

Franchising Opportunities Exposed!

by Bruce A. Love

Spring is in the air. The snow has melted, tulips are sprouting, and the sewer is backing up. My annual spring ritual has begun, and my new best friend prepares to clear our pipes for action!

The first time this event occurred, a familiar tune sprang to mind and sounded to me like Grammy material: *"and away goes trouble down the drain."* Other professionals can probably handle my rite of spring, but initial fears of choosing the wrong one led me to pick the one most familiar (my familiarity with the company was limited to knowing their silly jingle). This illustrates the value of being part of a recognized franchise with an established reputation.

Franchises are businesses that contract to sell or distribute the goods or services of a company in a particular manner and in a specified area. Some popular franchises include: Subway, Merry Maids, and Roto-Rooter. Franchising has a lot of advantages. In addition to the obvious benefit of name recognition, franchisees (those who buy into a franchise) may receive assistance from the franchisor (the one offering the franchise) in a variety of areas including marketing, loan procurement, management, training, etc. Reputable franchises enable business owners to efficiently offer proven products, methods, or services, to proven markets, and can therefore offer higher expectations for success.

Franchises also have disadvantages. Franchisees have less independence than owners of businesses started from scratch. In many franchise agreements, merchandise, equipment, store layouts, and methods of customer service are strictly regulated. Frequently, franchisees also must buy their supplies from the franchisor.

Several years ago, my friend Jim Pellani opened a franchise. While his background suggested he had "the right stuff," Jim did not experience success as a franchisee. He is first to acknowledge the mistakes he made and offers the following advice to others considering the franchise option:

- "Visit a franchise expo" Most large cities feature at least one franchise trade show each year. Visit one and meet with representatives of franchises that interest you.
- "Scrutinize the Uniform Franchise Offering Circular (UFOC) for any franchise you are considering." This relatively new standardized report will enable you to compare franchises and determine which is the best match for your situation. The UFOC lists required franchise fees, total estimated investment, franchisee rights and restrictions, and territories. This document also details franchisor financial statements and litigations.
- "Do your homework! Understand the industry, its markets, and its competition." Also choose a good location. This advice is true for any business venture. Although your franchisor may provide a generalized business plan, develop your own to examine factors specific to your situation.
- "If it sounds too good to be true, it probably is." Part of a franchisor's business is selling you a franchise. While established franchises understand long-term success depends on the success of qualified franchisees, unscrupulous franchisors in financial distress may be willing to sacrifice long-term reputation to accept franchisee fees from less-than-ideal franchisee prospects.
- "Visit existing franchises." By meeting with others who already work with the franchisor, you will be able to learn the good, the bad, and the ugly about the franchise.
- Recognize that new franchises have greater risks and do not offer many of the benefits associated with established ones.

As with any business venture, the stakes can be quite high. Initial franchise investments can vary from a few thousand dollars to over \$1 million. In addition to the initial investment, franchisees usually pay a monthly royalty fee based upon a percentage of gross sales. If you think franchising is right for you, do your homework, and avoid throwing money down the drain!

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