Buying a franchise: Should you or shouldn't you?

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If you've always thought you'd like to be in business for yourself — but not by yourself — purchasing a franchise might be just the ticket. Not only do you start with an established product or service that has already sold successfully, but owning a franchise is almost like having a mentor: valuable training and the support needed to help you succeed come as part of the package. However, while it may be true that far fewer franchises close up shop within the first five years of opening — 8 percent versus 77 percent of independent businesses — the Nevada Society of CPAs wants you to be aware that there are still risks associated with owning a franchise.

GETTING STARTED

Financing often looms as the biggest stumbling block in buying a franchise. However, there are several options. It is possible to receive assistance in financing a new franchise through the franchiser.

If the franchise doesn't offer direct financing and you've never owned a business, you'll need to prepare a financial package including personal income-tax returns for the last three years, a personal history, a projected profit-and-loss statement for your first year in business, and a list of personal assets and liabilities.

The better prepared this package is, the better a banker's first impression of you.

SHOP AROUND

With lots of small companies now franchising, hoping to increase their sales and expand their market reach, and with new franchise categories popping up seemingly, it's even more important that you choose the right business opportunity. Before you invest, be absolutely certain that the organization is capable of delivering the support that will ensure profitability for your franchise.

If you are serious about investing in a franchise, shop around and compare the merits of one franchise against another. Make sure the officers and directors of the company demonstrate a high degree of business and franchising experience, along with sales professionalism.

Check that the franchiser is either totally centralized or structured so as to be able to provide local support. And take note of how closely the franchiser questions your qualifications and suitability — a high degree of selectivity means a stronger, more profitable system.

One final word of caution: if the franchiser either discourages you from meeting with existing franchise owners or tries to dissuade you from showing the agreement to an attorney prior to execution ... run!

MAKE SURE YOU'RE WELL SUPPORTED

Besides the research you do on the company itself, thoroughly investigate how well you will be trained. A company's commitment to frequent training is a sign of its commitment to helping you grow the business. Ongoing training and updated programs should be available to you at no charge for the length of your contract. Part of buying into a franchise system is having regularly scheduled training classes that the franchise owner and staff can attend, held in close proximity to their business.

Also, make sure that the franchiser provides a system of localized ongoing business consultations for franchisees. Consultation, both hands-on and by telephone, should be a part of the support system to help you eliminate problems before they develop and resolve existing problems before they become unmanageable.

Although the franchise documents should clearly outline all these factors, a good way to determine what life will be like as a franchisee is to contact the company's existing franchisees. Ask them what kind of experience it has been for them, what kind of problems they've had, and what kind of return you can expect on your investment. And don't just talk to a few people; call as many as you can.

KNOW WHAT YOU'RE AGREEING TO FINANCIALLY

The cost of owning a franchise can vary from several thousand to several hundred thousand dollars, depending on company size and the geographical area of the franchise. Before you sign on the dotted line, make sure you completely understand what's expected of you financially. For example, you'll have to pay a franchise fee, which covers the business concept, rights to use trademarks, management assistance and other services from the franchiser. This fee may not include the cost of the property, nor may it pay for advertising. Be equally as clear on what your ongoing financial responsibilities will comprise.

For example, you often must pay royalties to the franchise ... even if your outlet has not earned significant income during that time. And even if the franchiser fails to provide promised support services, you still may have to pay royalties for the duration of your franchise agreement.

CHECK WITH THE EXPERTS

Under FTC rules, franchises must disclose information to prospective investors to help them make an informed final decision. This includes financial statements, the names and brief biographies of company officers, information on the company's finances, and the names of other franchisees. Be sure to have the franchise's financial statements reviewed by a CPA and an attorney.

BE REALISTIC

CPAs caution that if you go into franchising with unrealistic expectations of quick profit, most likely you will fail. Buying a franchise is not an automatic guarantee of survival. In fact, you may not be able to get much money out of the business in the first few years. Be patient. Continually look for ways to attract new business. Don't be afraid to test new strategies and ideas.

Ownership

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received. Some look like they are just happy to be in the room - to be assimilating, if you know what I mean.

The newspaper situation is very strange. We complain about what is written about us and continue to purchase the newspapers that publish those articles. What's up with that? Why would you buy something from someone (anyone - Black, White, or otherwise) who treats you disrespectfully? Why would you not, instead buy Black-owned newspapers? The same holds true for Black magazines and other periodicals.

Black talk shows are few in number because as long as we keep singing and dancing the establishment is happy. When we start talking to one another, especially about something important like economic empowerment, another Black-owned station is bought by a conglomerate or advertising revenues drop precipitously.

Here's another question. If we want these situations to change, what are we willing to do about them? Demonstrate? File lawsuits? How about we move to get "our own stuff?" How about we support our own media with Black businesses (and individuals) spending more advertising dollars with Black radio, newspapers and magazines? Now that's an interesting concept: Black-owned businesses advertising in Black-owned media, strengthening them so they can run the kinds of programs and articles we want to see while creating more jobs for our people.

How about Black stars getting together to invest in their own movie company while, simultaneously, Black consumers start turning off the insulting programs we are complaining about now? Why keep on complaining about other folks' stuff? Just stop partaking in them.

We will surely see this recent storm develop into some kind of diversity issue or result in someone or some organization being paid to kiss and make up. The "big four" television companies will capitulate and throw in a

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Power

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position, as current Federal Communications Commission Chair William Kennard is demonstrating.

Courts and deregulation have stripped much of his ability to defend minority ownership in telecommunications. But, outside pressure can leverage the implied access with important constituencies who have to face him. Witness how a few weeks ago, Kennard changed policy and allowed Granite Broadcasting to retain its two television stations in the San Jose-San Francisco markets.

Despite the drawbacks, the prospect of having African-Americans hold the top economic law enforcement jobs in the nation over the next several years is an important reason to register to vote and to participate fully in the 2000 elections.

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