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Top Six Reasons Why Franchisees Fail

1. Failure to select a franchise system that will succeed. (See Article entitled "Top 10 Reasons Why Franchise Systems Fail")
2. Failure to do their due diligence with respect to the franchise system and the franchisor's management. Has the franchisor fully developed the franchise system or does it have a "to be developed" training program or operating manual? Does the franchisor have the experience and financial stability to provide the training and expertise that you lack and to operate, develop and maintain the franchise system? Is the franchise system a proven concept or are you getting in on the "ground floor?"
3. Failure to select a franchised business that is a good fit for them. Do you enjoy what you will be doing? Do you have the appropriate aptitude and demeanor for the business? Are your financial, operational and other expectations reasonable? Are your financial, operational and other expectations consistent with financial, operational and other realities? Talking with existing and former franchisees can provide you valuable information.
4. Failure to understand that the franchisor will not run the business or guarantee the success of the business. Although franchisors are responsible for providing the tools to assist you succeed in your franchised business (such as training, access to equipment and inventory, an operating manual and operational advice), it is your responsibility to select the site and operate the franchised business in accordance with the franchise system's requirements and guidelines and in accordance with sound business practices.
5. Failure to follow the franchise system's requirements and guidelines. Assuming that the franchise system is a proven concept, its success is, in whole or in part, attributable to the policies and procedures adopted by the franchisor. Failure to follow those policies and procedures may lead to failure of your franchised business and will likely lead to an acrimonious relationship with your franchisor (if not termination of your franchise rights).
6. Failure to properly capitalize the franchised business. It takes money to make money. Undercapitalizing a business is a sure way to waste your time and any assets that you do invest.

Susan E. Wells is a partner with the Phoenix law firm of Wells & Gerstman PLLC. Her corporate and business practice encompasses all aspects of business transactions and commercial relationships in numerous industries, including franchising and buying and selling businesses.

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