Tips Before You Purchase a Franchise

Last week, I mentioned my SCORE colleague, Betty Otte who has extensive experience in the franchising business. I asked her to give me five tips that I could pass along to someone that is considering the purchase of a franchise. Here is what she told me. I think they are gems!

1. You are a customer to the franchisor. Many people believe that going into a franchise is like joining a partnership where you, the franchisee, will be protected from failure. This is not true. While franchisee companies have a much higher success rate than individual start-up companies, up to 20 percent of all franchises do not do well. However, this failure rate is far lower than that of individual startups.

2. You and the franchisor have different goals. Although both parties; franchisee and franchisor, have the common goal of building the brand, the franchisor’s goal is to sell franchises and the franchisee’s goal is to service the consumer or end user.

3. You may not have an ongoing relationship with the franchisor sales representative. If you are dealing with an independent agent or with one of the brokerage houses which represent franchisors, chances are that although they are knowledgeable about the franchise, you will not see that person after the point of sale. If you are dealing with a sales person salaried by the franchisor, s/he will want to work with you in the future, and that may cause the sales process to take on a different perspective.

4. You have legal rights when dealing with the franchisor. Be careful if the franchisor tells you how much you can earn if you invest in their system. The Federal Trade Commission (FTC) requires that franchisors who make such claims provide you with written substantiation. Be sure to ask for and receive this. If they don’t provide it, consider the claims to be suspect.

5. You are protected by the FDD. The Franchise Disclosure Document (FDD) defines what the franchisor will do for you and expects of you. You must carefully review the UFOC before purchasing the franchise. The FTC protects franchisee prospects up until the point of sale, but after this, the UFOC becomes vitally important.
SCORE has many volunteers locally and across the country ready to help mentor you, many of whom have franchise experience. Seek help from your local SCORE chapter.

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