

Top 10 Questions to Ask Yourself Before Buying a Franchise?

Many people see money to be made from owning your own business. While this can be true, money and rewards come from hard work.

Of those who have the notion that a business brings you wealth, many people have the idea that in franchising a lot of money can be made with minimum effort. This is a serious misconception. As with any business, the person in a franchise system that works the hardest with the right goods and/or services, profits the most.

The advantages of franchising

The advantages of franchising to a franchisor include:

1. Payment of a sign on fee;
2. On-going franchise fees;
3. Larger advertising budget from the contribution of all of the franchisees' advertising contribution fees;
4. Reduction in middle management costs;
5. Savings from workers compensation, lease, employee salaries and over outlet operating costs; and
6. The benefit of the enthusiasm of the franchisees being owner operators receiving a profit on their efforts and not just being employees.

The advantages of franchising to a franchisee include:

1. Right to use an established and known trade mark;
2. Right to use the goodwill of the existing franchise operation;
3. Participate in increased buying power of a group;
4. Use a proven business system;
5. Receive training on manufacturing, preparation skills, accounting, business controls, marketing and merchandising and management;
6. Assistance in managing employee relations, setting of wage standards and employee training;
7. Access to initial and on-going market research from the franchisor and the fellow franchisees; and
8. The franchisee is an owner operator not an employee.

Two main reasons why franchises fail

Taking up a franchise on paper seems to have a lot of benefits and is suitable for anyone, but is it? The Final Report of the Beddall Franchising Task Force (December 1991), gave as two of the six main reasons for franchise system failures as:

- Poor Franchisee Selection; and

- Greed.

The Beddall Report concluded that one of the major weaknesses of franchising to date was poor franchise selection.

Another main cause of franchise failure was the greed of franchisors. Instead of franchisors seeing their income from a win – win with the franchisees, too often, franchisors see their income not from the long term receipt of royalties where the franchisor benefits from the growth and success of the franchisee, but greedily seeking excessive up-front fees or taking excessive on-going royalties, depriving Franchisees of working capital.

An ounce of protection is worth more than a pound of cure

Etienne Lawyers has 35 questions for you to consider before buying a franchise but the initial [Top Ten Questions](#) to ask yourself are:

1. Will your franchise be taking a considerable amount of your time away from your family?
2. If so, how do you feel about that?
3. Is your family enthused about the franchise?
4. Will you enjoy working with them if they will be employed in the franchise?
5. Have you the skills to manage and supervise employees?
6. Do you have the necessary capital resources for working capital?
7. Can your lifestyle accommodate you making financial sacrifices should the need arise?
8. Are you emotionally prepared to work long, hard hours?
9. Do you have the character traits or background to succeed in owning a business that is constrained by rules and systems not of your making?
10. How much do you want the business to reflect your own individuality?

As you can see most of the ten questions are about you. The reason for this is that empirical research reveals that those better suited to franchise ownership are ex-military, public servants and middle management personnel of large organizations. The reasoning behind this is that those people have succeeded in these backgrounds have the right traits of adhering to the operational guidelines of a franchise system whilst being able to introduce within those guidelines innovations and new ideas. A person who wants to have their business reflect them, true entrepreneurs, find succeeding in a franchise system difficult; if not impossible. Entrepreneurs' are the franchisors not the franchisees.

Don't rely on your own answers.

When considering a business venture, be it a franchise or not, don't be afraid to seek advice from a number of your family and friends to get their answers to the questions, to see if you are fit to buy and run a franchise or start your own business. If you need further assistance Etienne Lawyers can provide both legal and commercial advice on what you should do.

Our first phone consultation is Free, so pick up the phone and ask to speak with one of our skilled lawyers about your legal questions today 02 8845 2400