The Pros And Cons Of Owning A Franchise

By Robert Zarco

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If you are a former corporate executive with some extra money, or are just bored with your routine job, franchising can be an appealing career or entrepreneurial option. Having a part in a nationally known brand and benefiting from an already established business model and concept tied to a great reputation are among the reasons why hopeful entrepreneurs are driven to the franchise model. However, it is important to consider the pros and cons of owning a franchise before signing the dotted line.

Pros:

Already Established Brand and System: A franchisee becomes an independent owner who utilizes the franchisor's brand, franchise system, and business model in a given market or territory. The customer base and brand recognition have already been solidified, and the franchisor has already invented a proven and successful business model, i.e. the "mouse-trap." A franchisee receives an operations manual, setting forth the "how to" of operating the franchised business, so that in essence it's as manageable as coloring by number. If you were the A or B+ student that did very well in school because you followed all of the teacher's instructions, then you have a much greater tendency of doing well as a franchisee.

Training and Support: Franchisors are expected to provide thorough training to its franchisees at its corporate headquarters and at the franchisee's business. The training covers daily operations, pre-opening procedures, advertising and marketing secrets, as well as technology and equipment training. The franchisor also provides support personnel and field representatives to work with the franchisee whenever problems arise and when support service, guidance, and assistance are needed.

Marketing and Advertising Fund: Most franchise systems require franchisees to contribute to a local, regional, and/or national marketing fund to finance retail marketing, promotions, and advertisements. The benefit of being able to pool resources allows franchise owners to have a competitive advantage in advertising and marketing when compared to independent business owners.

Cons:

You Can't Have It Your Way: If you want to have complete control over the way you conduct business, a franchise is not the ideal choice for you. A franchisee must follow all of the franchisor's operational protocols and adhere to all of the elements of the franchise system. Therefore, there is limited creativity and entrepreneurial spirit.

Fees and Initial Investment: After paying an initial franchise fee, which typically ranges from $20,000 to $150,000, the franchisor commonly charges royalty fees ranging from 3-8 percent of gross sales, plus 2-5 percent of gross sales for advertising fees. There may be additional fees for licensing of computer software, employee training, or other business elements. There are also startup costs for securing real-estate, training, investing in furniture, fixtures, equipment, and working capital. Startup costs for this type of investment can be as little as $75,000 to as much as seven million dollars, as may be common in the restaurant and hospitality businesses.

Damage Control: A franchisee can suffer financial damage due to improper actions of other franchisees and the franchisor, as the public typically does not disassociate one franchise unit from another. In today's world of social media and 24/7 news, unethical or corporate tactics of a franchisor, or improper operations by a neighboring franchisee, can cause negative sentiment in the public eye towards the brand in general. This, in turn, damages all franchisees and the franchise system as a whole.

Encroachment: Franchisees are susceptible to encroachment, which is any activity by the franchisor that reduces a franchisee's ability to generate sales from their locations. These include: (i) placing a competing unit operated by the franchisor or another franchisee in close proximity to an existing unit; (ii) taking away sales of an existing unit by providing services from outside the franchisee's area into his market through the use of the Internet or other means; (iii) the sharing of the franchisor's marketing and trade secrets with franchisees from a sister brand; and (iv) the franchisor utilizing alternate distribution channels to sell and market their products to customers within the franchisee's existing trade area.

The bottom line is that a franchisee must be willing to not only invest money, but also time and dedication. Owning a franchise is not as simple as signing an agreement. There are many complexities involved, and a franchisee should consult with an experienced franchise attorney to provide guidance in understanding and negotiation of the franchise agreement.

franchise agreement.

The author, Robert Zarco, is President and Founding Partner of Zarco Einhorn Salkowski & Brito, *P.A. Robert has earned national and international recognition in the area of franchise litigation by representing franchisees throughout the world*