Benefits of Franchise Ownership: A Guide To Owning Your Own Company

What Is A Franchise?

A franchise is a method of distributing products of services under a well-known and established brand name. Franchises begin with an agreement between the franchisee (owner) and franchisor (existing business) that the franchisee will provide the goods and services licensed by the franchisor under their trademark and business system and proven business model.

(When inquiring into franchise ownership, it's recommended to work with an already-established and well-known business and brand! This will ensure your franchise is more successful.)

When owning a franchise, you are capitalizing on that brand, and their existing success. The hardest part has already been done - creating a business with a successful model that is turning a profit and has brand recognition. A franchise is an opportunity to capitalize on a business' proven success, in your territory.

Financial Investments Into A Franchise Ownership

The terms of franchise ownership vary from business to business, but frequently there is a financial investment required from the franchisee (amounts may vary depending on the business type), and a set amount of monthly royalties paid to the franchisor.

The initial investment fee will usually be a fixed amount across the board, or vary by location depending on the franchise type. The monthly royalty fee will either be a fixed amount, or a percentage rate based on gross sales.

Initial Investment

The initial investment into the franchise covers the **start-up costs** of running a business. Often these startup costs will include:

- **Training costs**
- **Owner investment**
- **Needed equipment/programs**
- **Startup marketing materials**
- **Assistance with employee recruitment**

Training costs include the time spent on-the-spot training. For a restaurant franchise this would be the time spent learning menus, protocols, ordering processes etc. The training times vary between franchises.

Owner investment is time spent by the franchisor into the training of the franchisee.

Needed equipment/programs are any associated goods or materials required by the franchisee to provide the goods and services as offered by the franchise.

Startup marketing materials include initial print marketing materials such as business cards, print materials, website building fees if applicable, and initial marketing investments.

Assistance with employee recruitment if applicable, are costs that go towards hiring employees in your area. Usually this is done online.

Royalty Fees

Monthly **royalty fees** are paid from the franchisee to the franchisor, at an agreement set out in the Franchise Agreement when signing on. Typically royalties are calculated at a set rate percentage of either weekly or monthly gross sales. Any royalty fees paid to the franchisor cover the costs of:

- **Marketing efforts and resources**
- **Any web hosting fees or program subscriptions**
- **Marketing material updates**
- **Marketing material creation**

Marketing efforts and resources are the salaries of the marketing team behind the efforts of the franchise as a whole. Most often a marketing team will include a director, graphic designer, web designer, and a copywriter/digital ads specialist. The team ensures that every aspect of print and digital marketing is handled at all times.

Web hosting fees or program subscriptions are just that - when it comes to hosting a website, there are monthly fees associated with the cost. These fees can rise depending on the level of complexities within the site required. The website hosting fees cover the location page and brand consistency online. Program subscriptions are anything required by the corporate office or individual franchisees - any graphic design software for example would be covered by these fees.

Marketing material updates are any updates needed to current and existing marketing materials. These updates can be costly depending on the level of updates required, or print costs associated.

Marketing material creation is when large-scale advertising efforts such as commercials are created by the corporate office or franchisor.

Advertising Fees

The advertising fee is an agreed-upon percentage of sales that goes towards advertising the franchise as a whole. This is done to ensure the business and franchise continues to have a momentous presence in the industry, and maintains ahead of the competing businesses in that industry sector.

When it comes to brand advertising and advertising the franchise as a whole, this always provides value to the individual franchisees, as it maintains consistent exposure and branding of the business and the value it provides.

How Is Franchise Ownership Different Than Sole Proprietorship?

A sole proprietorship is when you are operating a business under your name, trademark, or fictitious trade name. A franchise ownership is operating under the trademarked name and identity of the franchise. The benefit of franchise ownership is the name recognition which comes along with operating under the umbrella of that corporation.

Different Types of Franchises

Advantages to Owning A Franchise

- **Jump into a successful business model:**
    - Franchise business models are built upon successful tried and proven tactics that work. An unsuccessful business model will not have the capital to invest in additional individual franchisees and locations, and when this is done improperly, it hurts the brand as a whole. When a company offers franchises, it is done only because that business model guarantees success.
- **Business assistance:**
    - An individual franchise replicates the success of the company as a whole, using the tactics and business knowledge that gave the company its initial success. When it comes to franchise ownership, you receive all of that knowledge, support, and assistance in running your business.
- **Profits:**
    - The profitability of a business is synonymous with brand favorability, recognized value propositions, and trust derived from a proven track record of success. Therefore, the more established your considered franchise is, the more profitability guaranteed.
- **Continual support:**
    - With a franchise ownership you have at your disposal at any given time, a team of industry experts and knowledge on how to operate your business - anything from accounting support, to marketing support, to mentorship in guaranteeing success.

Remember that the franchisor depends on the individual franchisees thriving as well - the franchisees performance affects the overall brand, so your franchisor should always be on your side and at your disposal for continual support.

- **No experience necessary:**
    - Because all of the training is provided for franchise ownership, there is no need for experience. There should however be a given interest in the field of choice that the franchise falls under, as you will be expected to have industry knowledge once the training has been provided. If you purchase a restaurant and have no interest in cooking, chances are your success rates will be below average.
- **Work your own hours:**
    - Freedom! Your franchisor will not tell you when to work, or how many hours to put in. However, during the initial startup phase of opening your franchise, it is recommended that you put in proper hours. Once your location is established and employees hired, put your feet up and relax!
- **Run a franchise on top of another job:**
    - Running a franchise doesn't have to be a full-time job. In fact, with proper training, guidance and support, most people are able to run a franchise on top of their existing jobs, and simply bring in additional cashflow through their franchise ownership.

Disadvantages to Owning A Franchise

- **Initial investment:**
    - While initial investment is on the 'disadvantages' list, it's important to note that the initial franchise fee investment goes towards a proven system of success upon which the franchise was built upon. Oftentimes when starting up a new business outside of a franchise ownership, the startup costs can be roughly in the same range. The difference is that the initial investment into franchise ownership is properly utilized to ensure success, though to many, this initial figure may be a deterrent.
- **Financial information shared with corporate:**
    - When you own a franchise, all of your financial statements and information are shared with the corporate office. This provides a few uses - the corporate office uses the financial information to determine the rate of the royalty fees, measures the success of the business within your territory, and in larger-scale franchises, the majority of accounting and payroll is handled by the corporate office. Therefore, sensitive financial information is always (safely) shared with the franchisor.
- **Potential for limited creativity:**
    - Most individuals are creative by nature, and we may all have great ideas on how we think a franchise could and should be run. Unfortunately within most franchise

agreements there contains a clause on adhering to existing brand guidelines. Franchises don't leave a great amount of room for creativity.

- **Less freedom with the brand name:**
  - Again, adhering to a brand name means operating within established brand guidelines. This is to ensure success of all locations and the franchise as a whole. This means there may be less options for straying within marketing efforts, which can be frustrating at times to franchise owners who have their own ideas and strategies. A good franchisor will hear out your efforts and ideas, and look for ways to make those fit within the budget and overall business model if they are valid and worthy.
- **Royalty fees:**
  - Royalty fees when operating a franchise can be anywhere from 1-9% of your gross monthly sales. There may be some flexibility in negotiation of fees, or waiving fees for a certain amount of time depending on your negotiations and franchise contract/agreement.

How Do I Become A Franchise Owner?

If you've ever considered owning your own franchise in Canada, one of the best online resources is the Canadian Franchise Opportunities website. The website hosts a plethora of franchise opportunities across the country as well as resources on joining a franchise at every stage of business growth.

Here you can discover a multitude of successful Canadian businesses who have established themselves as leading industry experts and are now giving the opportunity for private franchise owners to begin their own endeavours in an industry that excites them and provides unparalleled growth opportunities.

When beginning the operation of a franchise, the franchisor will provide a franchisee with territory agreements and maps within they can operate their services. These territory maps ensure that each franchisee has a broad area in which they can operate and advertise. If a territory has already been claimed, another franchise is unable to be launched within that territory. However, you could potentially **purchase an existing franchise**, if that location comes up for sale.

Franchise Agreements and Standards

Successful Franchise Agreement Interview Techniques

"Wait. I have to interview to purchase a franchise?"

When a company allows an individual to operate under its legal identity and brand, they want to ensure that that individual is going to represent the company to the best of their ability, and has the required character traits to properly conduct themselves in a professional and courteous manner. *In other words - yes! You can be denied a franchise ownership, the same way you can be denied a job.*

Luckily these interviews are very difficult to ‘fail’. The most important thing to bring to the table is your passion for the industry specifics of the franchise that you’re interviewing for. As mentioned above - you wouldn’t buy a restaurant franchise with no interest in food or cooking, would you?

Franchises are not ‘get-rich-quick’ schemes. When operated properly, a franchise brings in a great opportunity for income. However, there is work to be done when launching and operating a franchise, and it’s important to both the franchisee and franchisor that the efforts between two parties be mutual, and that there is a level of likeability and trust between the two. You’ll be in close contact.

As with any interview, promptness, being well-conducted, displaying a professional appearance, and having researched the company are imperative when the interview stage between two parties has been reached. You should have some level of knowledge about the company history, overview, and successful existing franchise locations, as well as the company brand, values, and services or goods they provide. Successful franchise agreement interview techniques will require some initiative on your end. Remember - when you launch your franchise, you are representing the brand!

Exiting A Franchise Ownership Agreement

Sometimes a franchisee and franchisor come to a mutual agreement that the franchise contract can be voided. There is generally a clause allowing this, as there is a clause in most contracts to exit early. Similarly to ending a tenancy agreement before the contract is fulfilled, the termination of a franchise ownership agreement can result in a nominal fee to cease the contract.

In certain cases this fee can be voided when the franchisee is able to transfer the ownership of the franchise to another interested individual. This person must also interview through the corporate office - this process must have all parties involved.

Most franchise ownership agreements include a time limit on ownership renewal - say a contract is signed for five years. That means the franchisee agrees to operate within the territory and agreed upon terms up until such time that the renewal comes up.

Unfortunately the dissolution between two parties regarding a franchise agreement does not include the initial deposit and return of franchise purchase costs. When transferring the franchise agreement, or selling an existing franchise, it is up to the new franchisee to repurchase, so the original investor can receive their investment back. The investment will not be returned from the franchisor once the agreement has been made and signed by both parties.

Purchasing An Existing Franchise

Occasionally it may come up that a franchising company has an existing franchise location which is up for sale, or for takeover from the original purchaser. This may happen due to a few reasons:

1. The franchisee did not hold up their end of the agreement.
2. The franchisee has had a personal life interference or illness preventing them from properly and successfully operating their location.
3. There was a mutual parting of ways between the franchisee and franchisor. Most franchise agreements allow for a broken contract with supplemental clauses embedded when it is deemed necessary by both parties.

Although an existing franchise location may have come up for sale, this by no means indicates that the franchisee or business was not successful within their area. In fact, it can be beneficial to purchase an existing franchise, as the franchisee has likely already performed the startup marketing penetration tactics which have been provided by the corporate office, and has established themselves to be a pillar in the industry within their communities.

Examples of Successful Franchise Ownerships

	Tim Hortons	**Marlin Travel**	**M&M Meats**	**Freshii**	**Liberty Tax Service**
Initial investment	$60,000 - $665,700	$100,000 - $150,000	$400,000 - $500,000	$170,00 - $470,500	$34,200 - $64,400
Average yearly profits					

Franchise Agreement? Or MLM?

There is a distinct difference between a franchise, and a multi-level-marketing company.

Some examples of extremely successful MLMs, or multi-level-marketing companies include: **Avon, Tupperware,** and **Mary Kay.** Chances are that you recognized all of these brands, and may even have a few around your home, or known somebody who has represented one of these companies. These companies paved the way for themselves in their industries by providing value, and innovative marketing techniques such as group parties where the products could be tested and shown to potential buyers. These companies made the sale of their products fun and pressure-free. These pioneer MLMs were non-predatory, relaxed, and meant to be a supplemental income with no quotas or minimum requirements.

A multi-level-marketing company is based off of commissions, and individual consultants are encouraged to not only sell the products, but also to recruit new sales people or consultants for the company. While the sale of products results in a small commission, the real money is found in recruiting new sales people.

In the last few decades, the multi-level-marketing business platform evolved to require their salespeople to meet monthly quotas, either by selling enough products, or by signing up their peers to become representatives for that company as well - who then in turn had their own quotas to meet. These new MLM companies became predatory, especially targeting their services to new mothers who were promised an easy work-from-home job so they could spend time with their children. Unfortunately these MLMs are wrought with complicated contracts, unsustainable quotas, and most of the time, inferior products.

A franchise agreement will not have a minimum monthly financial quota to be met, apart from the expected and agreed upon franchise and/or marketing fees. *Be wary of any agreement that sounds 'vague', or has any cryptic wording. A franchise agreement will have every company aspect and expectation written out in black-and-white, and will not be rushed through without both parties reading.*

Most importantly, a franchise will never be pushed upon somebody through social media marketing tactics, or advertised as a non-specific business or employment opportunity with no further details. A franchise will be presented in fact form, by a reputable company.

Is A Franchise Ownership Right For Me?