

Hit The Ground Running: Buying An Existing Franchise

By Richard Parker from *BizQuest Broker News* - June 6, 2007

At **Arthur Berry & Company**, we have sold over 750 private companies like yours. With nearly 25 years of successful sales, we have earned the trust of Idaho business sellers statewide. It is not an endeavor to be taken lightly, and we don't.

So, when it comes time to sell your business, you want to put it in the very best hands. We have the experience and resources to sell your business quickly, efficiently and for the highest possible price. We appreciate the hard work and sacrifice that you have put into your business. We can help you make that dedication count by finding a suitable buyer who will carry on your dream.

Call Today - 208.336.8000
www.arthurberry.com

The franchise concept is an incredible one. Gather all of the ingredients specific to a business and formulate a recipe that can be duplicated over and over again by anybody. When someone refers to a "turn key" operation, the most likely example is a properly orchestrated franchise. Although the recipe has been set, it still requires the input and management of the right owner to ensure an individual location is successful.

The Bad News: A franchise is by no means a guarantee of success. Plus, a new franchise is basically a start up with some advantages. Master Franchisers will do a load of demographic and marketing studies evaluating potential customer base, drive by traffic, etc., but the only thing that they cannot do is guarantee your success nor will they document any specific revenues or profits.

The Good News: Franchises can be a good place to begin your entrepreneurial career. If you want to greatly improve your chances of success then buy a franchise resale. Take advantage of one that's already established and successful. This way, you combine the best worlds of a franchise concept, and the track record of an existing business. It just makes more sense. While it is not always easy to locate resales, there are plenty of them around. You can always go through regular channels such as your local paper, business brokers and online listings.

The other good part of buying an existing franchise is that you can implement all of the same strategies for identifying, negotiating and financing the purchase as you would when buying an existing non-franchised business. As such, it's wise for you to get hold of a good strategy guide for buying an existing business.

The Investigation Advantage with a Franchise: Probably the most attractive feature of buying a franchise from the buyer's point of view is that you can investigate any franchise much easier than an existing non-franchised business. The reason for this is because you will be able to look at other franchises under the same banner. You can speak with other franchisees in your area and they will be a wealth of information for you. There is also a disadvantage when investigating and conducting Due Diligence on a franchise as you have to do it on two fronts. You have to check out the business itself of course but of equal or greater importance you have to evaluate the Master Franchiser to be sure that they will deliver everything they are supposed to do.

Your Partner is Your Competitor: The Master Franchiser's agenda is to open up as many locations as possible. While they may all say that they will not dilute the market, rest assured that unless they are contractually obligated to do otherwise they will keep compacting the territory. As they open more and more locations you may wind up competing with your own brand. Once a customer of yours finds another location to be more convenient unless you have a rock solid relationship with that individual you will lose their business.

How to Make Money in Franchising: The best way to accumulate wealth in franchising is to keep opening up or buying other locations. If you can, stick with one banner or within an affiliated group of companies. This way, your leverage with the Master Franchiser increases and you can also focus on running one particular type of business. You can't dance at all of the weddings so opening up new locations too quickly can cause growth problems. However, as soon as you get the first one on track, look to acquire another one.

Franchise Contracts: Each state has different laws related to franchises that are usually quite intricate. Additionally, the agreements between the franchisee and franchiser differ between companies and many contain clauses that you would never even think exist. As an example, if a franchisee wants to sell their business, most often the franchiser has the first right to buy the business. The reasoning is that they want to be sure that the market doesn't have too many resales available (it hurts them when trying to sell new ones if potential buyers see too many other franchisees selling). Secondly, they want to protect themselves if they don't feel the potential buyer is right.

Hire an attorney who specializes in franchise law and before you take a second step with any resale franchise, get a copy of the contract between the franchisee and franchiser to properly evaluate what you will be faced with along the road.

In Summary: Franchises can be ideal for many people. If you want really improve your success rate, then buy an existing location. It will provide you with all of the benefits of a franchise along with the added security of historical data and a proven track record.

About the Author: Richard Parker is author of "How To Buy A Good Business At A Great Price", the most widely used reference resource and strategy buying guide for buying a business. He has purchased ten businesses in his career and has helped thousands of prospective buyers worldwide learn how to buy the right business for sale. He is also founder and President of Diomo Corporation—The Business Buyer Resource Center.