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What You Must Know About Franchising

Are you ready for franchise ownership? Our expert gives you an inside look

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Maybe you've thought it would be fun to own a business where you're building a household-name empire, running a restaurant or dealing with the latest developments in technology. But what is it *really* like to buy a big-name franchise, a restaurant franchise, even a tech franchise? We asked franchise consultant Jeff Elgin to reveal exactly what you need to know about buying...

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A Big-Name Franchise

Most people equate franchising with ubiquitous mega-systems: the large fast-food franchises like McDonald's or Subway, hotel operators like Hilton, or other business-format franchises like 7-Eleven or ServiceMaster. These systems are big—really big—and they have advantages and disadvantages as franchise opportunities.

When you buy a franchise, you hope to receive at least two things: a valuable brand and a proven operating system. The primary advantage of big franchise companies is that both of these are basically set in place. You can research consumer awareness and attitudes about the brand simply by asking around. And you can determine the franchise's track record pretty easily by visiting its numerous franchisees who have been operating for a long time.

Another advantage is that large franchise systems can offer you safety and dependability. The risk of starting in a big franchise system is usually lower, because all the kinks in its system have long since been worked out. This doesn't mean you are guaranteed to succeed, but there's more certainty due to the wealth of information available about the current system and its operators.

Mega franchise systems can have disadvantages, too. Many large systems have already

built so many units that getting approved to open a new unit as a new franchisee can be difficult. These systems tend to favor successful current operators for new unit expansion opportunities, because this approach is less risky than taking a chance on a new, unproven operator.

Often, you can enter a large system as a new franchisee by purchasing one or more existing units. This can actually be an advantage, since it allows you to review the operational and financial performance of the unit or units before you decide to buy them. Buying an existing business with profitable operations can be a major advantage over building a new business from scratch, since you avoid the losses associated with the initial startup process. As long as you make sure you're getting a good unit and not buying someone else's troubles, it can be a great opportunity.

Another advantage of big systems is that the professionalism and expertise of the support staff, the supply chain and virtually every other system component is often far greater than what you can reasonably expect to find in a smaller, newer franchise system. This should allow you to avoid mistakes and potentially realize comparatively lower operating costs.

One possible disadvantage is that the larger a franchise system becomes, the more rules it has governing the conduct of existing franchisees. A large franchise system has determined and documented *exactly* how it wants the business to be run in every respect—from layout to operations to marketing. It's not looking for innovators to reinvent the wheel—it's looking for operators to execute its proven systems.

The really big franchise systems receive thousands of inquiries from prospective franchisees every month, and they don't have room to accommodate most of them. You may need to communicate your qualifications more aggressively to get a big franchisor's attention and for it to consider you as a potential franchisee. Whatever the challenges, the prize may be well worth going through the process.

Every franchise is seeking franchisees with the talent and capital to make their business a success. Whether big or small, most franchise companies care deeply about the success of all their franchisees. You can find just as much heart in a big company as in a smaller one. Take the time to look into a number of alternatives when you're contemplating franchise opportunities of any size and you're sure to find the right one to maximize your chances

for success.

A Restaurant Franchise

Owning a restaurant is the dream of many, and there are some wonderful advantages that come with owning a food business—but there are also many challenges you need to be aware of before proceeding.

In assessing a food business, the main advantages to keep in mind are:

- **Built-in Demand:** Consumers have been trained to look for franchise food outlets, which is a big advantage for a startup. You need to make sure the food franchise's product offering has staying power in the marketplace and is not a fad or fringe product.
- **Ease in Financing:** Traditional lending sources are very familiar with the real estate and equipment needs of a prepared-food operation, which may ease the challenge of obtaining startup financing. These sources also like the relatively high revenue produced by typical food franchises.
- **Track Record of Success:** Many food franchises have multiple units and have been operating for a while, which makes it fairly simple to determine and verify their track records of success. This can help you make a well-informed decision about a franchise opportunity before getting involved.
- **Prestige:** Whether valid or not, many people associate a high degree of glamour with a person who owns a food franchise. The status associated with this occupation is important to many prospective franchisees.

The main disadvantages include:

High Initial Investment: Most food franchises require a significant investment to get started. Food preparation stations, sinks, stoves, ovens, grease disposal systems, venting requirements, customer seating, restrooms—the list goes on.

Zoning and Code Compliance: The government goes to great lengths to ensure that all food businesses meet numerous codes and guidelines so their food products are safe for the public to consume. Complying with these regulations, initially and on an ongoing basis, is time consuming and expensive. Virtually any food franchisor will provide

extensive assistance to a new franchisee in terms of dealing with zoning, permits, code compliance and all other site-related issues. If a food franchisor doesn't offer extensive support on these matters, pick a different one.

Labor Challenges: To operate, most food businesses require the services of a significant number of low-paid employees. Turnover for these positions is usually high, and recruiting and retaining a sufficient number of acceptable, qualified employees is typically listed as the number-one challenge for any food franchise.

Relatively Low Margins: In food operations, you have both the cost of goods sold and labor costs to contend with in an environment that's very price sensitive, especially for fast-food outlets. Despite high revenue, the net margins of most food businesses aren't nearly as high as other franchises (particularly service-related ones), and you're also dealing with spoilage, theft and other issues you don't find in many other types of franchise businesses.

Quality of Life: As mentioned before, many people equate owning a food business with high status, at least until they understand a typical food franchisee's lifestyle. The hours can be very long, as you're often the first to arrive and the last to go home. The labor challenges are the main reason owners cite for wanting to leave this industry. Then there's also the issue of what you smell like after spending long hours each day in a food franchise.

How do you know whether you have the skills and aptitude necessary to succeed in food franchising? The best answer, and one actually required by a few of the most successful food franchisors, is to work in an existing unit and shadow the present owner until you've gained enough experience to know for sure. This isn't going to be a process that takes an hour or two of your time; more likely, it will take at least a few weeks to know for sure. The time commitment may seem lengthy, but it's infinitely better for you to find out early—and without risking your life savings—if this business is not for you.

Tech franchises have been set up to support the needs of the many technologically incompetent businesspeople and consumers. They've got the resources to pay for assistance, and when they get stuck, they just want to be able to call someone who will make things better.

There are three basic types of tech-based franchises—educational, creative and troubleshooting. The key attributes of each include:

- **Educational:** As a means of combating ignorance about tech matters, these franchises provide people with a technical education. They usually focus on the software side of tech by teaching people how to use various common programs more competently and effectively. These programs can be as basic as Microsoft Word or e-mail, or they may be other popular programs like Photoshop. For some of these franchises, children are their primary market. The franchise operation may offer classes or one-on-one instruction, depending on the needs of the customer. The intent of these franchise companies is to educate people to the point where their fear or frustration is replaced with confidence and wonder at what computer programs are capable of producing for anyone with the knowledge to use them properly.
- **Creative:** Rather than trying to educate customers, these franchises are simply going to do the work customers need done. The most common variant of this approach involves the creation of websites and other web-based services that most companies need in today's marketplace. These franchises can serve a small company by setting up its websites, e-mail and other back-office systems needed to get ready for e-commerce, all for one set fee. The customer doesn't need or care to know how all this work is done—only that it is done correctly and works effectively.
- **Troubleshooting:** These franchises fix technology. Whether the problem is hardware- or software-related, they'll fix it for one low price. Most of these companies have a small, fixed location where customers can bring their computers to be repaired, or staff will go to customers by request for an extra charge. A majority of the issues these franchises deal with are incredibly quick and easy to solve for someone with broad expertise about computers—but impossible to fix for tech-illiterate folk.

One of the neatest parts about the opportunity of owning a tech franchise—and the reason this area is such a great metaphor for franchising in general—is that you don't need to be any more tech savvy than the average person to be successful with many of them. The franchise companies aren't looking for a "geek" to be a franchisee—quite the contrary, they are looking for a businessperson who can hire geeks to do the work.

Your role as a franchisee in most tech franchises is centered on marketing and selling the services the business offers. In a nutshell, the franchisee drives the customers to the geeks

who do the work. These companies don't want you pulling motherboards from computers or running virus scans—they want you out finding people who can become valuable customers.

In some cases—particularly in the creative category—the franchise company itself has set up the infrastructure to deliver the completed product to the customer. In that situation, you don't even have to set up a shop or hire any geeks—you simply go out and get the orders, which the franchise company then fulfills for you.

With some of the educational types of franchises, you will become knowledgeable enough to be able to teach classes or tutor customers in specific types of programs. These franchises are often appealing to people who want to be more hands-on in their businesses, though the main franchisee role usually still revolves around marketing or selling business services.

The best aspect of tech franchises is that the need isn't going anywhere. This doesn't mean these tech franchises are a guaranteed ticket to success—just that the opportunity underlying them will continue to grow.

A number of tech franchises have had problems when they got franchisees who didn't understand their role and thought technical knowledge was the key to success, which is almost never the case. But if you're careful and thorough in your research, you will come away with a good idea of the role of the franchisee and what the keys to success are in the franchise, and then you're set to make an informed decision about whether or not these business opportunities are right for you.

—*By Jeff Elgin*

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