



WHITEPAPER

# **7 MISTAKES PEOPLE MAKE WHEN BUYING A FRANCHISE.**

BUYING A FRANCHISE CAN BE A DAUNTING  
PROCESS AND IT IS IMPORTANT TO AVOID  
THESE SEVEN MISTAKES.



## INTRODUCTION

Michael Gerber of The E-Myth talks about the entrepreneurial seizure that most of us will experience during our working careers. This 'seizure' is a feeling or want for more, a want to take control of our own lives and realize our own American dream.

Starting a business is the norm when we have our entrepreneurial spark take over and as business owners, we fall into 3 categories: the entrepreneur, manager and technician. A huge percentage of people start businesses in an area which they are fantastic at delivering the service or product being sold, either due to past careers, hobby or natural talent they may have. The 'I can do that better' mentality wins and the business is started. The problem with this model is that the new owner will soon have to manage hiring, payroll, marketing, sales, operations, expansion and so on, leading to the realization that business is a lot more complicated than initially thought!

*The best business owners and the ones that set themselves up for success are those who have all three key attributes:*

- They are an entrepreneur that thinks big and has a clear destination and vision
- They are a manager that makes sure delivery is exceptional
- They are a technician that knows the industry and can strategize on its future

If you are reading this, I assume that you have had or are in the process of having your entrepreneurial seizure and the 'starting a business' model may be perfect for you. We have however heard the facts that 80% of businesses fail in their first 5 years and a further 80% of that 20% will fail in the next. That leaves approximately 4% of businesses to reach 10 years, which is a scary fact. Franchises, on the other hand, have a success rate of over 90%, something most people cannot even claim in their own jobs.



## INTRODUCTION

I became interested in Franchising when working as a restaurant manager and became a turnaround specialist for distressed businesses, realizing I was good at understanding teams and what made them tick. I had always wanted to own my own business and decided upon the franchising route. I was sold a franchise that wasn't quite right for me, leading to a lot of work that did not suit my personality, profile or experience. I managed my way through this not so positive experience and began helping others find franchises that fit their goals, time and investment as well as their personality and what they enjoyed, as this ensured commitment and satisfaction.

This continued work led to the creation of Franchise Maven, my consultancy practice, which is now a heavily respected business that works with over 400 brands. We don't charge our clients for helping them find their perfect franchise, instead, the brands pay a referral fee for helping them find these exceptional candidates.

In this whitepaper, I will be walking through some of the common mistakes I have seen in the past when seeing people buy franchises. This will hopefully provide you with some actionable tips that will help you create a more successful business.

Information can often just be words that you read and never ever actually take action on. We are all culprits of this but the action really is the magic ingredient to success. In order to keep you accountable, I have built a system that will communicate with you weekly over the next 2 months and make sure that you are reminded to take those next steps in your franchising journey. Buying a franchise is a large investment and taking the correct steps in the buying process will determine how bumpy your business journey to success will be.

# THE MISTAKES

## AND HOW TO AVOID

### THE SEVEN MISTAKES PEOPLE MAKE WHEN BUYING A FRANCHISE AND HOW TO AVOID THEM



## MISTAKE 1

### NOT UNDERSTANDING THE BUSINESS AND INDUSTRY

Warren Buffett, perhaps the most successful businessman the earth has ever seen, has never invested in technology stocks and completely bypassed the 1999 crash and most of the 2008 crash. He did so because he did not speculate and did not involve himself in anything he did not understand. By understanding the business and the model, you will know what makes it successful, how the margins work and the likely profitability. As well as this, you will know its expansion potential and how easy the delivery is.

Understanding the business will enable you to strategize and be resilient as well as navigate challenges with more confidence.



## MISTAKE 2

### NOT ENOUGH CAPITAL

A mistake we often see is franchisees purchasing their businesses and believing that the purchase price is the only capital they will need. Working capital when you initially take over in order to sustain payroll and marketing, for example, is extremely important to the business's performance and your own mental performance.

When you create a business plan it will often contain a budget. The budget looks after everything when it comes to managing and growing the business, it is the foundation of the plan. The first thing that gets thrown out when cash flow squeezes? The budget... This means the plan is out of the window and you are flying blind, not a great place to be.

Tip - Speak to the franchisor and other successful franchisees about their working capital needs and what they needed in their first year.



## MISTAKE 3

### DON'T LET WHAT'S 'IN FASHION' CLOUD YOUR JUDGEMENT

We humans love to know what's currently working well and we love to hear from successful people, it weakens any fear we have in us and strengthens our thought processes. However, following the herd is not always the right way to go and when buying into franchises there will be a large number with a lot of hype.

Weigh the pros and the cons of the business and look at its future earning potential. Is it the type of business where revenues can continue to grow and profits follow? Is it the type of business that promotes a long-term relationship?



## MISTAKE 4

'I'LL BE RICH IN A YEAR OR TWO'

Your first year in business, like any business, will be slower than your expectations. That is okay and absolutely normal. In fact, it's often the expectations that we force ourselves to believe that aren't normal which drive us crazy.

A franchise is a fantastic business model and one that is often very successful for the owner, so set your expectations and earnings goals carefully and build a methodical plan to achieve it. By doing this you will not sacrifice your performance mentally and stick to your plan and budget.

Speak to your franchise, speak to successful franchisees and immerse yourself in the learning needed to achieve your goals.



## MISTAKE 5

DISMISS FUNDING

Many people are fearful of funding due to its perceived risk. Debt and how much debt costs have a direct correlation when it comes to risk vs interest paid. The riskier the project, the higher the interest rate payable will be. Interest/reward can come in a few different forms: standard payments to the bank/loan provider that will either be interest only or pay down the loan a small amount with each payment, or an equity stake in the organisation.

Remember, 95% of franchise investments are deemed successful, therefore, in the eyes of banks and investors, a low-risk model. They are far more likely to invest or lend their money with you at better rates than if you were starting your own business from scratch.

Don't ignore funding because, as we said in mistake 2, the amount of working capital you have will determine the level and speed of your success.



## MISTAKE 6

NOT SPEAKING TO EXISTING FRANCHISEES

Speaking to existing franchisees is a must in your journey. As well as them, I would also suggest speaking to suppliers, partners and affiliates of the brand. Most franchises will have preferred partners in areas like marketing, print, finance and more. It is worth speaking to them about their experience and how they help the franchisees increase the chances of success.

The above aids your research in becoming an expert on how the business works and combatting mistake 1. By understanding how the franchise does their marketing, how much they spend and lots of information on other suppliers, you are dramatically increasing your chances of success.



## MISTAKE 7

NOT MAKING USE OF FREE EXPERTS!

As we said in the previous mistake, a conversation is one of the most important things you look for when looking to buy a franchise. Do not worry about doing it all on your own, there are many people out there that would love to help you realise your dream of becoming a business owner.

A large percentage of organizations that you will be looking at when deciding where to invest your time and money will be quite sizeable and have a number of years of experience in franchising their businesses.

They pay referral fees to expert consultants who will work with their client base to find the perfectly suited franchisee for the franchise. Due to this fee received when a successful and correct applicant is chosen they do not charge you fees for this help.

**AT FRANCHISE MAVEN, WE  
MAKE IT OUR MISSION TO  
FIND THE RIGHT FRANCHISE  
FOR YOU. THIS IS WHY THE  
400 BRANDS WE WORK  
WITH CONTINUALLY ASK US  
TO HELP THEM FIND THEIR  
NEXT PARTNER.**

If you are looking to buy a franchise in the next few months, give me a call on 361-772-6401 or send me an email at [greg@franchisemaven.com](mailto:greg@franchisemaven.com) and we can have a conversation. Remember, it costs you nothing to use my services and through analysis of your aspirations, we will find you the perfect brand.