

WHY INVEST IN A FRANCHISE?

The decision to purchase a franchised business can be an exciting and rewarding decision.

There are many types of franchise businesses offering you new opportunity, independence, growth, challenge, a comfortable income, prestige and security. However, many important questions need to be answered, both by you and by the franchisor before you make a decision to buy.

There are over 8,000 franchise businesses being offered throughout the United States today. The right one for you will depend on many factors such as the franchise fee; start up costs of the business, your financial goals, available business locations, business hours and experience required.

One important thing to know is that franchising is almost a sure thing. Less than 4% of all franchises fail according to the U.S. Department of Commerce. That is amazing because the failure rate for non-franchise businesses is as high as 85%.

What kind of franchise do I buy?

There are two basic types of franchisor: the infant franchisor and the mature franchisor. Both have their advantages and disadvantages. Let's take the infant franchisor. The franchise fees and royalties are usually lower. Also, this franchisor may offer area development agreements which allow the franchisee to open multiple franchises within a defined territory. Area development agreements designate a specific number of franchises but additional units may be opened without additional franchise fees.

The more mature franchisor may only offer single franchises at a higher cost per unit. However, each franchise may have greater earning potential up front because of name recognition. A mature franchisor usually offers time tested training and well developed support systems to the new franchisee.

It is important to understand that a franchise is a contractual relationship.

Most people believe that a franchise consists of the concept or idea that is being offered, the brick and mortar business, the operations of the business and a variety of other things. However, when you purchase a franchise you are really buying a contractual agreement defining the relationship between you and the franchisor. This agreement may be binding for twenty years or more.

The value or worth of the franchise is determined by what is contained in the agreement. Too many buyers get caught up in the "sizzle" of the business and fail to understand the obligations they are committing to. Don't overlook the fact that you are buying an agreement that you must live up to for a long period of time..

The franchisor is required by the Federal Trade Commission (FTC) to furnish a potential buyer with a full disclosure document at the first personal meeting.

The disclosure will provide information about the franchisor and the franchise business. Included will be the business background of the franchisor; names of the officers, directors and key personnel; the initial fees and costs of getting into the business; obligations of both the franchisor and franchisee before and after the business is opened; terms and conditions of the franchise; a copy of the actual franchise agreement and many other important matters.

Never rely on verbal commitments or promises from a franchisor or franchise broker.

Study the agreement very carefully and understand what it says. Question anything you don't understand and ask for a written explanation. Don't rely on verbal interpretations or explanations. Protect yourself by getting everything in writing, especially promises, projections or commitments that are not in the franchise agreement. If it's not in writing, it won't stand up in court!

Ken Hollowell has enjoyed an amazing career as a franchise consultant, developer and marketer for the past 27 years. He has developed over 700 franchise businesses and assisted thousands of people in finding the right franchise opportunity. He's learned a great deal from both franchisor clients and franchise candidates and is available to share that knowledge with you.

To learn more about franchising, visit <http://www.nfsdev.com> or email him at kenhollowell@nfsdev.com

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