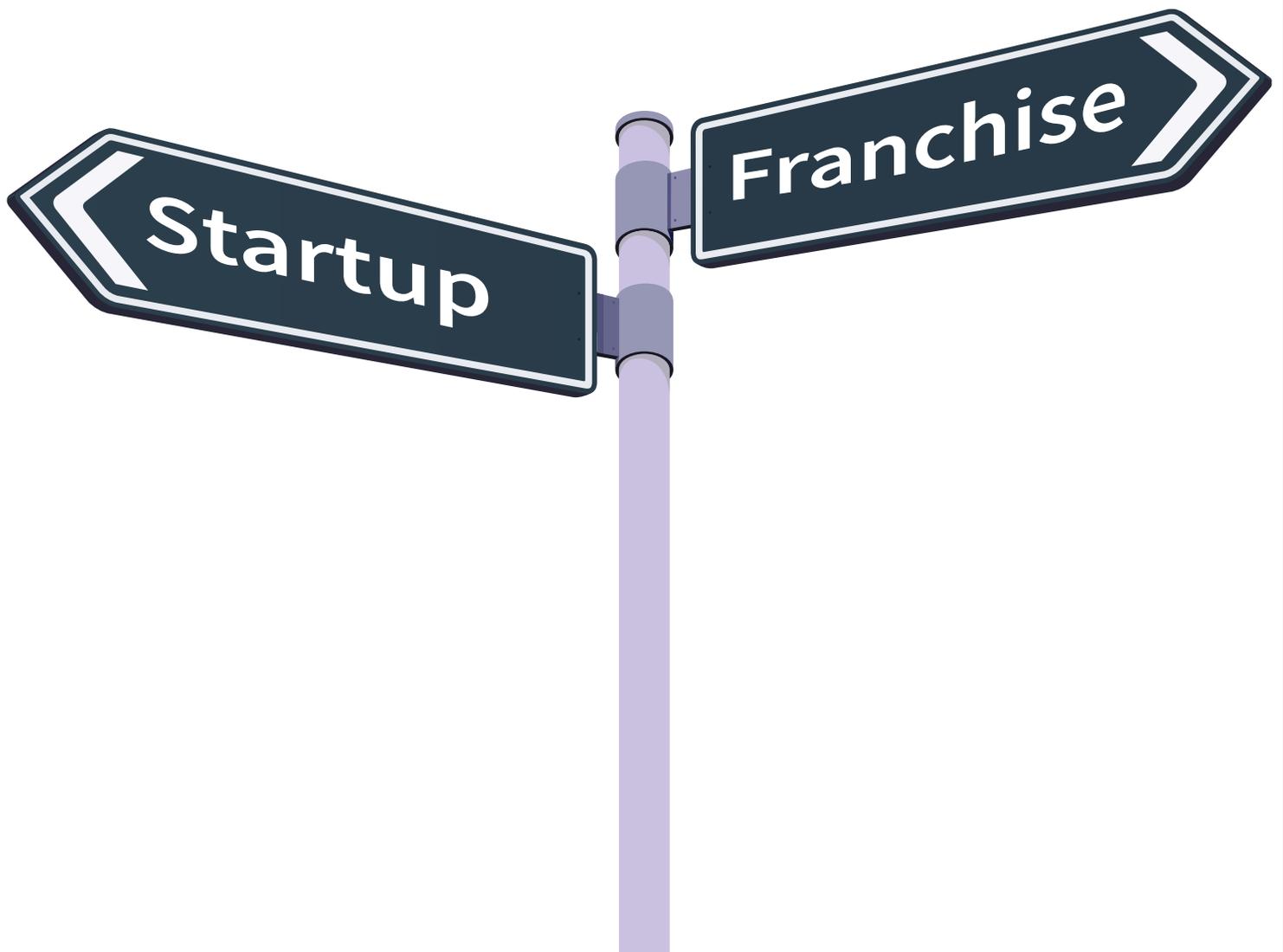


# Should You Start Your Own Business or Buy a Franchise?

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You're ready to start your own business—but starting from scratch isn't your only choice. Buying a franchise is another option you may want to consider. Here's what you need to know about both types of startup and the advantages and disadvantages of each.

## What Is a Franchise?

In a franchise system, you (the franchisee) pay a parent company (the franchisor) an initial franchise fee as well as ongoing royalties (a percentage of sales) and other fees in return for the right to use the franchisor's business name, trademarks, brand and system of doing business. You'll also benefit from the franchisor's advertising and reputation and, in most cases, receive ongoing training and assistance to help you open for business and grow your franchise unit.

McDonald's is probably the best-known franchise company, but you can find franchises in just about every industry, from business and automotive services to fast food, home remodeling and staffing services. Essentially, whatever type of business you want to start, there's a franchise system you could buy into. And if you don't have a business idea in mind, finding out about what franchise options exist can be a great way to get inspired.

Just as with independent business startups, there is a wide range of costs for buying a franchise. Some franchises cost hundreds of thousands or even millions of dollars to buy into; others can be had for \$10,000 or less. The cost depends on the type of business, as well as the level of support the franchisor provides and how well known the brand is. A restaurant or retail franchise that requires leasing and building out a location will cost more than a service business you run from home, for example; and a big-name franchise with thousands of locations worldwide will typically cost more than a startup franchise with only a few locations up and running.

At its best, franchising can provide a "turnkey" opportunity with a tested system of doing business, and a franchisor that sets you up with practically everything you need to succeed. However, not every franchise is a golden opportunity. Here are some things you need to know.

# Franchise Pros and Cons

## Pros:

**Financial assistance.** During the economic downturn, the franchising industry went through some hard times as fewer people could afford to pay franchise fees and become franchisees. As a result, many franchisors lowered their financial investment and took other steps to make it easier for people to buy franchises.

There are also special programs available to help certain types of people get into franchising. For example, if you are a military veteran, many franchises offer reduced fees or other assistance to help you get started.

It is often easier to get a startup loan if you buy a franchise than if you start a business from scratch. Bankers and other lenders will feel more confident about your startup's chances of success because you have a proven franchise system behind you. In addition, many franchisors either offer in-house financing or help connect you with lenders who specialize in helping franchisees.

**Operating assistance.** It's often said that franchising offers a way to be in business for yourself, but not by yourself. Launching a business can be overwhelming, especially if you've never done it before. The initial training and handholding a franchisor offers can be invaluable in lessening your stress. In addition, since most franchisors provide some type of ongoing assistance from the corporate headquarters, you enjoy the confidence of knowing you always have someone you can call on for advice and assistance as your franchise grows.



**Lower risk.** While no franchise is a sure thing, a franchisor with a solid history of success and an experienced management team can help you substantially lower the failure risk every startup faces. If you're risk-averse, buying a franchise can be a nice "middle ground" that eases your concerns about startup.

**Marketing assistance.** As a franchisee of a well-known franchisor, you are promoting an established brand. Consider: If a new McDonald's opens up in town, the owner doesn't have to do much to market it—people driving by know what to expect and will come in because they're familiar with the brand. You'll also benefit from regional or national advertising campaigns paid for by the franchisor as well as assistance in local marketing efforts. (Of course, with a new franchise, you won't enjoy the same recognition.)

**Buying power.** As a single-unit independent business, you'd have little leverage to negotiate better deals with vendors. As a member of a giant franchise family, however, you can benefit from economies of scale and cheaper prices for supplies and equipment that the franchisor negotiates on your behalf.

**Expansion potential.** If your initial franchise succeeds, there's always the possibility of opening multiple locations or becoming a master franchisee who sells franchises to others. You are able to expand your business with less risk when you have the assistance of a franchisor.



## Cons:

**Ongoing expenses.** For many franchisees, paying ongoing fees and royalties can become a sore point once the franchise is up and running. You may need less guidance from the franchisor and or feel you're succeeding on your own, but you still have to pay these fees. Franchisors may also impose costs on you in addition to the regular fees. For example, if the franchisor decides to rebrand, you'll have to pay for remodeling your location. The franchisor could also require you to buy supplies only from certain vendors, even though you could get them cheaper elsewhere.

**Having a “boss.”** If you're highly independent-minded and hate being told what to do, being a franchisee can feel too much like being an employee. You will need to follow the franchisor's rules on everything from operations to advertising. Yes, some franchisors do implement ideas from franchisees, but a franchisor can be just as bureaucratic as the corporate job you hated.

**Franchise friction.** Your location's image is inexorably tied to that of the franchisor, which can be a good or bad thing. For instance, if the franchise company is involved in a scandal, suffers image problems or has financial difficulties, your business may suffer, too, even though you've done nothing wrong.

**Legal complexity.** When you buy a franchise, you're signing an ongoing contract that can be difficult to get out of. If you get tired of your independent business or it's just not working, you can scrap it and start over. It's not that easy with a franchise—you may be stuck with a poorly performing location until your contract is up. On the other hand, the franchisor can also terminate your contract if you fail to live up to it, or can refuse to renew your contract when it's up.

**Lots of work.** Even a turnkey franchise is not a guarantee of success. You will need to work long hours and take responsibility for the success or failure of your franchise, just as you would with an independent business.



# Starting Your Business From Scratch

## Pros:

**Creative freedom.** If you are a “true entrepreneur,” you want to start your own business so you can be completely in charge. As an independent startup, you get to make all the decisions. You can choose your own business name, develop your business brand and more, without input from any franchisor. If you already have a specific business in mind that is truly groundbreaking, you may not be able to find a franchise that does what you want to do.

**Full ownership.** If you buy a franchise, the franchisor owns the system of doing business. However, if you start your own company from scratch, you own everything. You can choose the form of business that’s most advantageous to you, pass the business on to your heirs and more.

**Profit potential.** When the business is yours alone, you get to keep all the profits, without having to pay royalties or startup fees to another entity. If you think your idea has the potential to be the next Starbucks, you can go for it—and, if you succeed, become a multimillionaire.

**A clean slate.** Buying into a franchise system that has had bad press or financial problems may tarnish your new franchise from the get-go. However, a brand-new independent business has none of this baggage to deal with and can make its own image from the ground up.



## Cons:

**Higher risk.** On your own, you'll face greater risk than if you had a franchise system behind you.

**Finding financing.** No question, getting financing for any type of startup is difficult—but it's even harder to get financing for a new, unproven business idea than it is for a franchise concept. You may find that banks and investors are unwilling to back you and you'll need to find financing through family and friends or your own savings.

**Reinventing the wheel.** As you handle every aspect of starting your business, from accounting to marketing to serving customers, you may feel like you're learning everything from scratch with no one to teach you what to do. You will need to develop your own systems, employee handbooks, accounting systems and more. This is time-consuming and full of trial and error if you've never started a business before.

**Building your brand.** Getting an unknown brand accepted in the marketplace takes a lot of hard work and expense. You will need to invest a lot of time and money in marketing and advertising to educate customers about what your startup does, why it's superior to the competition and why they should buy from you.



## What's Right for You?

Before making the decision to buy a franchise or start a business from scratch, consider:

- ▶ What are you good at? Consider your past work skills, job experience, and personal hobbies or interests.
- ▶ What type of work do you want to do? Do you want to work days or nights, part-time or full-time, work with people or alone? Try to envision your ideal environment.
- ▶ How much money do you need or want to make?
- ▶ How much money do you have to invest in startup? What other sources of capital are available to you?
- ▶ Do you have a specific industry or business idea in mind?
- ▶ Are you averse to following someone else's plan?

Buying a franchise doesn't absolve you of all the other requirements of starting a business. You'll still need to get any necessary licenses, insurance and protect your assets by incorporating your business.

If you're still not sure whether a franchise or independent startup is right for you, attending a franchise trade show is a smart way to explore the franchise world without committing to anything. A trade show offers an opportunity to check out hundreds of franchise opportunities, talk to representatives and gather literature about franchises you're interested in. Look at the Resources below to find franchise trade shows.

There are also franchise consultants and brokers that match people with franchise opportunities. Keep in mind that franchise brokers are paid on commission when you buy a franchise, so they may not always have your best interests at heart. It's possible to do all the legwork yourself without the assistance of a consultant or broker. However, you do need to consult and attorney and accountant to review the franchise company's financials, fees and contracts.

# Investigating a Franchise Opportunity

Once you've become serious about buying a franchise, you need to drill down and do your due diligence. Ask for a copy of the Franchise Disclosure Document (FDD). Under the FTC's Franchise Rule, this document must be given to you at least 14 days before the franchisor or any representative of the franchisor asks you to pay any fees or sign any contracts.

The FDD includes a wealth of information about the franchisor, including:

- ▶ Company history
- ▶ Management and experience
- ▶ Any bankruptcies or legal actions against the company
- ▶ All fees, both one-time and ongoing, that franchisees must pay
- ▶ Training and support provided
- ▶ Termination and renewal
- ▶ Advertising and marketing support
- ▶ Financial history of the company including financial statements
- ▶ List of current and former franchisees

One thing everyone wants from the FDD is some type of guarantee about how much profit you can make as a franchisee. Unfortunately, this is one thing you won't get. Franchisors may provide averages or estimates, but take them with a grain of salt. One high-performing franchisee could make a failing system's sales look respectable.

You will need to go over the FDD carefully with your accountant and attorney and use all the information available to you online and elsewhere to decide what type of earnings and profits are realistic given your experience, location and market.

## Conclusion

Should you buy a franchise or start your own independent business? Both are viable options that offer the possibility for success. The answer depends on your own inclination, interests and experience.

## Resources

The [International Franchise Association](#) (IFA), the premier trade association for franchising, provides franchise information, education and events as well as resources for both franchisors and franchisees.

The FTC's website offers a detailed [guide to choosing a franchise](#).

[Franchise Direct](#) offers a directory of franchises plus information about franchise events and trade shows.

[Franchise.com](#) is a franchise recruitment website where you can learn about and search for franchises and events in the industry.

[FranNet](#) is a franchise consulting firm that matches people with franchise opportunities.

[Franchise Foundry](#) is a franchise development company focused on helping franchise startups succeed.

