**Franchising Pros and Cons:
Is Franchising Right for You?**

*by Randall S. Hansen, Ph.D.*

If you have any kind of [entrepreneurial](http://www.quintcareers.com/franchising_pros_cons.html) streak in you, the allure of owning a franchise can be great. Just about any kind of product or service that interests you probably has one of more franchising operations, from fast food (Burger King), to hardware (Ace Hardware Stores) to hotels (Super 8), to repair shops (Meineke Car Care Center), to hair [salons](http://www.quintcareers.com/franchising_pros_cons.html) (Great Clips Hair Care), to housekeeping services (Maids Home Service), to janitorial services (ServiceMaster Clean), to automotive (Jiffy Lube), to dance and exercise (Jazzercise Inc.), to tax preparation (Jackson Hewitt). Fast food, though, remains the top franchising [opportunity](http://www.quintcareers.com/franchising_pros_cons.html). According to the International Franchise Association, the estimated number of franchised locations in the U.S. is almost 400,000 in 75 industries, employing almost 10 million workers. More than 2,500 companies offer franchising opportunities.

But should you start your own business or buy a franchise of an already successful business?

**Some Background into Franchising**

What is a franchise? It's a legal and commercial relationship between the owner of a trademark, service mark, brand name, or advertising symbol (the franchisor) and an individual or organization (the franchisee) wishing to use that identification in a business. The franchise governs the method of conducting business between the two parties. Generally, a franchisee sells goods or services supplied by the franchisor or that meet the franchisor's quality standards.

Think of franchising -- or at least the costs of it -- as paying for the work someone else has already done in developing a successful business model, marketing strategy, and superior operations efficiencies.

The popularity of the franchise business model has to do with its proven track record of success and ease in becoming a business owner; however, while the success rate for franchise-owned businesses is significantly higher than for independent businesses, no individual franchise is guaranteed to succeed. That said, nine out of ten franchise owners reported profit in 2002.

Experts state that 40 cents of every retail or service dollar spent by consumers is spent in a franchised business. In 2000, most analysts estimated that franchising companies and their franchisees accounted for $1 trillion in annual U.S. retail sales, with approximately one out of every 12 U.S. retail business establishments is a franchised business. A new franchise business opens every 8 minutes of every business day

**Finding a Franchise Right for You**

The key to finding a franchise opportunity that is right for you is research -- lots of research. You'll want to first decide how much of an investment you are willing or able to make. Initial fees can range from $1,000 to more than $200,000, and then there are the other typical start-up costs, from real estate to equipment.

The average initial franchise investment is $250,000, excluding real estate, though there are many franchising opportunities available for smaller investments... and the average royalty fees paid by franchisees to the franchisor range from 3 to 6 percent of monthly gross sales. The average length of a franchise contract is 10 years.

Of course, the other key piece of the research is examining the nature of franchising -- the pros and cons of franchising -- to help you determine if *any* franchising opportunity is right for you.

**Here are some of the issues you'll want to consider before making the leap into being a franchisee.**

**Pros of Franchise Businesses**

* Established Brand and Customer Base. By far, the biggest advantage of buying into an established franchise is the strength of the brand and loyalty of its customers.
* Marketing Support. Franchises often have the support of a national campaign, as well as prepared marketing materials for a local campaign.
* Reputable Suppliers. Franchisors often have established relationships with suppliers for all the materials franchisees need.
* Business Support. There's a saying in franchising: "You're in business for yourself, but not by yourself" because you have a network of support.
* Training. Some of the better (and more expensive) franchise operations offer management and technical training.
* The Boss is You. As with owning any business that you own, you are in control of your destiny.
* Reduced Risk. For all of these reasons, starting a franchise of an established brand often has less risk than starting a business from nothing.

**Cons of Franchise Businesses**

* Initial Payout (Franchise Fee and Start-up Costs). Some of the bigger franchise operations can involve a very large initial costs, often more than what it would cost to start your own business.
* Royalty Payments. For as long as you are a franchisee, you will have to pay some percentage of the monthly gross back to the franchisor, reducing your profit potential.
* Marketing/Advertising Fees. To receive the wonderful marketing support from the franchisor, franchisees must pay these fees, according to some contracts.
* Limited Creativity/Flexibility. Most franchise contracts have very explicit standards, allowing little or no alterations or additions to the brand, stifling any creativity on the part of the franchisee. You must use their system, follow their rules.
* Sole Sourcing. Some franchise contracts stipulate that franchisors must buy supplies only from an approved list of suppliers, possibly at a higher cost.
* False Expectations. Opening a franchise rather than starting your own business offers no guarantees of success. You still need to be a sharp businessperson to make it work.
* Risk. There's always risk in starting any new business.

**Final Thoughts on Franchising**
Before finalizing your decision about buying into a franchise operation, include your family in the deliberations, because being the owner takes a lot more time and energy than you might think -- and your family will be affected the most by your workload.

You'll also want to consult two other experts as you make final preparations for buying a franchise. You'll want a franchise attorney to assist you with understanding all the ins and outs of the franchise contract. And you'll also want the assistance of a consultant to help you develop a business plan, both for yourself and for any financing you may need.

Finally, if you are a true entrepreneur, then owning a franchise probably is not for you. You'll want to start your own business so you can be free to develop your own concepts, brands, systems, etc.

**Top 10 Low Cost Franchises for 2014**

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| **RANK** |   | **FRANCHISE NAME** | **STARTUP COSTS** |
| **1**  |  | [**Jan-Pro Franchising Int'l. Inc.**](http://www.entrepreneur.com/franchises/janprofranchisingintlinc/282471-0.html) | $3.15K - 50.9K  |
| **2**  |  | [**H&R Block**](http://www.entrepreneur.com/franchises/handrblock/330827-0.html) | $31.5K - 148.69K  |
| **3**  |  | [**Cruise Planners**](http://www.entrepreneur.com/franchises/cruiseplanners/282262-0.html) | $2.09K - 21.98K  |
| **4**  |  | [**Vanguard Cleaning Systems**](http://www.entrepreneur.com/franchises/vanguardcleaningsystems/282919-0.html) | $9.85K - 35.83K  |
| **5**  |  | [**Jazzercise Inc.**](http://www.entrepreneur.com/franchises/jazzerciseinc/282474-0.html) | $3.52K - 75.75K  |
| **6**  |  | [**CleanNet USA Inc.**](http://www.entrepreneur.com/franchises/cleannetusainc/282212-0.html) | $9.76K - 97.94K  |
| **7**  |  | [**Coverall Health-Based Cleaning System**](http://www.entrepreneur.com/franchises/coverallhealthbasedcleaningsystem/282253-0.html) | $14.14K - 47.65K  |
| **8**  |  | [**Chem-Dry Carpet & Upholstery Cleaning**](http://www.entrepreneur.com/franchises/chemdrycarpetandupholsterycleaning/282193-0.html) | $40K - 139.5K  |
| **9**  |  | [**Cellairis Franchise Inc.**](http://www.entrepreneur.com/franchises/cellairisfranchiseinc/334196-0.html) | $43.06K - 397.01K  |
| **10**  |  | [**System4**](http://www.entrepreneur.com/franchises/system4/321619-0.html) | $6.15K - 37.75K  |

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| **2014 Franchise 500 Rankings**

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| **1** | [**Anytime Fitness**](http://www.entrepreneur.com/franchises/anytimefitness/306988-0.html)Fitness center  | $78.69K - 371.17K |
| **2** | [**Hampton Hotels**](http://www.entrepreneur.com/franchises/hamptonhotels/284276-0.html)Midprice hotels  | $3.69M - 13.53M |
| **3** | [**Subway**](http://www.entrepreneur.com/franchises/subway/282839-0.html)Subs, salads  | $116.59K - 263.14K |
| **4** | [**Supercuts**](http://www.entrepreneur.com/franchises/supercuts/282848-0.html)Hair salon  | $113.75K - 233.6K |
| **5** | [**Jimmy John's Gourmet Sandwich Shops**](http://www.entrepreneur.com/franchises/jimmyjohnsgourmetsandwichshops/282480-0.html)Gourmet sandwiches  | $330.5K - 519.5K |
| **6** | [**7-Eleven Inc.**](http://www.entrepreneur.com/franchises/7eleveninc/282052-0.html)Convenience store  | $37.2K - 1.63M |
| **7** | [**Servpro**](http://www.entrepreneur.com/franchises/servpro/282790-0.html)Insurance/disaster restoration and cleaning  | $138.55K - 187.19K |
| **8** | [**Denny's Inc.**](http://www.entrepreneur.com/franchises/dennysinc/282278-0.html)Family restaurant  | $1.32M - 2.61M |
| **9** | [**Pizza Hut Inc.**](http://www.entrepreneur.com/franchises/pizzahutinc/282696-0.html)Pizza, pasta, wings  | $297K - 2.1M |
| **10** | [**Dunkin' Donuts**](http://www.entrepreneur.com/franchises/dunkindonuts/282304-0.html)Coffee, doughnuts, baked goods  | $216.1K - 1.52M |

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