

A franchise provides people the opportunity to own a business with the support and brand recognition of larger company. Franchises are independent businesses formed by a joint venture between a franchisor and a franchisee. A franchisor sells the right to open stores and sell products or services using its brand, trademark, and intellectual property to a franchisee. A franchisee is a person or company that purchases these rights to form a business under the name and original idea of the franchisor.

You can also receive free professional business advice and free or low-cost training from [your local Small Business Development Center](#)!

Updated May 20th, 2022

Information for Franchisees

Buying a franchise presents an opportunity for aspiring entrepreneurs to achieve small business ownership. While there are various reasons to consider owning a franchise, it is important to consider the advantages and disadvantages:

Advantages

- Buying an existing franchise may reduce likelihood of business failure. As about 5% of

startups fail in the first year, buying a franchise of a business with years of success may prove beneficial for overcoming common startup hurdles. In fact, the first year franchise survival rate is about 6.3% higher than the survival rate of independent businesses.

- Through the business partnership, franchisees may receive valuable business assistance from their franchisor. With insufficient capital as a primary reason many businesses struggle, some of this burden may be offset with equipment, supplies, and expertise from the franchise owner.
- An established customer base from brand-name recognition may also kickstart the business and provide insight about successful marketing for the business.

Disadvantages

- Buying a franchise of an established brand may be costly as the most highly recognized

brands may have higher fees. Additionally, franchisors may have vendor specifications, which could increase operating costs.

- Rules and Regulations may be challenging as franchises are regulated at a federal and local level. The Federal Trade Commission (FTC) created a [Franchise Rule and Compliance Guide](#) which provides prospective franchisees necessary information to make decisions about their potential investment. Additionally, some states impose [State Franchise Laws](#) which have additional requirements for registration and filing of franchises.
- A franchise buyer may have less control over policies within the business. As a representative of the franchisor, there may be limitations about managing the business as a franchise owner rather than an independent business owner.

Getting Started

Buying a franchise is a complex process that requires a long-term investment. With the decision to start a franchise made and capital in hand, the following guides provide insights to help you in your venture.

- [A Consumer's Guide to Buying a Franchise](#) - thorough guide prepared by the Federal Trade Commission to help you determine if a franchise is right for you
- [Buy an Existing Business or Franchise](#) - distinctions with advantages and disadvantages to each approach of getting into business from the U.S. Small Business Administration
- [How to Open a Franchise](#) - seven steps on getting started from the U.S. Chamber of Commerce

- [What to Look for in Your Franchise Agreement](#) - overview of key items to look for in the agreement from Legal Zoom

Franchise Directories

- [SBA Franchise Directory](#) - list of franchises by The Small Business Association (SBA) updated weekly
- [International Franchise Association \(IFA\)](#) - directory of franchises with search tools to refine the results
- [FranNet](#) - directory of franchise opportunities by industry
- [Franchise Direct](#) - directory of opportunities for sale.
- [The Franchise Directory](#) - national directory brought by The Franchise Expo.
- [Franchise Times](#) - web site for *Franchise Times* magazine. Site includes a directory
- [Entrepreneur Magazine Franchise Zone](#) - articles about opportunities and getting

started with franchising.

- [BizBuySell](#) - business for sale marketplace which shows business buyer and seller listings among various business categories and locations.
- [USA Today Business Opportunities](#) - listing of opportunities.

Franchise Opportunity Evaluation

Before buying a franchise, it is important to evaluate the franchisor and the industry in which it operates to set up for success. With many options available, it is also important to [compare](#) franchising opportunities. Some key considerations when evaluating an opportunity:

- Value of Franchise – Business valuation is an important step of the [finance](#) aspect of buying or selling a franchise. [The International Franchise Association](#) has helpful articles about choosing a franchise and factors to consider in assessing their value.
- Industry Market – The product or service that a franchise delivers informs the potential of the business opportunity. Understanding the industry market of the franchise serves to determine profitability. Some major industries for franchises include [Fast Food](#),

Gyms, Real Estate, and Self-Storage.

- Franchise Agreement – The franchise agreement includes royalties to be paid to the franchisor, restrictions and obligations, and more about the company's promise to the franchisee. This agreement may impact buying decisions and set expectations about operating the business.

Information for Franchisors

Selling a franchise presents an opportunity for small businesses to grow and expand while providing an opportunity for others to pursue entrepreneurship. There are advantages and disadvantages of franchising a business to consider:

Advantages

- Franchising a business may spur business growth through brand recognition and

establishing a customer base. As consumers develop brand awareness, they may be more likely to continue using the products and services of a brand they trust.

- Business risk for a franchise is allocated on a wider scale than an independent business. As a franchisor may develop a working system that can be duplicated in multiple locations, the normal risks of opening and operating a business are managed by the franchisee with less need for supervision.
- Buying power may be greater for a franchise as the size of the business network is larger than that of independent businesses. Vendors and suppliers may offer beneficial deals, which may lower business operation costs.

Disadvantages

- Brand control may be less secure for a franchise as the franchisor oversees the

corporation on a large scale, and the individual brand experience for customers and clients may become the responsibility of franchisees.

- Liability and legal disputes may be a concern as consequences from the actions of a franchisee may fall on the franchisor. Such issues may include employees, facility maintenance, and business operations. Moreover, contention between franchisee and franchisor may require legal action.
- Initial costs may be significant for franchising compared to maintaining an independent business. Legal costs for developing a strong franchise agreement may be costly in addition to the expected costs of opening a business.

Franchising Your Business

- [How to Franchise Your Business: 7 Steps for Small Businesses](#) – from Legal Zoom, key steps businesses must take before franchising their business
- [How to Successfully Turn Your Business into a Franchise](#) – a look at the franchise business model provided by Entrepreneur Media
- [Want to Franchise Your Business Idea? Here's What You Need to Know](#) – factors to consider in franchising your business from the U.S. Chamber of Commerce
- [Franchise Rule](#) – starting point from the Federal Trade Commission providing prospective buyers the information they need to make an informed decision
- [Ultimate Guide to Franchising Your Business](#) – article on legal requirements, potential

steps, and selling techniques for franchisors

- [How to Turn Your Business Into a Franchise](#) – article on business planning, managing growth, and working with franchises

Franchise Fraud

- [Work-at-Home Schemes](#) – Work-at-Home business opportunities are everywhere, but be aware that not all work-at-home opportunities deliver on their promises.
- [Multilevel Marketing Businesses and Pyramid Schemes](#) – Not all multilevel marketing plans are legal. If you're thinking about joining what appears to be a legitimate multilevel marketing plan, take time to learn about the plan before signing on.
- [Business Coaching Scam](#) – Some business offers may seem too good to be true. From promising success in starting an online business to investing, business coaching can become misleading.

Additional Small Business Resources

Already in business or thinking about starting your own small business? Check out our various small business resources:

- View our COVID-19 Resources here: [COVID-19 Small Business Resources](#) and [COVID-19 Industry Resources](#)
- View our small business cybersecurity resources here: [Cybersecurity](#)
- View our small business help topics here: [Small Business Information Center](#)
- View our business reports here: [Small Business Snapshots](#)
- View our industry-specific research here: [Market Research Links](#)

Remember, you can also receive free professional business advice and free or low-cost business training from your [local Small Business Development Center](#)!

Photo by [Andrew Mashkov](#) on [Unsplash](#)