Buy a Franchise or Go it Alone?
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Why going into business is less risky – and often more rewarding – with a franchise system.

Owning a business is one of the fastest ways to wealth, but the decision of whether to invest in a successful existing franchise or start a solo enterprise from scratch can be a daunting one. Would-be entrepreneurs need to carefully weigh the advantages and disadvantages before launching into business – and putting precious investment capital on the line – to help ensure the best possible outcome.

One of the most critical components of this decision involves the cost, or return on investment dollars, to create a customer base, brand recognition, and demand for products or services offered. Franchising solves those fundamental problems by offering a business structure or model that is already successful, established, and recognized.

Launching a Business Costs Time and Money

Building a business involves two vital resources - time and money. Both can be a source of colossal waste – and the cause of fast failure – for those going it alone. Most businesses take between one and five years to break-even and reach profitability. And the biggest reasons that most new ventures fail is that they lack capital – because start-up expenses involving paying retail leave them with too little cash to spend on marketing and advertising.

Without an established customer base, the cost of acquiring new customers can be astronomical – both in monetary terms as well as in the time it takes to accomplish results. Many businesses go bust just before they achieve a critical mass of momentum, begin to realize profits, and start to reap the rewards of marketing efforts and cultivation of a loyal customer demographic.

It takes time to connect with an audience, gather fans, grow a brand, or build a customer base. Time is money – and capital expenditures are also money – so most new businesses face a double-barreled challenge that few can survive.

Automatic Equity from Day One

A smarter and less risky approach is to pay a little more in exchange for buying into a proven and established franchise with its own loyal clients, valuable goodwill, and finely tuned organizational structure. The kinks have been already worked out, the fruits of advertising efforts have ripened and are ready for harvest, and a track record that can be scrutinized is already documented.

Rather than buying a vacant lot with a long, expensive, labor-intensive building project ahead, franchise buyers purchase completed assets that hold the bankable promise of already accumulated, built-in equity. They move right in and make themselves at home, while others face years of uphill struggle just to climb out of the red ink and into the black.

But there are other value-laden assets that accrue automatically through the franchise method, and those who focus primarily on traditional metrics and valuations often overlook these. Tuition is one. The cost of any kind of quality education is going up dramatically these days; and even with the advantage of an MBA from a prestigious institution business success is not guaranteed. Most small business owners and corporate CEOs readily acknowledge that the most important lessons they learned were not taught in the classroom but rather in the “real world” they
graduated into by opening their first business.

Purchasing an existing franchise ensures that those lessons learned are totally relevant, distilled into their practical essence, and do not involve the same school of hard knocks that those who came before had to endure. The waters have been tested, the challenges have been identified and met, and the lesson plan can be put to work right away in not just a theoretical way but in a realistic fashion that produces immediate income and a sense of personal accomplishment.

**Shop for Verifiable Value**

America’s wealthiest individual and Wall Street’s most successful investor, business wizard Warren Buffett, points out that “Price is what you pay. Value is what you get.” He explains that it is “far better to buy a wonderful company at a fair price than a fair company at a wonderful price.” His experienced philosophical insights apply especially well to those shopping for a franchise opportunity, because evaluating a franchise is often the most difficult part of the whole franchise purchase process. Make a bad judgement call and it can reduce the chance of thriving to a losing battle for mere survival. Choose wisely and the future will, in many important respects, take care of itself.

But before making up one’s mind, it is necessary to perform due diligence and gather as much information and knowledge as possible. When paying “real world” tuition for a hands-on MBA, background research represents the homework assignment and the franchisee’s business plan becomes the textbook. In the words of Brad Sugars – who created one of the 20 fastest growing franchises on earth – “The quality of your life is determined by the quality of the decisions you make, which is determined by the quality of questions you ask, which is determined by the quality of your education.”

Learn what to look for and then seek it out while weeding out the mediocre businesses from those with outstanding potential. A good franchise offers turnkey systems for such things as sales, training, marketing, accounting, and ordering. A great franchise will enhance the chance of success by also providing key performance indicators, metrics, and progress checklists so that goals and roles are clearly articulated and easily tracked. Once benchmarks are in focus they can more readily be met, exceeded, and redefined to higher standards of growth and accomplishment.

Everything from a business plan and mission statement to management practices and dynamic computer systems contributes to the overall value of a franchise. Buy into not just the concept of a business but also the practical and graceful execution of that vision, and ambition will translate into a flawlessly manifested desirable outcome. One way to examine a franchise – or any business model – is to study the number of customer leads. How easily or effectively those can be converted into actual paying customers – and how many transactions that base of customers represents – helps to calculate the number of sales. Next it is important to know how much money is made (or lost) on each sales transaction – in other words, the profit margins and net income per sale. Knowing those things and understanding the rate of turnover – or the number of times each customer returns to buy again – can reveal a great deal about a company and its current and future value as well as potential.

While there is no specific formula or equation for appraising the potential worth of a franchise, each can be scrutinized on its own individual merits. Just as when buying a house there is no way to anticipate exactly what the property is worth or what surprises the homeowner may encounter after moving in, it can be difficult to get an accurate reading on a franchise. But when buying real estate home inspectors, lawyers, bankers, Realtors, and other homeowners can be consulted and relied on to help guide the process and eliminate problems.

Similarly, when shopping for a franchise it is a good idea to interview a typical cross section of other franchise
operators, to run the franchise agreement past an attorney as well as a financial advisor, and to study the agreement from every possible angle. Ultimately the decision rests on the shoulders of the buyer, and that is why one needs to also listen carefully to personal intuition, gut instinct, and one’s own trusted friends and family members.

Franchise Relationship Dynamics

Franchises are rooted in the relationship between the franchisor and the franchisee. Just as in other kinds of relationships each has its own characteristics, patterns, traits, and shared dynamics. Not all franchises are created equal, and in order to make a smart investment it is critical to understand this and avoid the common pitfall and misconception that franchises all work the same. They don't; and how they operate and do business defines their worth and separates the losers from the winners. As Brad Sugars astutely reminds us, “Remember that if you franchise a bakery, you’re no longer in the bakery business; you’re in the franchising business.”

That idea works both ways, and if someone buys into a franchise that sells widgets, they are not just paying for widgets but are primarily buying into a completely packaged franchise program. A well-designed franchise could theoretically sell everything from bubble gum and cotton candy to hockey teams and helicopters – because the main thing being offered by the franchisee is the business model, not just the products or services it specializes in selling. And while the concept of franchising is indeed a common denominator, individual business models vary dramatically.

The two most prominent paradigms are the Product/Trade Name franchise and the Business Format franchise.

• Product/Trade Name Franchises

This type of franchise primarily revolves around a brand or trademark, not a completely comprehensive business system. Rules regarding how product/trade name franchisees can operate their businesses and sell their products tend to more lenient, giving the franchisee more leeway and autonomous control. The franchisor derives income from the up-front fees paid to use the brand name or acquire the product, plus profits made by selling goods and services to the franchisee network.

Ford Motor Company, for instance, offers this kind of franchise and make money from it by selling more cars and trucks. Those who own Ford dealerships as franchisees can run their individual dealership businesses without absolute adherence to a particular set of operational rules. They derive benefit by their brand affiliation with Ford and their access to its automotive products.

• Business Format Franchises

The relationship in this kind of franchise arrangement is more rigid, with adherence to a particular way of conducting business being a central theme of the business format franchise model. In exchange for agreeing to abide by a much more controlled system, the franchisee enjoys the benefit of a product or service plus an entire program and operational method of getting that product or service to market. Not only does the franchisee have the freedom to use a particular brand name or trademark, but the franchisor also offers a full range of additional resources and a blueprint for operational success. Promotional tools, a policies and procedures manual and training, quality control resources, market research, buying power, and continual guidance and support are just a few of the benefits conveyed through this franchise model.
Everything from corporate logos and uniforms to healthcare plans and manager training workshops may be offered. Franchisees usually must also contribute on a regular basis to advertising and marketing campaigns, based on a percentage of their revenue. By buying into the franchise one gets a completely turnkey operation that is ready to go in every respect – including both major and minor aspects. The franchisor typically earns money from an up-front fee plus an ongoing share of the business profits, and maintains strict control over policies, procedures, and business conduct. Not adhering to the system laid out in the franchise agreement may violate the arrangement. But compliance ensures high standards, strong, consistent brand recognition, and the many benefits and customers that come from owning that kind of franchise.

While these are the two most fundamental business models for franchises, practically unlimited variations exist in the global marketplace. Depending upon the creativity of those who buy and sell franchises, a wide range of agreements and structures may come into play. Some behave more like joint ventures, others like independent distributorships, and still others may operate like commissioned agencies. Study the fine print, evaluate each agreement individually, and ask as many questions as necessary to gain a thorough understanding of the business and the respective roles and responsibilities of the franchisor and franchisee.

The Pros and Cons of Business Ownership

Owning one's own business and being self-employed offers a level of freedom that is never realized by those who work for someone else. One of the main reasons to become a business owner is that it provides a chance to make more money. Owning a business also involves a continual learning curve that teaches one a wide range of skills that can be applied to any future business or financial decision. These include knowledge and hands-on experience with marketing, accounting, sales, management, budgeting oversight, and self-motivation when no boss is present to give orders, offer guidance or criticism, or hand out paychecks.

Self-employment is a form of self-empowerment. It affects the business owner on both professional and personal levels by offering a rewarding sense of responsibility, an enhanced chance at wealth, and the opportunity to help and mentor others who work as employees and rely on the self-employed owner for their livelihood. With those responsibilities comes the challenge, and that should be considered when looking at the downside of going it alone rather than having a traditional job working for somebody else. Self-employment means that at the end of the day, when ordinary employees leave work and forget about it, the business owner may have to continue to work extra hours or take the job home. Even while on vacation, a self-employed person must still be on call or in charge of their business.

While the owner reaps the profits, the buck also stops with the owner. A self-employed owner gets to write her or his own paycheck. But one who doesn't show up to get the job done – regardless of what that entails or what constraints it places on one's personal life and schedule – will not get paid at all. Those who are not able to discipline themselves to handle this kind of ongoing responsibility and hands-on commitment may not be well suited for self-employment. But those who can accept the challenge and inspiration may be rewarded in ways that typical salaried workers will never enjoy because of the limitations of working for somebody else who calls the shots.

Freedom through Franchise

Purchasing a quality franchise offers the best of both worlds by minimizing the time, effort, and expense of launching a business while simultaneously offering a successful entry into the self-employed business ownership experience.
According to the U.S. Department of Commerce, 91% of all franchise business units are still in business after seven years, versus just 20% of individual startups. In addition, a Gallup Organization study revealed that two-thirds of franchise owners surveyed said they would not have been successful had they tried to start the same business on their own.

Franchises offer training, so even if one is new to the business or to a particular field, it doesn't matter. In fact, many experts believe that those who enter into a franchise with products and services that are unfamiliar do better, because they learn with an open mind - as a clean slate. Others who may have owned their own business in exactly the same industry niche, for example, tend to try to continue to do things their own way – even when those methods or procedures are proven to be less efficient and more costly. As franchises evolve, so does the training and continuing education, so that franchisees and their employees can rely upon learning the new skills required to grow and expand both as professionals and as a business team.

A franchise also comes with organizational support, experience, and expertise. Rather than trying to fend for oneself or reinvent the wheel, a franchisee can rely upon others – who share a vested interest in the success of the business – for guidance, assistance, and insight. An umbrella of brand recognition, goodwill, and existing customer interest is also conveyed if the franchise is established. A franchisee should pay less for a new and experimental franchise, while a reasonable premium paid for coming aboard an already proven venture is easily justified.

When participating in a franchise, such things as site selection, permits for operation, insurance, and other necessities are often taken care of by the franchisor. Systems are in place, equipment and technology has already been chosen and can be acquired through bulk purchasing or leasing power, and trade secrets and market research are available, eliminating many of the most critical steps in setting up a business. If financing is required, bankers and other lenders will offer loans specifically tailored to franchises. These usually offer more competitive rates and terms based on the decreased risk of lending to an established, profitable company's franchise as opposed to taking a gamble on a new and untested solo venture.

So not only does a franchise offer ease of opening and operation, but it also helps to ensure longevity and overall success – without which the odds may be seriously stacked against an individual entrepreneur. A single fragile twig may be easily broken, but a bundle of such twigs can be impossible to even bend because of the inherent strength in numbers and solidarity. The advantages of franchise ownership help to offset the disadvantages faced by self-employment by providing the kind of resources and empowerment that promote dynamic success and sustainable profitability.

**Tips for Buying a Franchise**

To begin a successful search for the right franchise means to find a quality franchise that is also a good match for one's personality, goals, dreams, and vision. Buying a franchise is an investment with both financial and personal implications and repercussions, so it is essential that the decision be based on both short-term plans and long-range objectives.

- Just as when a person starts shopping for a new vehicle they need to first narrow down their categories, choices, and models, shopping for a franchise is a matter of selecting the one that is the ultimate best choice.

- Features, upgrades, options, financing incentives, warranties, performance history, resale value, and look and status - all play a role and contribute to the final decision.

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• Talking to other franchise owners is one way to find out how they like theirs. Kicking the tires by walking into a franchise and buying something is a wonderful way to see how they treat customers as well as the quality of their products, services, and presentation.

• Paying close attention to how the idea of ownership and affiliation with a brand or company feels is also extremely important. Becoming a franchise owner means becoming a representative of what the franchise stands for and does, so it becomes a new identity and a defining role without the community.

Some buy franchises with a view of growing them and then selling them for a profit; others buy because they want to own their own business and pass it on to their children. Whatever the reasons and motives for getting involved in a franchise, should be clarified, well thought out, and if possible written down so that they can be shared with others.

One of the best approaches is to create a business plan, just like those submitted to venture capitalists, banks, or potential investment partners when launching a new business by oneself. Articulating a vision on paper in this structured format helps to illuminate strengths and weaknesses, communicate tangible and intangible concepts and ideas, and solidify goals, criteria, and specific needs and requirements.

Keep in mind that all of these explanations of benefits gained from going the franchise route refer to quality franchises that are worth their price. Many inferior businesses offer franchises and franchise programs that are also inferior, and it is up to the franchise investor to avoid these and concentrate only on high-quality, value-laden franchise investment opportunities worthy of examination.

**Putting it All Together**

Once a choice has been made regarding whether or not to go it alone or invest in a franchise and the preliminary steps have been taken to ascertain business value and personal compatibility, most of the heavy lifting has already been accomplished.

The time comes to start finalizing the process; otherwise one can become a professional shopper – rather than a professional business owner – by procrastinating out of fear or indecision. But emotions or mental doubts are not to be neglected or minimized, because those are messages from the heart or telegrams from the gut. When instinct interferes, it often means that the initial phase is still unfinished. More research needs to be done, more questions need to be answered, or more time needs to be taken to identify goals. Sometimes it is necessary to retrace one’s steps and go the various phases of selection and inquiry again, until everything crystallizes and one feels confident about the decision.
Then, however, action is imperative. Sitting on the sidelines as a salaried bystander while others forge ahead and capture the rewards of self-employment and personal wealth that one dreams of having can be both frustrating and unhealthy. Opportunities come to those who invite them and seek them out, but when opportunity knocks it is important to answer. Those who snooze sometimes lose, and the sooner one begins to tread a path toward success, the sooner goals can be reached.

Plus, when it involves personal aspirations, the journey itself is just as important and fulfilling as the destination. Starting along a path of self-employment as a franchise owner is not just a means to an end at the end of some elusive rainbow – it is, in many powerful ways, the immediate achievement of a lifelong pursuit of personal passions, ambitions, and heartfelt dreams.
Who is ActionCOACH?

ActionCOACH is the world’s number 1 business coaching franchise that traces it’s beginning back to a small room in a suburb of Brisbane, Australia, where Brad Sugars began developing a series of seminars and workshops to help small business owners grow their businesses. That was in 1993 and since then the business has burgeoned into one of the fastest growing franchises in the world, with more than 1,100 business coaches operating in 29 countries.

Here’s why we’re

The World’s
Number
1
Team

ActionCOACH is currently ranked and has been so for the past five years the #1 Business Consulting Franchise in the World, by Entrepreneur Magazine. In 2007 Entrepreneur Magazine also ranked ActionCOACH #96 in the Franchise 500, #55 Fastest Growing Franchise in 2006, and #43 America’s Top Global Franchise.

ActionCOACH was named a Stevie Winner in the prestigious 2006 International Business Awards, Best Overall Company category and again in 2007 as the Best North American Company. The Stevie awards are the World’s Premier Business Awards and recognizes the accomplishments and positive contributions of companies.

In 2006, we made the Top 50 Franchises in the Franchisee Satisfaction Awards conducted by the Franchise Business Review. Out of the nearly 250 companies entered, and representing over 45,000 franchisees around the globe ActionCOACH was ranked 34.

ActionCOACH was the winner of the prestigious 2005 Franchise of the Year Award in Ireland. The award is presented to the company that has demonstrated outstanding growth and development in the service sector of the franchise industry. Winning the Franchise of the Year Award is a major achievement for a company that was introduced to Ireland just three years prior.

In 2006, ActionCOACH was awarded UK Franchise Provider of the Year by Business Britain magazine. The award, which is the first ever to be made by Business Britain, was presented to ActionCOACH after a panel of journalists and managers from the magazine judged it to have excelled across a wide range of criteria including reputation, franchise return on investment, profit growth potential, and quality of franchisee support.

ActionCOACH won the prestigious Australian Business Award for Enterprise. The Australian Business Awards is an independent program recognizing success, innovation and ethics across all industry sectors embracing businesses of all sizes. The program is supported by forward-thinking organizations that are committed to business excellence and innovative business processes.