

Franchising: Scrutinise Before You Invest

Written by Nisary Mahesh



Most entrepreneurs believe that taking up a franchise is a fastest route to success with less investment. But buying a franchise requires a thorough understanding, market study and hard work to avoid pitfalls in business.

Many franchising experts suggest that you should shop by looking at multiple franchise opportunities before deciding on the one that's right for you. For reviewing franchise business meticulous researches can be conducted through franchise journals, newspapers, magazines, internet, franchise exhibitions, interaction with existing franchisees etc.

When selecting a franchise of a particular brand, it is important that you carefully figure out certain factors. The main points to look into are:

The Industry: While researching on the franchise you need to study the industry it belongs and its feasibility in your location in terms of long term prospects.

Company's Background: How established is the company is?, Its financial history?, How long it is offering franchisees?, How many franchises currently it has and their performance? The support the franchises getting from company? etc should be the questions in your mind while deciding upon a franchisor

Franchising Cost: The initial investment you are making to start a franchise should be in a way that it is not affecting your cash flow. You must also look into the royalty (ongoing cost) needed to be paid by the franchisee in comparison with other company's rates. Because royalties are bites from your company's profits.

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Franchisor's Assistance: What sort of training and ongoing support the company will be offering to the franchisee for operating the unit, definitely holds a greater role in your operational expenses and growth. You should learn it with the experience of existing franchisees to see how effective it was to them.

Franchisee Location: Will the franchisor assist you in selecting the location? If so, how much support it will offer in negotiating the rentals for space? One thing you should always keep in your mind that franchisees are important to a franchisor and you should never feel hesitant to negotiate with your franchisor to get a particular support from them, which you feel might help you in your business.

Reference: You can consult some other franchises of the same company to know in deep about the franchisor. If you are a starter, ensure that you consult a franchise expert in advance to clear your queries. Ensure that you will be comfortable with the franchisor to avoid conflicts of interests in a later stage.

Considering all these factors and if they are satisfactory for you, you can go ahead for entering into franchising agreement. Before signing the franchising agreement, one must thoroughly read and understand all the obligations.

Franchise agreements are tailor made to specific situations. So if you do not understand any of the given terms you must endeavour to consult a franchise lawyer. The franchisor may also provide you with a disclosure document which is a window into the company's operations. Be sure to read financial statements closely to save you from bad investments.

The disclosure document provides all relevant information about the company including its history, overview of employees, while the franchise agreement outlines what the franchisor guarantees the franchisee, the obligations of the franchisee, costs associated with franchising, franchisor's assistance, terms in case of disputes or breaches and more.

An important point that you need to confirm with your franchisee agreement in general is that 'Is your territory be exclusive for you?' You need to determine whether or not the franchisor states in the agreement that they can open other stores in your area, or even sell its product by mail

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order to customers in your region. In that case you have to meet certain sales criteria to maintain your exclusivity otherwise it can happen that you may lose businesses in your own area to the franchisor, or your authenticity to your customers.

Franchise agreements provided by the franchisors are usually unilateral contracts or contracts of adhesion wherein the contract terms generally are advantageous to the franchisor when there is conflict in the relationship. Negotiations can be made with the franchisor for any terms you would like to get modified.

Economic conditions vary from place to place, and those profit projects and formulas provided in a franchisor's circular is not an assurance of success for you. An established franchisor has many benefits like brand, recognition, marketing techniques, business plans, training systems, efficient management. But on the other hand, you might find that the franchisor has already saturated your market.

On the other hand, when handling smaller franchisors, you may find yourself being a test-case for their techniques. So, the target is well set in your mind, and now its time to make your move to success!