Buying a Franchise Post-Pandemic

April 17, 2020 7 min read

Opinions expressed by *Entrepreneur* contributors are their own.

Many great franchises are struggling. The problem isn't their business model; it's the current pandemic conditions. Companies not providing essential services are shut down. Some that remain open aren't profitable. These circumstances are temporary, but for many franchisees, the aftermath will be permanent. Some won't survive. So what happens to those businesses when the quarantine ends?

The economy needs commerce, and workers need jobs. Franchise ownership is a big part of that. As an industry that typically employs more than nine million people in the U.S. alone, we need franchise businesses up and running as quickly as possible.

It's reasonable to expect franchising will be entering a buyer's market. Those with the financial means will find opportunities abound. In some cases, they'll come from franchisors eager to jumpstart expansion. It's also likely there'll be many franchise locations that couldn't endure the prolonged stoppage. You may be able to quickly acquire a business that just needs someone to switch on the lights.

If you're now contemplating a move into franchising, here are a few thoughts that may be of help.

Related: Fight for Your Franchise Challenge

Consider what you’re leaving

Are you quitting another job to buy this franchise? How did that job provide for you during the quarantine? What benefits are you leaving behind? You may have lost your job or hate the one you have, but are you sure a different job isn’t a better solution for you? Just because you want something new doesn’t mean business ownership is the right choice.

Keep a cool head

Even if the pandemic hasn’t impacted your body, it may have impacted your psyche. Many people are making emotionally driven decisions they’ll regret. Be very deliberate about your plans. Stay objective. Don’t buy a franchise to make yourself feel better. Buy it because it’s a smart decision made with logic and clarity.

Carefully evaluate the franchisor

In addition to all of the franchisor factors you’d consider during normal times, now’s a chance to see how they handle adversity. How did they endure the quarantine? Are they financially stable? What did they do to help franchisees through the crisis? Other franchisees can answer that question. Don’t sign a franchise agreement unless these are people you’d want to partner with in sickness as well as in health.

Ask the franchisor about resales

Taking over an existing location gets you up and running more quickly than starting from scratch. You also have more data to look at when evaluating the opportunity. They’ll know who’s selling. There may also be some recently closed locations they’re eager to reopen.

Evaluate resale opportunities carefully

Just because it’s available doesn’t mean you should move on it. It’s being sold for a reason. What were its numbers before the pandemic? Was it profitable? Was it growing? Can you bring something new to the business? Don’t let a low price tempt you into buying an unsalvageable sinking ship.

Carefully evaluate the new-franchise agreement

If you’re buying an existing location, you may be assuming the agreement your buyer signed or be asked to sign a fresh agreement with different terms. Look at what you’re agreeing to, and make sure you’re OK running the business as required.

Negotiate from a place of kindness, not power

Now is not the time to exploit a distressed owner. Karma is real is franchising. You can get favorable terms without having to “win.” Create a deal that makes everyone happy.

Ask for an installment sale

Even if you can’t get a bank loan, it’s likely many franchise owners wishing to exit would be willing to let you pay them directly over time. Seller financing is very common. You can probably offer the seller more money than they’d get from a traditional sale (since they’re giving you time and taking more risk), but with payment terms that are better for you. Be sure to consult an attorney.

Consider hiring the previous owner

While you wouldn’t want to employ someone who didn’t run the business well, it’s possible they’re good leaders who are selling for financial reasons. They may be grateful for a regular paycheck doing work they already know. And if it’s an installment sale, they may be happy to ensure the business remains stable. You might even make their employment part of the purchase agreement. Consider all of the social dynamics, however, to ensure you’ll be able to collaborate without any tension or power struggles.

Related: Franchise Basics

Talk to the landlord

If you’re considering a retail opportunity or something with office space, be sure the landlord will work with you. Some may be relieved to keep the space occupied and offer good terms. Some may expect higher rent. You also want to make sure you have an option to extend/renew the lease. Clarify what these terms will be prior to making a deal with the buyer. And now that pandemics are no longer theoretical, take an extra close look at (or have your attorney review) the force majeure clause.

Line up great employees

After years of struggling to find good, available team members, employers now have access to a large talent pool. An existing business may come with its current management and employees. That may or may not be good. Check out their online customer reviews to get a sense of how they’re doing. With so many good people needing work, there’s no need for you to settle. Look for great people and lock them up. Opening a new business is easier when you surround yourself with all-stars.

Save up as much cash as possible

These days cash is king. No one knows if and when we'll have to return home for another quarantine. We also don't know how people will be spending their money during the economic recovery. Financially plan for the worst. You need to spend money to buy a business. You need to save money to buy time.

Prepare for another pandemic

If you're buying a business that didn't outlast the shutdown, what will you do differently if there's a second wave? How will you keep the bills paid? How will you take care of employees? In what ways can you serve customers and generate revenue that weren't happening before? These are questions we should also be asking as we get back into business.

Make sure you have the stomach to run a franchise

This isn't for everyone. There's a lot of uncertainty. There's tremendous responsibility. There's always work, but not always profit. Many people love the experience. Know what you're getting into before you push the button.

Good opportunities can be found in any economy. Buying a franchise when the pandemic ends may very well be one. Just make sure you do your homework, and be prepared for anything.

https://www.entrepreneur.com/article/349273