

Franchises: A controlled way to own a business

If you've just joined us, we're talking about assessing your risk tolerance for business ownership by analyzing the way you think.

Last time, I covered the three main ways to earn income, outlined the risks associated with employment and discussed how employees typically think. If

you didn't identify with "employee think," then maybe you'll identify with franchise ownership.

Franchise ownership

Franchise owner thinking is: "I can run the systems, methods and procedures that are already defined and documented. If you'll show me how, I can pull the right levers, push the right buttons to make the business work."

If you've had middle management experience or if you're a "systems" kind of person; if you like a broader scope of responsibility while staying within certain rules; if you can solve big-picture problems but enjoy support when you're having a tough go of it; if you want more personal freedom than being trapped 9 to 5 in an office cube; and if you want to build equity in a business investment that you can eventually sell, then owning a franchised business model is worth researching.



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Most people think of restaurants when they think of the franchise industry. However, there are literally thousands of franchise business models available in the U.S. in at least 50 different industries, though, in my opinion, probably only a few hundred are robust or mature enough to consider investing in.

When you buy into a franchised business model, you license the right to operate a business, usually within a prescribed territory, using the franchise brand name and their products, services and methods of operation.

You basically operate a "clone" of what other franchisees are operating.

Presumably, the products and services have been tested and perfected, target markets have already been defined, marketing campaigns have been developed, store designs have been created and the necessary equipment has been specified.

You essentially operate the business model in accordance with the methods and procedures prescribed by the franchisor. Some feel that it's a controlled way of getting your feet wet in the business ownership world.

Risk assessment

Investing in and operating a franchise is more risky than employment but has less risk than an unsupported entrepreneur-owned business. The franchisor has a vested interest in helping you succeed in their business model, because they get a royalty cut of your sales income stream.

However, it is certainly possible to fail in business owning a franchised business model.

If you don't follow their system, if you refuse to market your business, if their business model, product or service simply doesn't meet the needs of the market place, or for any of a number of other reasons, then you can lose your entire investment (just like entrepreneurial business ownership).

If your risk temperament seems to be right for the franchise area, then I recommend retaining an independent outside adviser to guide you through your initial investigation and evaluation of the thousands of concepts available.

Like independent fee-for-service financial advisers, getting professional counsel to help you navigate through this area will be money well spent.

Next, we'll explore how entrepreneurial business owners think.

Dan Elder is a professional speaker, executive coach, business growth consultant, and author of the "Business Growth Accelerators" series on Amazon.com. Learn more at www.bgaccelerators.com.