

10 Tips for Researching a Franchise Opportunity

By June Campbell

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A franchise operation can be an excellent investment for people dreaming of self-employment. Franchise opportunities fall into three basic categories: Product, Service and Wholesale Distribution. The franchise you select must be one that will maintain your interest through years to come. Not even a lucrative franchise opportunity will work for you if you find the business dull or boring. However, like all business opportunities, there are risks involved. You'll minimize the risks by doing your homework before you sign on the dotted line.

2. Conduct Preliminary Research

Ask the franchise company to send you brochures, pamphlets and videos, if possible. Then, locate the nearest two or three franchise operations and visit each. Talk with the franchise holder, the employees and the customers to get their reaction to the product or service. Hint: Ask the franchisee if he or she would purchase the same franchise again.

3. Study Company Documents

US franchisors are required by law to provide you with documents offering full disclosure of the franchise opportunity. (Laws may differ in other countries). These documents could be called the Offering Prospectus (OP), the Disclosure Document or the Franchise Offering Circular. These papers provide you with a wide range of information about the franchisor. Look for a company that is three years old or more. Senior executives should have positive business experience in the franchise field and have a good record regarding previous litigation and bankruptcies.

4. Consult with Business Professionals

Take the OP, the Disclosure Document, and the franchise contract to an accountant, attorney, management consultant or other business professional for analyses of the financial and legal aspects.

5. Learn the Franchisor's Policy Regarding Territory Protection

You'll want to know the franchisor's policy regarding the number of franchise units they'll establish within a geographic area. Do you have a protected territory? You don't want to discover that the company has established a similar unit across the street from your operation. Additionally, some franchisors also open and operate company owned stores as well as the franchise outlets. What's their policy regarding company stores?

6. What Fees Must You Pay?

Expect to pay an initial franchise fee (often non-refundable), as well as fees for startup expenses, inventory, licensing, insurance, and a "grand opening fee" for initial promotion. Anticipate annual expenses such as royalty fees and marketing fees. Find out what portion of your advertising fees goes to your own outlet and what portion goes to national advertising. Hint: Ask about hidden fees.

7. When Will You Break Even?

Based on your investment and the breakeven analyses in the OP, how long before you reach the breakeven point and start making a return on your investment? Do you have financial strategies that will allow you and your business to survive until the breakeven point? What sort of profits might you reasonably expect to make? Franchisors are not required by US law to offer profit projections to their franchisees. However, if they do, they are required to base their projections on concrete research.

8. How are Conflicts Resolved?

Is there a Conflict Resolution Policy in place? What do other franchisee's say about the company's approach to addressing conflicts? Under what circumstances can the company terminate your contract? If your contract is terminated, will you lose your investment? When will the contract be up for renewal? Hint: Franchise contracts that are renewed do not necessarily keep the same terms as the original contract. Terms could be less favorable.

9. Will the Franchisor's Advertising Campaign Benefit You?

You are required to pay a fee towards the franchisor's advertising campaign. Find out the extent to which this campaign will benefit your outlet. Do you have any control over how the advertising dollars are spent? Can you conduct your own advertising? Do you need permission to do so? Do franchisees benefit from any commissions or rebates that the franchisor receives?

10. What's the History of Failed Outlets?

Before investing, find out the number of outlets that have failed. High numbers could indicate systemic problems. Be aware that some franchisors will disguise failed outlets by turning them into company-owned stores. If you are purchasing an existing outlet, be sure to find how many previous operators have operated the service and why they left. Hint: Conduct interviews with people who have recently left or joined the franchise. Be sure to ask if the franchise company is delivering the promised supports and services.

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