

Watch Your Step

Common mistakes prospective franchisees make

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As you investigate franchises, be sure to avoid these common mistakes franchise buyers make:

- 1. Losing sight of what you want.** You're looking for a part-time, homebased business, but you end up with a fast-food operation that demands 90-hour workweeks. What happened? It's easy to lose sight of your original goals when hit with the franchise hard sell. Know what you want before you go shopping, and avoid franchises that don't meet your criteria.
- 2. Getting in over your head financially.** Franchises are expensive. There are upfront fees, equipment and training costs, royalties and more. As with any business, know how much you can afford to spend on start-up. Write out a business plan showing financial projections, and stick to it.
- 3. Not getting feedback.** It's easy to feel isolated when buying a franchise, but you can end up making a big mistake if you don't get outside advice. Seek people who can help you evaluate a company objectively. Visit existing franchisees, as well as some who have left the system. Ask them what they like and don't like about the franchise.
- 4. Failing to read the fine print.** Yes, the Uniform Franchise Offering Circular is a hefty and intimidating document. But you're making a sizable investment that will affect your daily life for years to come. You can't afford to ignore any information that can help you make the right decision. It's essential to read the UFOC and related documents carefully. Bonus: Now, all franchisors are required to use the new format, "plain English" UFOC, which is far easier to read than the old format's mind-boggling legalese.
- 5. Being penny-wise and pound-foolish.** Paying to have a qualified lawyer and accountant read the UFOC with a fine-tooth comb is an

investment well worth making. Skimping on professional fees now could cost you thousands later.

6. Buying in too early. Buying into a new franchise system can be a great way to get in on the ground floor. Unfortunately, some new franchisors haven't yet worked out all the bugs; moreover, they may not have the name recognition that's such an important part of the franchise formula. Move extra-cautiously if you're considering a new franchise. Meet other franchisees, if there are any, and pay particular attention to founders' previous business experience. One plus: It may be easier to negotiate flexible terms when dealing with a new company.

7. Falling for exaggerated earnings claims. If the franchisor's claims of profit potential sound too good to be true, they probably are. Take any such claims with a grain of salt. By law, any earnings claims a franchisor makes must be backed by hard data. Again, talking to franchisees will give you a better sense of the validity of these claims.

8. Not checking the warranty. For whatever reason, the franchise doesn't work out as you'd hoped. Now what do you do? Know your options before you buy. The franchise agreement will specify your alternatives for getting out of a franchise. Review those carefully with your lawyer before signing on the dotted line.

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