



**Buying a Franchise
New Systems vs. Mature Systems
By
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Buying power, name recognition, expertise (both in the business and in the business of franchising), advertising clout and research and development are some of the benefits prospective franchisees expect when buying a franchise. With the newer systems, these benefits may not materialize for several years, if at all. There is no question that the risks for franchisees in the start-up franchises are higher than with the mature franchises.

However, advantages can be found in the newer systems. For example, the prospective franchisee will have many more locations and territories to choose from in a franchise system that has not grown enough to reach saturation in prime areas. The entry costs may be lower and the rules less strict, which may appeal to the more entrepreneurial franchisee. Depending upon the depth of market penetration by the franchisor and the franchisee's proximity to the franchisor's established markets, there may even be a significant name recognition value for the franchisee.

In all successful franchise systems, the franchisor has developed substantial expertise in the core business and in the business of franchising. Even the new franchisor may have a well-developed business model, but it will be impossible for the prospective franchisee to know how the franchisor will grow the franchise system and react to issues that impact upon its franchisees. With the older systems, there are many ways a prospective franchisee can investigate the franchisor's all important franchise skills, before making the investment. One of the most important investigative tool is to ask as many existing franchisees as possible how the franchisor runs the system and responds to the needs of its franchisees. In the newer systems, the number of existing franchisees are small and the ones that do exist may be far to new themselves to be able to give a clear picture of the franchisor's strengths and weaknesses. A careful review of the franchisor's disclosure document will provide valuable insights about the franchise offering whether or not the franchise system is new or mature, as all franchisors in Alberta, Manitoba, Ontario, Prince Edward Island and New Brunswick must deliver such a document to prospective franchisees.

Many franchise systems operate in the retail sector, where the location of the store is critical to the franchisee's success. Again, this is where there are differences between new and mature franchise systems. The more developed the franchise system, the more likely the landlords will be willing to deal with franchisees in the system and the more likely the franchisee will be able to acquire desirable locations on more favourable terms. When it comes to lease negotiations and negotiations on renewals, the mature franchisor will provide greater expertise and market knowledge to the benefit of the franchisee.

Assuming that the prospective franchisee accepts the greater risk of purchasing a franchise in a newer system, in order to gain the advantages, then what can be done to make the investment a little safer? While it is an accepted fact of life that franchise agreements of mature franchisors are non-negotiable, this is not necessarily the case with the new franchisors. In fact, there are important changes that should be made to the franchise agreement, for the very purpose of reducing the risks. New franchisors, anxious to start growing the system and wise enough to know that quality franchisees are necessary all the time, but especially at the beginning, will be amenable to changes to the franchise documentation that will not be tolerated later in the franchise growth cycle. Control of the location by the franchisee, reduction or elimination of the franchisor's discretionary powers, freedom to purchase inventories and supplies anywhere, more limited post-termination obligations of the franchisee, are but a few of the areas of possible and valuable change.

It is not just how large a franchise system is that matters, but how quickly the franchise system has grown. A large number of franchises sold over a very short period of time, may, in fact, indicate a troubled system, as rapid growth without attention to growing the franchisor support structure and the system culture may create problems for every franchisee in the system.

While purchasing a franchise in the "best" system may be a worthy objective, what is "best" for one franchisee, may not be "best" for another. The wise approach is take stalk of yourself first, assess your tolerance for risk, determine what industries you find most fitting, then investigate, investigate and investigate more.

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