

The 10 Top Things to Know Before Becoming a Franchise Owner

Guest columnist and author Joel Libava tells readers what they need to know before they commit to a franchise.

If you're thinking of becoming your own boss, investing in a franchise business is one popular option that may be worth looking into.

However, as tempting as it may be to just type the word, "Franchise" in your favorite search engine to "See what's out there," you're going to need to know several things first.

1. The franchise model

It's been called the greatest business model ever invented, and has enabled hundreds of thousands of people that never owned a business before to do just that; become owners of their own business.

The premise is simple; someone comes up with an idea for a product or service, implements it, and starts a business. The business turns out to be easily replicated. (Think pizza.) This person doesn't really want to just use all of his or her own money to grow the business, so the hunt for an investor or two begins. It turns out that getting some investors is a smart choice.

It's just that the investors in this case are not only going to buy into the business; they're going to run it too. As franchisees. That's right; the person who came up with the business idea is now going to be the franchisor, and will be using other people's money, i.e., franchisees, to grow the business.

2. Your risk tolerance

Investing in a business (franchise or non-franchise) is risky. There's no way to completely mitigate your risk, but there are ways to lower it. Are you prepared to risk your own money in a business venture?

One thing you can do to make sure that you're really ready to write a check to a franchise company is this: Look back at some of the major decisions involving money that you've made over the years. How were you able to handle the "risk" part of those decisions? Did you analyze things for weeks, maybe even months on end? Or, did you do *somer* research, and make your decision relatively quickly?

Bottom line; make sure you can handle the risk.

Comment [Office1]: It is important to know the basics of what a franchise is and how it was started.

Comment [Office2]: Must consider whether I am a risk taker or not and how those risks I took ended up. This is important to consider because I must know whether franchising is an avenue for me or not.

3. The rules

Franchising is not a free for all; it can't be. Can you imagine going into your local McDonald's for a Big Mac only to find out that the franchisee decided to discontinue it?

Before you commit to becoming the owner of a franchise business, make sure that you understand the rules. All franchises have them, and need them. Rules maintain the consistency of the products, the services, and the brand.

Comment [Office3]: Know exactly what an individual would be getting themselves into and all the guidelines for it.

4. Your personality type

Before you become a franchise owner, do a self-check. Telling yourself that you'll follow the rules in a franchise business, then actually following them once you become a franchisee are totally different things.

Some self-reflection is definitely warranted here. For example, in a corporate setting, there are always rules to follow. How did the rule-following work out for you? Were you generally comfortable with them, or did you have a problem following them? Did you feel that the rules that were in place didn't apply to you? Dig deep here; either you're a rule-follower, or you're not.

If you don't generally follow the rules, don't buy a franchise. It could turn out ugly.

Comment [Office4]: I must think about who I am as a person and whether I will be able to follow the rules in life/business.

5. Your finances

If you don't know where you stand financially, you'll waste an awful lot of time learning about and getting excited about franchise opportunities that may not even fit your budget.

Do a simple net worth statement before you start your franchise search. Add up your assets. Then add up your liabilities. The difference between the two is your net worth. You'll need this information for the franchisors. (Most franchises have a minimum net worth requirement)

Comment [Office5]: If I do not have enough funding, I must think of ways in which I can obtain it. If I want to franchise, I must find ways around the road blocks and finance it somehow.

6. How to search for a franchise by not searching for a franchise

Searching endlessly online for that perfect franchise may sound like the right way to find one, but it's not. Trying to figure out what's what without customizing your search can be a massive waste of time.

Instead, grab a legal pad and write down your top professional skills. In addition, write down some of the traits that tend to define you. Are you outgoing, or are you introverted? Are you highly competitive? Are you good with details, or are you a big-picture person?

7. How to find possible matches

Now that you're armed with your top skills and some of your more dominant personal traits, it's time to start your search for a franchise. Go to your favorite online search engine and type in "franchise opportunities," or "franchises for sale," and start digging in. You'll see specific franchises come up, as well as a number of franchise directory type websites.

Comment [Office6]: See which shoe fits. I need to know what I would enjoy doing and think about the knowledge I already have and how it would help me in the franchise I choose.

Here's the trick; only request information from those that seem to be a fit for what you wrote down on your legal pad. See No. 6. And don't forget to make sure that your net worth meets the minimum requirements.

8. How to do proper research

Once you've found some franchises that could turn out to be a match, it's time for you to do your research. You'll find that some of your questions can be easily answered by your franchise development representative, while others can't.

For instance, unless franchisee sales and earnings figures are clearly disclosed on the Franchise Disclosure Document, (which you'll receive from the franchisor) your franchise representative cannot answer any earnings-related questions. But don't worry; all you have to do is ask the current franchisees. In most cases, that's where most of your answers about the business will be coming from anyway.

Comment [Office7]: Refer to those who are already in the business. They can provide the most guidance and already know all the details about how it works.

9. You'll need a business plan

Don't even think of going into your local bank to apply for a small business loan without a formal business plan in your hands. The lender will want to see your projections and hear your story. There's great business plan software available that can help you create one.

Comment [Office8]: Make a plan and go through with that plan. The bank will need to see what I want to do and how I aim on completing it so that they can be more confident that their money is going into safe hands.

10. Your decision day will arrive

The entire franchise discovery and research process will probably take two to three months to complete. Eventually, you'll have to make a yes or no decision.

You'll probably be a little nervous. After all, it's not like your starting a new job. If you buy a franchise, you're going to have real skin in the game, and it's a game that you're expecting to win.

Comment [Office9]: Just go in there and do it. That is the best way. Once I have made a decision, I must stick with it and not second guess myself.

You can win, if you focus on choosing an opportunity that's really right for you, that you've done terrific research on, and that easily fits into your budget.