



## Is buying a franchise your best option?

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Many people looking to buy a business consider buying a franchise. After all, they think the franchisor has a cookie-cutter approach that can't miss and they can just walk into the new business, which will be flush with cash. In the numbers I have read, four out of five new franchise businesses will not be around in five years. The numbers of franchises that fail are staggering.

Why is this the case? One reason may be that the franchisee does not have business experience and they do not know how to manage the business. Many people who buy franchises are "wowed" into only seeing the upside and not examining the downside. What things should a potential buyer be mindful of?

One thing that the potential buyer needs to see is a projected income statement for the year of purchase, preferably for each month of the first year and for the next several years thereafter. This is not something the franchisor normally provides, as the franchisor does not want to assume liability if the potential buyer does not make his or her numbers.

Since the potential buyer cannot receive these numbers from the franchisor, the potential buyer will have to assemble these numbers, perhaps with the assistance of their attorney or accountant, or both. Some of the numbers are available in the Uniform Franchise Offering Circular the franchisor must give you to inform you about the potential risks in purchasing the franchise.

It is important to know how much of the product or service you will have to sell to break even and how much you could potentially make. Most every franchise company charges a franchise fee as a percentage of sales. They also charge an advertising fee for regional or national advertising.

In addition, your franchise agreement may require that you buy all of the items necessary to make the product, or offer the service, from a vendor controlled by the franchisor. In this case, the potential buyer may not always receive the best prices, although the quality may be uniform. In many cases, the franchisor may have the right to approve where the franchise is located.

The franchisor may have located the site, negotiated and signed the lease with the owner of the property at a higher lease rate than the owner and the potential buyer would have done by themselves. The potential buyer then takes over the lease as a subtenant, not having any rights to the terms of the



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lease.

All of these items are important as they have a direct bearing on the bottom line number you can potentially earn or lose once you own the franchise.

Many franchise agreements may require that the franchisee buy his or her equipment from the franchisor and is responsible to make substantial improvements to the facility to match the newer franchises as they come out. This may require additional investments in the future that you may not be prepared for at the outset.

Another thing to look at is the support and training you can expect from the franchisor. There is normally a training period for the potential buyer usually included in the cost of the franchise. However, each additional manager, or anyone required to have the training, is an extra cost for the potential buyer and needs to be built into the business model.

How long does the franchise agreement last? Some franchise agreements last for 10 years and then the franchisor can take them back. Some franchises allow the franchisor to pull the franchise back from the buyer for cause. Some are renewable by agreement between the parties. Each case is different.

The potential buyer should ask the franchisor for a list of other franchise owners the potential buyer can interview. This is important, as the potential buyer can learn what to expect in sales numbers, how the franchisor treats its franchise owners, how much time each potential buyer will expect to have to spend in the business and what kind of bottom line to expect based upon the business model supplied by the franchisor.

A potential buyer can see if the franchise owners are happy with their purchase or have "buyer's remorse" after their purchase. All of that information is necessary for the potential buyer to make the correct decision as to whether or not to buy. After all, the best decision is an informed decision and for that you need as much information as possible.

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