



Questions to Ask Before Buying A Franchise

by Robert Lerose

According to the International Franchise Association Educational Foundation, more than 750,000 franchise establishments were in operation in 2014. Although the growth rate of new franchises lags pre-recession levels, buying into an established business model continues to attract small business hopefuls. The rewards of working with a respected franchisor can range from selling a well-known product or service in a proven niche to reaping a respectable return on investment. But some future franchisees overlook the downsides, fail to do enough research, and discover too late that the move was not for them. Before venturing into this business opportunity, keep these questions and items in mind.

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Do your research

The key to making an informed decision about whether to buy a franchise begins with due diligence. After studying any company-supplied material, experts suggest that future franchisees befriend current franchise owners to get first-hand, and perhaps more candid, knowledge.

“I tell people to figure three months from the time they find something or by the time they decide they want to buy a franchise and they start searching to the time they actually get the franchise agreement sent to them,” says [Joel Libava](#), a Cleveland, Ohio-based franchise consultant and author of *Become A Franchise Owner!* In his book, Libava poses 40 questions that every future franchisee should ask current franchise owners, among them:

What do you wish you would have known now about being a franchise owner and about the franchise you purchased? Some franchise owners discovered that they had to spend more money on certain expenditures, such as marketing, or that they had to work longer hours per week to make the business successful—things that a franchisor would not likely reveal.

Were you aware of any competitors? The franchisor might provide some analysis, but it falls to the franchise owner to check out competitors. Libava says that a local branch of the Small Business Development Center can often provide competitive data.

What was the experience of unhappy franchise owners? Talking to those who left can tell a future franchisee whether the franchise was not a good fit or if the problem resided with the franchisor. “You also want to find out if there’s a pattern. Are you finding unhappy franchisees too easily?” Libava explains. “I want people to call 12 to 15 franchisees. If half of them are unhappy, there’s an issue.”

How good is the technology infrastructure of the franchisor and how safe is it? “The franchise industry was a little behind on online marketing. If you can find a franchisor that has technology in place and is not afraid to try something new, that is a really good sign,” he says.

Is the franchisor open to suggestions? While some franchisors are willing to listen to new ideas, Libava warns that franchisees should not go in expecting to change the ways things are done. “You’re buying a system that’s already in place,” he says. “Don’t waste your time or energy trying to come up with better ideas.”

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When can I expect to break even? Libava says to talk about money issues like this in the second or third conversation with a franchise owner and to approach it delicately. “Ask them: ‘I’m used to making \$150,000 a year. Can I make that in this franchise?’” he suggests. “That’s a great way to ask that question because you’re not asking the franchisee if they’re making that amount. You’re asking if you can.”

A franchise does not guarantee success, regardless of the name recognition of the franchisor. Entrepreneurs may even find that they can’t conform to the franchisor’s rules. “You have to be realistic in your expectations of how long it’ll take you to make money,” Libava says. “There is risk involved. The way to mitigate it is to do great research.”

Look for collaborators

Future franchisees need to evaluate a franchisor’s business plan and marketing system to get a sense of their profitability. It can be hard to get an accurate picture even with expert help, but talking to individual franchise owners can help.

“Go into the stores and look at how the operations are,” says Robert Purvin, CEO of the [American Association of Franchisees and Dealers](#), a Palm Desert, California-based nonprofit that advocates for fair franchise practices, and author of *The Franchise Fraud*. “Are the employees well-trained? Does there appear to be a well-thought out structure to the business?” Stores that are visually appealing and demonstrate good customer service are positive signs.

The financial goals of business owners will vary, Purvin says, making it hard to establish what a future franchisee can expect to make as a decent return on investment. He suggests that one reasonable standard would be a franchise that pays at least a manager’s salary to the owner/operator and a 10 percent to 15 percent return on his or her invested capital.

Another thing to look at is whether the franchisor operates company-owned stores and uses franchising as the “primary” method for distributing its products. “Franchisors that don’t have any skin in the game get an unrealistic idea of what it takes to operate a store,” Purvin explains. “They have a tendency to be unrealistic about what they require of the franchisee for remodels, inventory, and labor. You want your franchisor to experience the pain of running the retail outlet, but not to the extent that the franchise is competing with you.”



Justify the commitment

“Franchise due diligence is a lengthy and involved process dealing with the franchise disclosure documents, units in operations, units that have failed, the people behind the concept, and its overall success/failure rate,” says Adrienne Bibby, an analyst and principal at the [Bibby Group](#), an Orange Beach, Alabama-based franchising consultancy. “First-time buyers, which is the majority, must decide whether or not the purchase of a franchise can be justified in terms of potential success.”

Bibby says that future franchisees should not assume that a franchise is less risky than operating your own independent business, on both a financial and emotional level. “There is only one consideration,” she explains. “What are you getting in return for the fees [you have to pay], and how does the risk/reward pay off dollar-wise and psychically?”

Buying multiple units of a franchise is a common goal of franchisees, but Bibby warns against this, at least until the owner has a deep understanding of what it takes to run one location efficiently and profitably. Instead, franchisees should try to obtain a right of first refusal from the franchisor on additional units. This would allow the franchisee to avoid down payment fees to the franchisor on future locations.

Franchises should not be viewed as a golden ticket. However, with the proper due diligence and commitment, they can also turn out to be another path to business ownership, profitability, and fulfillment.

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