Is a Franchise Right for You?

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I am a firm believer in the franchise concept or business model; however, there are some pitfalls. A franchise may present an excellent business opportunity if the franchiser possesses a line of products or services you believe in and want to sell. But, as with any existing business purchase the term “caveat emptor” or “buyer beware” should be your mantra. As a previous franchise owner, I believe there are many more advantages than disadvantages but full due diligence of the franchise’s financial data and operating history is necessary. Most franchises are reputable, but franchising scams and territorial saturation still exist. Before purchase of any franchise, you should consider:

The UFOC

These days**,** the purchase of a franchise business is safer than ever. Back in the late 70’s, a federal franchise law was put in place that required the franchisor to furnish a Uniform Franchise Offering Circular (UFOC) to prospective franchisees. The UFOC discloses a franchiser’s litigation history and details of unit failures. The document also reveals the unit revenue model for projecting future revenue. When you review the UFOC, and if the figures look right, franchising can be a win/win situation. If the franchise does not have this information available, my advice is to walk away. New York State is a “registration” state meaning that any franchiser wishing to sell a franchise in New York must first register with the state Attorney General’s office even if they have a UFOC. Franchisers are not allowed to sell a franchise in NY without prior registration.

The UFOC is usually extensive but far from complete. As a prospective purchaser you should always check with other existing franchisees. They will give you the street smart version of what expectations were met and where they have they fallen short. Other franchisees are a great source for identifying any hidden or unanticipated expenses that could occur at startup. Although most franchisers will do their best to identify franchise related start-up costs including travel-related expenses as a result of attending the franchise’s required training programs, legal and accounting fees, insurance fees, debt service, and various other costs, some costs are owner related. Those costs may include office rent, business equipment and personnel costs. Your vital working capital could disappear if you have not accounted for individual operating expenses not identified in the OFOC.

Location

The success of a retail operation is greatly dependent on the choice of location. Many retail franchise companies offer assistance in selecting the correct location through the use a sophisticated "retail location model", which inputs a number of variables to determine if the proposed site for the new franchise is ideal. A franchise that uses a retail location model eliminates poor location selections and can substantially increase the franchisee’s chance of success. But a prospective franchisee should not leave it all up to the franchiser. Location and territorial boundaries are major concerns that franchisees need to research and analyze.

Market

Any prospective franchisee needs to ask: Where has this business model or concept been most successful? Some franchise opportunities originate in Europe or on the West Coast.   The appeal of some products and services may or may not travel well (I am still waiting for San Diego's Fish Taco to make a run in our area). Also, within any regional territorial boundary, market saturation of the same or like franchises could be present.   In franchise terminology, it is called "cannibalism" when too many franchises are assigned to a specific region. The franchiser may receive extra franchise fees, and overall royalties may remain constant, but projected revenue goals for the individual franchisee may not be attainable.   Keep in mind the possibility of e-commerce. Most food, beverage, and service industry franchises require on-site purchases, but if you're selling specialty hard goods, a franchisee may be prohibited from making internet sales. Most likely, e-commerce sales would be poaching into another franchisee’s protected territory.

Advantages

The best thing about a franchise is that you're not alone. Most franchising companies offer a total business package, along with thorough instruction in its use. The package may include software to monitor sales and analyze revenue and expenses; proprietary marketing strategy programs, inventory control and POS (point of sale) sales training and many franchisers have intensive mentoring programs during a new location's first year or two of operation. They provide advisory services to improve operations, staffing and management functions. It's in their best interest for you to succeed - the better you do, the better they do.

A franchise will give you something no startup operation can: a complete, pre-built, proven platform. Less risk, more security.

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