

# Should You Buy A Franchise?

## Franchises Can Be A Shortcut to Success

By Susan Ward

When it comes to starting a business, many people think of buying a franchise as a shortcut to success. While there is some truth to this, not all franchises are created equal, and not everyone is cut out to be a franchisee.

Is there a franchise in your future? Here are the advantages and disadvantages of buying a franchise and what to expect when buying a franchise to help you decide.

### Advantages of Buying A Franchise

- 1) Lower Failure Rate** - When you buy a franchise, you are buying an established concept that has been successful. Statistics show that franchisees stand a much better chance of success than people who start independent businesses; independent businesses stand a 70 to 80 percent chance of NOT surviving the first few critical years while franchisees have an 80 percent chance of surviving (Michael M. Coltman, *Franchising in Canada: Pros and Cons*, Self-Counsel Press).
- 2) Help with Start Up and Beyond** - You get a lot of help starting your business and running it afterwards. Many franchises are, in fact, turnkey operations. When you buy a franchise, you get all the equipment, supplies and instruction or training needed to start the business. In many cases, you also get ongoing training, and help with management and marketing. Your franchise will reap the benefit of the parent company's national marketing campaigns, for instance.
- 3) Buying Power** - Your franchise will benefit from the collective buying power of the parent company as the franchisor can afford to buy in bulk and pass the savings along to franchisees. Inventory and supplies will cost less than if you were running an independent company.
- 4) Star Power** – Many well-known franchises have national brand-name recognition. Buying a franchise can be like buying a business with built-in customers.
- 5) Profits** - A franchise business can be immensely profitable. (Think of Macdonalds and Tim Hortons, for instance.)

## Disadvantages of Buying a Franchise

- 1) **Their Way or The Highway** - The main disadvantage of buying a franchise is that you have to do it their way - sometimes right down to the way the napkin holders are filled. As a franchisee, you are not the one actually running the show, and some franchisors exert a degree of control that you may find excruciating.
- 2) **Ongoing Costs** – Besides the original franchise fee, royalties, a percentage of your franchise's business revenue, will need to be paid to the franchisor each month. The franchisor may also charge additional fees for services provided, such as the cost of advertising.
- 3) **Ongoing Support?** Not all franchisors offer the same degree of assistance in starting a business and operating it successfully. Some are juststartup<sup>3</sup> operations – and everything after startup is up to you. Others make promises of ongoing training and support that they don't follow up on.
- 4) **Cost** - Buying into well-known franchises is very expensive. If this is your choice, you will have to have extremely deep pockets or the ability to arrange the necessary financing.
- 5) **Shark-Infested Waters** - Buying a little-known, perhaps inexpensive franchise can be a real gamble. Just because a business is offering franchises is no guarantee that the franchise you buy will be successful. In some cases, franchising is the business; all the franchisor is interested in is selling more franchises. Whether or not the individual franchises are successful is irrelevant to them. This is not to say that no little known, inexpensive franchises are worthwhile, but just a reminder that any franchise you're thinking of buying needs to be investigated carefully.

Let's suppose, though, that you've found a franchise that interests you and that appears to be a solid opportunity for a franchisee. What do you do next? Continue on to the next page to read about the franchise application, interview and contract.