Should I Buy a Franchise?

In a couple of our latest SCORE workshops, I had the opportunity to visit with a pair of CEOs that will be opening their new business very soon. They chose to select a franchise type business. Some of the other class mates asked me after the class about the decision to buy a franchise type of business. So, I thought it was time to do a little writing on the decision to buy a franchise.

When most of us think about franchises, we are referring to the business-based franchise like the top 500 franchises published in Entrepreneur magazine each year. Entrepreneur’s 75 different categories have one thing in common—a systematic method to deliver services or products.

My first point is to start by saying that franchising is not for everyone, but for an individual who has limited business experience or someone who enjoys working within an established system, franchising can be the best possible path.

Franchising is simply a method of distributing products or services, with at least two levels of people involved. The first is the franchisor, who lends his trademark or trade name and a business system. The other is the franchisee, who pays a royalty and often an initial fee for the right to do business under the franchisor’s name and system. The contract binding the two parties is the “franchise,” but that term is often used to mean the actual business that the franchisee operates.

Before you go into any business, franchise or not, it is important to first ask yourself some important questions:

- Do you have strong motivation and drive to achieve success?
- Do you have confidence and enthusiasm for the product or service you will be representing?
- Are you able to motivate yourself and others and train employees?
- Do you have experience in the industry?
- Are you willing to promote your business and the brand?

In this specific case, your next step should be to figure out if a franchise lifestyle fits into your own lifestyle. Do you have the necessary support system to open this franchise? Does your family support this decision? Do you have an accountant, banker and attorney who will assist you in your start up and growth phases?
One of the advantages in this case may be the “brand” that you will become a part of. In the franchise world, belonging to a system gives you, the franchisee, a competitive edge, which partially compensates for the cost of being in the system. The main value in franchising is the identity related to the brand. McDonald’s is the largest franchisor in the world with over 31,000 units. Due to consistency of product delivery and global advertising, McDonald’s has a major advantage over, say, Joe’s Diner.

It is important to remember that since the brand’s value is more important than anything else, including the service or the product, the customer’s loyalty is to the brand, NOT the individual franchisee. No consumer walks into a Dunkin Donuts franchise because they know the owner. They know Dunkin Donuts. What this means is that within a franchise system, you have to play by their rules. You couldn’t open a McDonald’s and sell pizza, for example.

Your success as a franchisee is based on your willingness to work with in a pre-existing system, and help to build the value inherent in the brand. This kind of a business is not for everyone, so you have to be honest with your ego on this one.

So let’s say you are willing to work within a system promoting their brand or service and you are not concerned that customer loyalty is not directed to you personally. Now what? What kind of business should you think about?

Go back to your personal likes and dislikes. Don’t gravitate to fast foods just because you already know how to make a sandwich. Some top industry categories include auto, children, cleaning, exercise and chicken. Find an industry that you wouldn’t mind doing and thinking about 24/7. Then research all the different options within that industry.

Now for the next step and where the fun really begins as you determine the difference between good and bad franchises. After you have done some research and are ready to begin your planning, you may wish to ask SCORE for free mentoring.

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