

# eNB *New Brunswick's Business News* BUSINESS

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## So you want to buy a franchise? September, 2007



David Barnett

Lately I've been talking to a lot of people who are interested in buying franchises. More specifically, people who are interested in buying these businesses second-hand, from the original franchisee. For those of you who don't already know. A franchise is a ready-made business that you can buy. Along with all the equipment and inventory, a franchise often includes a recognized brand-name and comes with coaching and instructions on how to be successful. If there are supplies or inputs for the business, the franchise often includes a ready list of suppliers. All of this is provided in exchange for a percentage of the sales over the life of the business. Often there is an initial franchise fee that covers training, setup and licensing for the brand name. McDonalds Restaurants is a famous example of a franchised business.

One of the reasons that many people opt for a franchise over making up their own business from scratch is that they believe that having the well-known brand name or access to coaching will ensure their success. Many franchise web sites tout statistics showing that franchises are more likely to succeed than scratch-made businesses. While I don't have any stats either way from a legitimate source that I'm willing to quote, I will tell you that businesses from both groups sometimes are not successful or fail outright. This brings me back to my original point. I've had a few clients lately that were trying to either get financing for an existing franchise or get help in selling a franchise that they owned and wanted to sell.

Here are some of the things that you need to be aware of in trying to get one of these deals financed:

**You can't generally finance a franchise fee.** This is a fee for services and does not actually represent a tangible item. Think of it like goodwill, no bank can seize it so they won't want to lend against it.

**If you think you own your business, maybe you don't.** I have seen people in the middle of a business sale realize during the due-diligence phase that any buyer of the franchise business must be approved by the franchisor and pay them a new franchise fee. This means that the business you thought you owned requires the blessing and approval of an outside interest to be sold.

**Can you change the prospects of the business?** If a seller is interested in letting a franchise go, is it because it has not been performing? One of the most important things that a lender will look at in financing a deal like this is your ability to repay the loan. If the previous owner was unable to make good profits, how will you? Keep in mind that the previous owner was constrained by the franchise system and given the coaching they believed they needed to succeed. If you think you have a better idea of how to run the business, you may not actually be able to implement the change because of the franchise agreement. Don't forget, franchising is about delivering a consistent product or service from a varied group of businesses owned individually. In order to do this, the franchisor has strict rules.

If you decide that you want to buy a second-hand franchise, don't be cheap on your due diligence. Hire an accountant and a lawyer with corporate experience to look over everything. A few thousand dollars spend on expert advice today could save you hundreds of thousands in the long-run.

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