

What to consider before venturing into franchising

Many entrepreneurs consider going into franchising as a guaranteed route to attaining business success.



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“Despite the sector having a higher success rate compared to its counterparts, franchising has its pros and cons and will not necessarily be suitable for every entrepreneur. Entrepreneurs who are considering or have decided pursuing franchising as a business opportunity should perform due diligence to avoid making costly mistakes,” says Morne Cronje, Head of Franchising at FNB Business.

He shares key factors that entrepreneurs should consider to determine if franchising suits their needs and business endeavours.

Is franchising right for me?

Acquiring a tried and tested system and business model is not for everyone. You should be comfortable to operate in line with the business licence, rules, procedures, requirements and standards set out by the franchisor.

Which industry and brand would be ideal?

Almost every industry can be franchised, which can be an advantage should the entrepreneur have a certain preference. However, the challenge is finding a brand that is aligned to your core values as an entrepreneur.



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Alan Hockey 3 Jul 2019



Am I financially ready?

One of the biggest barriers to entry for franchisees is costs, especially if the brand is prominent. As part of the application

for funding, franchisors require the entrepreneur to raise a significant portion of the franchise costs upfront.

Are existing franchisees satisfied?

Interview and determine if franchisees are satisfied and whether they are experiencing any challenges. This will give you a good indication if you are the right fit.

Does the franchisor approve?

The next step would be to approach the franchisor and inform them of your intention to join their network. You will be required to go through a vigorous vetting process to ensure that you are a suitable candidate. Every franchisor has their own requirements.

This is also an opportunity for you to find out more about the business and the type of support you are likely to get from the franchisor.



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Contractual agreement

Should your application be successful you will be offered a contractual agreement. It is advisable that you thoroughly go through the agreement to ensure you fully understand what you are agreeing to. If unsure, seek advice from an expert.

How to get funding

As the final step, you would have to approach the bank and apply for funding.

Banks will consider several factors before the loan can be granted:

- Detailed franchise description and system.
- Business plan.
- FICA and personal balance sheet of all prospective shareholders and sureties.
- Contract and franchisor approval letter.
- Detailed description of all set-up costs and estimated cash flow forecast.
- Own contribution to purchase the franchise and collateral if required.

Funding requirements may differ depending on the type of franchise and whether it is a new setup, existing business being purchased or taken over from another bank.

“Taking the above factors into account while doing additional research based on the franchise opportunity you want to pursue will go a long way to ensuring that you make a sound business decision,” concludes Cronje.

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