



# Franchise Myth Busting!



**Franchising, like any industry, has a lot of clichés...  
Do you know which are facts and which are fiction?**

If you are doing research on the franchise industry as a whole or even on one particular franchise company, you will probably run across a number of phrases that are repeated over and over. Are these just clichés, basically without merit, notable only because they are used so frequently? Or are the clichés used so frequently because they are true? Here's our take on franchising clichés – fact or fiction?

## **In franchising you are in business for yourself but not by yourself**

One of the most popular phrases used in recruiting new franchisees, this statement, depending on the franchisor, is true. A franchise is a business you own and the more profitable you make your business, the more money you will earn for yourself. You won't own the logo or the brand and you will be required to follow the franchisor's rules. However, it is your business and you will have the franchisor's help.

The franchisor provides a model and business plan to follow and most franchisors provide initial training and ongoing support. Another benefit of franchising is that you will have a peer group of other franchisees to go to for advice. In that respect, you are definitely not alone. Since the success of the overall franchise depends on the success of the individual franchisees, you should expect a wealth of help and support from a good franchise company.

## **You don't have to reinvent the wheel**

Franchising is all about developing a company with a successful system and then finding a way to replicate the results. When you are a franchisee, you really don't have to start from scratch or reinvent the wheel because the experimentation is usually completed before the company offers franchises. It may sound clichéd but it is absolutely true – why spend years and years developing a product or service, creating brand awareness, finding a customer base and refining a marketing plan when someone else has done it for you?

## **No industry experience is needed; we will train you**

This is another statement franchisors make that is more or less true. Most franchisors are not looking for franchisees with experience in a particular industry. Instead, they want people with good business acumen,

networking and marketing skills, and sales experience – or the potential to be very savvy in these areas. That's why owning a franchise is often a great choice for someone choosing a second career, someone who has been downsized, or who is burned out in a current career. Franchising is an ideal business for people looking for a way to use their skills and build wealth for themselves instead of for others.

## **Be an entrepreneur**

We'd call this statement a bit misleading. A dictionary definition of an entrepreneur is a "person who organizes and manages any enterprise, esp. a business, usually with considerable initiative and risk," and that's not the typical franchisee. A franchisee will manage and organize his business but the whole point of a franchise is that you limit your risks by using a system that has already been proven. Also, a considerable amount of initiative is not required because, as we said earlier, you don't need to reinvent the wheel!



### **When you own your own business, you control the hours you work**

Let's get real here. Owning a business requires hard work. In the majority of franchises, the franchisees work long and hard to get their new businesses up and running. The long vacations and extra time with family may come eventually, but to be realistic, new franchisees should expect to put in a lot of overtime, at least for the first year or two.

### **If you buy a franchise, you'll make a lot of money**

Sorry, but there are no guarantees. On the one hand, you will be working to build a profitable business for yourself and that's a great motivation. You also get to choose the business you become a franchisee of and if money is important, that's what you'll look for. But other factors, such as the location of your business, the time you have to invest, your skill at hiring and retaining employees, and even the changes in the marketplace will have an impact on your business and therefore your income. You won't have the guarantee of success but you will have the potential to be successful.

### **You don't need money to buy a franchise**

Although some people have the impression that franchise companies just give away their businesses to anyone who wants one, this is definitely false. You do need money to buy a franchise. Franchisors require an initial franchise fee and may also require you to sign a building lease and pay for the build-out, signage, inventory, marketing materials, and employee expenses – all before you open your doors to the public! You'll need living expenses for yourself, payroll, and operating expenses for the period of time until your business starts making a profit and that can take from several months to several years. Most franchisors require you to contribute to a national marketing fund and don't forget that franchisors make their money not on the franchise fee (which generally doesn't even cover the expenses they have in training you) but on the royalties they collect (not you) but on the royalties they collect.

The need to be adequately financed cannot be overstated and under-financing is often the reason for failure of a franchise unit. A prospective franchisee doesn't need to have a gigantic sack of gold at his disposal but will need, depending on the system he wants to join, a minimum of \$20,000 in cash and the ability to come up with another \$100K or more in loans, either from home-equity, from family members or partners, or by borrowing from their retirement funds. These amounts are generally the bare minimum required for a franchise and a good number of businesses require substantially more.

### **Because of the franchisor's system, anyone can be successful as a franchisee**

Most franchisors will tell you that anyone who follows their system can be successful. Unfortunately, this isn't always true. While a franchisor's system may work well in some areas, it may not work as well in your location. However, the real key to this statement is to ask yourself if you are someone who can follow a system you didn't develop. Let's face it – some people will read and follow instructions when putting together the IKEA bookshelves and some just "wing it." In life, there are advantages to each approach but in franchising, the person who reads and follows the directions usually wins.

There's no question that franchising is a great system for delivering a product or service to many people with predictable results and at a fair price. Franchising is also a great way for someone to be in business for herself but to also have the support of a larger system that is invested in her success. That explains why one in every 12 businesses operating in the U.S. today is a franchise.

But before you invest in your dream business make sure your expectations for being a franchisee are realistic – particularly in terms of the time and money you'll require as you start your business and for the results you'll expect down the road.

