4 Mistakes That Will Sink Your Franchise Dreams



Avoid killing your own franchise in the first year by avoiding these common mistakes.

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Franchising allows entrepreneurs to run a company without starting from scratch. But just because a business already has a brand and established processes doesn’t mean it’s easy to run one.

Subway might be an international restaurant powerhouse, but even franchisees of this mega brand are struggling. *Business Insider* reports that a growing segment of franchisees take issue with how the company operates, and some insist the problems won’t be fixed until new leadership takes over.

Franchises are not the easy way out. When you enter a franchise relationship, you must prepare to run a real business.

Anything, in fact, can happen during the time between when you secure financing and you open your doors to the public. So before you kick back and enjoy your life as a successful business owner, learn about common franchise mistakes and how to avoid them.

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Avoid the biggest franchise blunders.

Never assume a franchise is a sure bet. Owning and operating any business is hard work, and turning a profit takes both effort and time. The franchise structure does provide a head start, but without proper follow-through, that extra help isn't worth much.

Buying a franchise doesn't include classes on how to be a business owner. You don't learn how to manage finances, file taxes or understand your balance sheet without personal effort. Franchises also don't remove the personal responsibility of running the day-to-day operations of the business.

To ensure your franchise succeeds, take nothing for granted. Watch out for these four common mistakes and learn how to avoid them:

1. Don't rely on your instincts. You could go with your gut and learn on the fly, but you will probably make some unnecessary mistakes along the way – some of which could bring disastrous consequences. Rather than make it up as you go, shadow existing franchisees and do as much independent

research as possible to establish a basis of knowledge that you can rely on in tough times.

According to The Balance's guide to franchise failure, even franchises that appear to have great sales and few failures just might have great recruitment teams. Don't rely on the franchise to cover gaps in your business experience. Instead, learn everything you can about franchise life before you begin.

R**elated: New Report Reinforces How Risky Franchising Can Really Be**

Make friends with other franchisees in the region, and ask what they wish they'd done differently. Keep in touch with these new friends to probe for knowledge as you go. Keep tabs on the corporate players, too: A franchise with a long trail of lawsuits and disgruntled franchisees probably isn't right for you.

2. Keep a six-figure bank balance before you open. The larger the franchise investment, the greater your chances are for significant income in the future. If you don't secure adequate funding before opening your doors, you'll not only struggle to endure hard times, you'll also fail to take advantage of short windows of opportunity.

Most banks require a personal guarantee on their loans if you own more than 20 percent of the business. Thus, the larger the loan, the greater your exposure. Franchises typically take a few months of steep budget shortfalls before they begin to profit, so you need a cushion of capital to withstand the bumps and false starts of early franchise life.

Consider getting a guaranteed loan through the Small Business Administration to open your business. These loans allow the originating bank to have exposure on 25 percent of the loan's principal, while the SBA takes on the other 75 percent. That comes with some significant underwriting and guarantee

requirements (typically 30 percent cash equity and origination fees of at least 3 percent), but the advantages are worth it.

3. Never settle for a bad location. The same guide from The Balance cites poor site selection as one of the most common pre-opening decisions that can doom a franchise. In a competitive market, modern franchises require locations that allow for organic exposure and easy access. No more industrial parks: Today's franchisees need retail visibility, even when that comes with higher rent.

Picking the right site takes time. Visit potential locations in person on different days at different hours. How does the traffic look? Would this spot be accessible and visible or hidden away? If the right location would take more time to secure, talk to the franchise office for assistance or a time extension. That extra time in the beginning could make the difference between long-term success and early failure.

I know one pizza brand franchisee who owns 11 locations, and each cost him around $250,000 to open. Most locations do well (and he's moved to own the property in many cases), but others have suffered and he's had to move them. He sees EBITDA (earnings before interest, taxes, depreciation and amortization) around 30 percent on annual sales of more than $2.5 million at this point — not bad at all. If he had settled for bad locations, those numbers would be much lower.

Another franchisee experienced quite a different scenario: He opened an ice cream chain in an Orthodox Jewish community. It suffered greatly because the owner failed to communicate one pivotal piece of information highly relevant to the community he chose to operate in: The ice cream was kosher. Had the franchise posted signage that promoted its kosher-friendly cream, it would have likely succeeded. Yet another lesson: Cater to the community that lives in the location you've chosen for better results.

4. Remember: You're part of a franchise group. The worst mistake a new franchise owner can make is ignoring the proven procedures outlined by the franchise. If you don't take program and processes seriously, you'll greatly limit your chances for success.

The franchise has a brand and a reputation to protect. You are a business owner, but you are also following a carefully crafted plan. The corporate office has more control over your destiny than you think, and the more you deviate from the prescribed strategies for operations, marketing, training and service, the more likely you will be to encounter trouble.

Read the franchise disclosure document carefully, and then read it again. Learn about franchisee failures, sample financials, typical operating costs and sample franchise agreements. Read the operations and marketing manuals. Understand what the franchise expects from you so you can meet those expectations quickly and fully.

In my experience, the smartest franchisees consult a franchise attorney to review their agreements before signing. Most agreements give all the power to the franchise, and while these are difficult to change, individual circumstances sometimes justify modifications.

Related: What I've Learned Owning More than 100 Franchised Restaurants

Small business success is never a sure thing, even for a franchise. Only entrepreneurs who take the right risks, hire the right people and avoid falling prey to big mistakes can survive. The better informed you are (and the more seriously you take your commitment to the business), the better your odds of franchise success.

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