of a franchise:

- Look for a business in which the typical daily activity aligns with what you like to do. Avoid franchises that will require activity you dislike.
- Don't jump into something that is completely new and different to you. You will greatly enhance your

chance of success by selling products or services you understand.

- Consider your own strengths, weaknesses, and comfort levels. If you're happiest when following orders, resist the idea that you can become a leader overnight by buying a franchise. On the other hand, if you insist on going your own way at every turn, consider how long it will take before you chafe at the highly supervised nature of the franchisor/franchisee relationship.
- Is the business model profitable for the franchisor and its franchisees, and to what degree? Your business must have the potential to succeed.
- Is the business sustainable in the marketplace? Franchises built on fad products or services rarely survive. To be sustainable, the business concept should be unique enough to withstand competition, and also be one that potential franchisees are willing to pay to learn.
- Be realistic about the costs of becoming a franchisee and buy a franchise that matches your resources.
- Be sure to get a current FDD. A franchisor without an FDD is not a franchisor to consider.
- Due diligence is vital. Learn everything you can about the franchisor and the franchise. Talk to every current and former franchisee that you can find. One of the most important signs of a healthy franchise system is a high level of satisfaction among current franchisees.
- Investigate the franchisor's management team. A system that has leaders who have substantial experience in the franchised business and industry is preferred over systems whose management teams' experience is weak or in other industries.
- Ask yourself whether the franchisor's staff who will be your primary contacts, as well as other franchisees in the system, conduct themselves as you would. The character of the people you will work with must match up with your own.
- Franchise agreements tend to favor franchisors to maintain system uniformity. However, franchise agreements that are too one-sided place franchisees at the mercy of the franchisor's whims and judgments. Find a system where the franchise agreement is balanced.

There are certainly other factors to consider before purchasing a franchise. Overall, the wise franchisee is one who is fully educated about the franchised business before making the investment.



Barry Kurtz
Contributing Writer

© 2016 American City Business Journals. All rights reserved. Use of this Site constitutes acceptance of our User Agreement (updated 3/14/12) and Privacy Policy (updated 3/14/12).

Your California Privacy Rights.

The material on this site may not be reproduced, distributed, transmitted, cached or otherwise used, except with the prior written permission of American City Business Journals.

Ad Choices.