

FRANCHISES

Starting up any new business can be extremely risky. Roughly two-thirds of all new businesses fail within the first five years. However, the statistics for franchised businesses are much more palatable. The International Franchise Association estimates that ninety percent of franchised businesses succeed. That is why franchising has become the business phenomenon of the last twenty-five years.

So why are franchises succeeding where other marketing concepts are failing? The answer can be found in the important advantages it offers to the investor.

When you buy a franchise you are essentially buying an idea that has already been successfully tried out and refined by someone else. The franchiser has already identified a need of society and moved to fill it. They have established accounting, marketing, advertising and production systems and have tested these systems in the marketplace. In short, they have taken much of the guesswork and much of the trial and error out of the equation.

Of course, buying a franchise is not a guarantee of success as it is still quite easy to fail. There are, after all, good franchises and bad ones, overpriced franchises and bargains. Some franchises may be inappropriate for your market although they are extremely successful elsewhere (a sailboat dealership in Moose Jaw springs to mind). It is still up to you to do the homework, make the analysis and decide. A few sensible inquiries early on, however, can still save a lot of unhappiness down the road.

When conducting your research the first thing you should do is to study the franchise agreement thoroughly. Check such things as transferability, expiry, renewal, charges and support from the franchiser. Determine if equipment is owned or leased. Check leases.

If you do get involved in the franchise you will eventually become so familiar with the agreement that you will be able to quote chapter and verse and be able to recount long passages of it from memory. Might as well figure it out before you make the plunge that after.

Probably the best advice to anyone about to plunge head first into the business world, however, is to get a good lawyer and a good accountant. Consult these professionals and get their advice before you make the big leap. They are usually much better at keeping you out of trouble than getting you out. It is usually much cheaper in the long run, too.

As with most businesses, however, the real proof is still in the numbers. You must make a thorough financial examination of the scheme before you commit to it. You must analyze financial statements (focus on cash flow), examine the staff lists, check tax returns and depreciation schedules, check the inventory and review the receivables and payables.

If you don't have a firm grasp on the monetary aspects, you are probably doomed to either failure or minimal success. If you do succeed while remaining ignorant of the finances, such success will probably come in spite of your business acumen rather than because of it.

The last (but by no means the least) thing to consider when making your decisions is your relationship with the franchiser. You are going to have a very close and ongoing relationship that will be vital to your business. You should know in advance if there are likely to be problems.

You should know, for example, how many franchises are operated directly by the franchiser and how successful they are. You should know how many have failed and why. You should know how many franchises have been bought back from the franchisers and for how much. Finally, you should talk to some, if not all, of the other franchisees. They are the best sources of information about the very position in which you plan to find yourself.

Remember, there are no guarantees in the business world, there are only differing degrees of risk. There will never, however, be any substitute for hard work, thorough research, good professional advice and common sense.