10 Things You Must Do Before Investing in a Franchise



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Think of a franchise as a business-in-a-box. Franchisors provide their franchisees with all of the items and equipment necessary to start a business — branding, marketing ideas, sales and marketing training and field consulting. That said, franchisees must do research and ask the right questions before making the long-term and legally binding commitment of becoming a franchise owner.

The Federal Trade Commission requires that all potential franchise owners to wait 14 days before any money passes hands. This gives you time to do due diligence and review the franchise documents with the consultation of a legal

professional. After working in the franchise industry for 13 years both as a franchisee and as a franchisor, I've found that taking the time to asses your ability to handle a franchise leads to success for both the first-time franchise owner and the franchisor.

1. Assess your own skill set

First and foremost, you need to assess your own skill set and be honest about it. Sit down and list all of your previous jobs, positions, and responsibilities. List your strengths and weaknesses, likes and dislikes, relevant points from past evaluations, and transferable skills.

You are going to be the boss – initially, at least. You will be managing, mentoring, and evaluating people and will be required to make managerial decisions. Have you had the experience of firing people? Is that something you are able to do with professionalism and compassion? If your soft-skill set is lacking, can you break out of your comfort zone to get it up to speed with training and development?

2. Articulate your passion

The first question many people have about any business opportunity is, "How much money am I going to make?" It's a reasonable question, but it's not the *right* question. Instead, you should ask yourself, "Am I going to enjoy the business and get along with employees?" You should be able to identify what makes you personally and professionally happy, and the business should align with your personal beliefs and values. I've owned franchises that made good money, but I didn't enjoy them because I didn't see eye-to-eye with the management team. Your philosophy should resonate with the parent company's philosophy.

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3. Calculate your investment level

How much are you looking to invest? You need to be comfortable making an investment that requires a significant amount of liquid capital. If you are stretched thin to the point of being uncomfortable, then you're going to make decisions that aren't best for the business. If you're thinking with your wallet and how much money you have, you won't be thinking with the creative and passionate part of your mind that should be the heart of your business. Understand all of the fees involved with establishing your first franchise and have enough capital to cover them.

When buying a franchise, be aware that you'll need to pay a franchise fee, which provides you with your license and the key to open the door to all of the business's operating systems, earned wisdom and branding. The brand is a known entity with a built-in following, and paying the franchise fee gives your business automatic credibility. Also, factor in franchise-specific fees, like royalties, when creating your business plan and pro forma.

4. Evaluate your long-term personal plan

If you don't have a long-term personal plan, laying out one before you think about entering a franchise commitment is imperative. Entering into a franchise contract is a marriage, complete with all the joys, rewards, headaches and heartaches. Franchise agreements last anywhere from 5-25 years, with an average of 10 years.

You should have an idea of when you want to retire, if you do. If you have a family, will you downsize? When? Do you see yourself living where you are now? Do you want to travel? What is your 5-10 year plan, and does owning a franchise give you

the flexibility to meet your personal goals?

5. Determine your role: owner-operator, semi-absentee owner or absentee owner

There are some businesses that say you're going to have to be an owner-operator. Other businesses may claim you can just buy a franchise, and it will run on its own. Neither is completely true: Your role in the business is more of a process, and you have the power to choose how that process flows. Personally, I don't believe there is any such thing as a passive business unless you have an operating partner.

Running a business isn't like buying stock – you don't purchase it and wait for it to earn money. When I bought my first franchise, I was an owner-operator, but I wanted to spend more time with my family, so I became a semi-absentee owner. Finally, I hired the right people, handed the day-to-day operations off to them, and became an absentee owner. I was very hands-off at that point, but I never could've begun that way. You have to spend some time getting to know the business, understanding it and gaining the acumen to make the right hiring decisions for people you trust.

6. Identify the brand that best suits your passion and wallet

According to a 2019 Statista report, there were 773,000 franchises in the United States, and franchise consultant Mark Siebert predicts that 2021 is going to be a banner year for franchise growth. There's a lot to choose from, and the start-up fees vary wildly. Budget Blinds LLC can cost anywhere from $125K to $245K, while a Wyndham Gardens franchise begins at $447K and can go as high as $14.4M.

If you can’t see yourself working in window blinds or hotels, there are thousands of other businesses in dozens of other areas to choose from – from restaurants to real estate companies to fitness centers to salons to hardware stores. It all comes down to what you love and what you can afford.

7. Consult your inner circle

Be it a family member, significant other, confidante, business consultant, or lawyer, someone in your inner circle is going to raise a point that you hadn’t considered before, and it’s worth the conversation. You’re going to be laying out a significant amount of time and capital, and your personal life is going to change just as much as your professional life.

For those with partners or families, this could be an issue. For the mental health of all, talk about how those changes can impact your relationships. Even those without partners or families will have additional responsibilities once they become a franchisee, and the work-life balance will need adjustment.

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8. Talk to current and former franchise owners

This point might seem like common sense, but not everyone seeks out current and former franchise owners who have worked with the business through good and bad times. You should talk to franchisees who own businesses that interest you, and the easiest way to do that is to just visit the business and ask to speak to the owner. They can tell you about the management team, training, franchise fees and other things you probably haven’t even thought about.

On the flip side, talking to people who have been unhappy in

their experience can provide you with pitfalls to avoid. But be judicious in your listening and take the overly optimistic and overly pessimistic owners with a grain of salt. There is no business that is problem-free, just as there is no business that is completely rotten.

9. Meet the management team

After you've found a business that you're passionate about, is within your budget and one you've researched well, it's time to talk to people in the company, see what their processes are, how they're organized and how they're going to support you and get your business off the ground – because that's why you're paying for a franchise in the first place.

Make sure you have ongoing support. If you click with someone in the management side and with a team that's there, you're primed to have a successful business. You're going to run into bumps, no matter what anyone says. I haven't met a single person who has said they've had a smooth ride with the business they've owned. So when you ride those bumps, make sure that people on both sides have the same goals. You want the right team who shares the right business concepts.

10. Develop your exit strategy

While it may seem counterintuitive to plan your leaving before you even begin, developing your exit strategy is both a part of your long-term personal plan and an important component of your overall business strategy. Even at the beginning, you should know your end goal for the franchise. You may want to grow your business and clientele to a certain point, then sell, or pass on your business to your children, grandchildren or other family members.

How easy is it going to be to exit? This is a question you should ask the management team when you meet with them. You

want to make sure that your exit, regardless of whether you're choosing to sell your franchise or pass it on, is just as thought out as your entrance into the franchise world.

I've found franchising to be the ideal work environment for me. Though I've hit rough spots myself, using this roadmap has helped me stay on course, and ultimately thrive.

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