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Ask an Expert

Steve Strauss

Five reasons why franchises flop

Q: A friend of mine bought into a fairly new franchise system. We all thought it was a winner. However, he went out of business in less than two years. I would like to buy a franchise but don't want to fall into the same trap. What should I be on the lookout for?

Pete

A: The good news is that the likelihood of you failing as a franchisee is fairly remote. According to the Small Business Administration (SBA), roughly 30% of all non-franchise businesses fail within the first year, but that number falls to 5% when discussing franchises.

Nevertheless, you don't want to be part of that 5%. So why do franchisees fail? Here are the top five reasons:

1. Bad Systems. The key to franchise success is being able to duplicate what someone else has already successfully done. But the fact is, not all businesses can or should be franchised. If the business model is dependent upon the skills of, say, an extraordinary owner or manager, *that* cannot be franchised.

Think about McDonald's for a moment. The genius of Ray Kroc was that he created a business and a system that allowed high school kids to run the shop. That is because his system was a great system. Not dependant on one individual, McDonald's works because theoretically anyone can be plugged into this system and still create the same result. That is the idea.

2. Bad Locations. Not all franchises need to be in a dynamite location. For instance, a tax franchise can probably safely be off the beaten path and all will be fine. But retail franchises absolutely need a great location. As one successful franchisee once explained to me – You can be a poor business man in a great location and still do OK, but it is very

difficult to succeed, even if you are a great businessman if you have a poor location.

3. Inadequate Advertising and Marketing. If you buy into a branded, well-known franchise, you have two immediate advantages. First, because of previous advertising, people will know what your business is. Second, almost all national franchisors have continual national advertising campaigns.

But if you buy into a newer or smaller system, you won't have the advantage of immediate name recognition. In that case, advertising is even more important. Not advertising is like being alone in a dark room – you know you are there, but no one else does. So you either need a franchisor who is committed to advertising and marketing, or you must do it yourself.

4. Too Much Competition: There are more than 150,000 franchises in the United States. That is a *lot* of competition. You have to make sure that the market — especially your local market — has not been over-saturated with businesses similar to the one you want to get into.

5. Inadequate Start-up Capital. It may take a year or two or three before you really see how much money your franchise will make. But too many new franchisees don't think that far ahead and fail to plan accordingly. Lack of funds has doomed many a franchise.

Today's Tip: One of the best things about being in business today is the vast amount of free resources available to help you succeed, especially online resources. I am happy to report that one of the better ones just got even better.

Microsoft's small business center used to be called bCentral. Well, after conducting extensive research into what small business owners *really* want and need in the way of technology and other small business solutions, Microsoft recently revamped, renamed, and upgraded that site. It is now www.Microsoft.com/smallbusiness.

I had the chance last week to speak with one of the people in charge of the new site — Frederic DeWulf, the Web director for U.S. Small and Midmarket Solutions. He explained to me that Microsoft's research indicated that small businesses wanted three things from Microsoft's small business site: Technology solutions, a better understanding how to get more out of the software they already had, and other pertinent business info and know-how.

The new site delivers all three in spades. It has articles, online demos, access to experts, communities, and much more. Say for example that you would like to learn more about how to better protect your computers. The new Security Guidance Center at Microsoft.com/smallbusiness not only has articles to read, but it has a very useful video demo that helps you learn about, and troubleshoot, hot issues. Such short video clips are sprinkled throughout the site and are one of the things that I saw that I liked best.


In addition, you can find scores of other tools and tips that can help you do everything

from work more collaboratively to sell better to more easily understand the financial aspects of your business. All in all, the site is intuitive, personalized to your sized business, and generally a wealth of information and assistance. Steve says check it out.

Ask an Expert appears Mondays. You can e-mail Steve Strauss at: sstrauss@mrallbiz.com. And you can [click here](#) to see previous columns. Steven D. Strauss is a lawyer, author and speaker who specializes in small business and entrepreneurship. His latest book is The Big Idea: How Business Innovators Get Great Ideas to Market. You can sign up for his free newsletter, "Small Business Success Secrets!" at his Web site —www.mrallbiz.com.

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