

Watch for Hazards When Buying a Franchise

With a franchise, you don't have to start a company from scratch. Whether the business sells fast food, automotive services, gourmet coffee, or dry cleaning, successful franchises are usually based on a proven business idea and a recognized brand name. The best franchisors can jump start a business by providing staff training, location advice, and detailed operations manuals. And some have ongoing relationships with financial institutions, which can help when you're searching for start-up capital. But buying into a franchise requires careful analysis and a healthy dose of skepticism. Before taking the plunge, watch for these hazards:

Unrealistic Forecasts.

Sometimes predicted revenues do not materialize. That's because early entrants may have cornered the most profitable territories already. So be aware that rosy forecasts based on historical data do not always pan out. Get market research for the area you've staked out (preferably from several sources), and determine the least amount of revenue you'll need to cover costs and remain profitable.

Unanticipated Costs.

In addition to an initial outlay for franchise rights, you'll incur numerous out-of-pocket costs. These might include advertising, inventory and supply expenses, additional fees for training staff, legal expenses, and so on. Generally, you'll also pay a continuing royalty on sales whether or not you make a profit. Failure to factor in these additional costs can sink a business before it gets started.

Undependable Franchisors.

This is one area where research is vital. Contact other franchisees and ask about their experiences with the company. Have they been satisfied with the company's support, including training, the quality of goods delivered, and ongoing relationships? Take a hard look at the company's key management staff. How long have they been in business? What experience and education did they bring to the company? How many of their franchises have failed and why?

Unproven Business Model.

If you're considering a franchise that's not exactly a household name, use caution.

Of course, jumping in during the initial stages of a fast-growing franchise can be especially lucrative. But there's no substitute for proven marketability. Often a great idea on paper needs to be tweaked (or overhauled) when a company enters the marketplace. Unless you can live with significant risk – including the potential loss of your investment – steer toward a franchise with a solid track record.

If franchises are on your mind, give us a call at 630-953-4900 for help with your analysis.