

Franchises and Business Opportunities

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Question:

I am currently looking at several opportunities. Some are franchises and some are business opportunities. Can you tell me the difference?

Telling the difference between a franchise and a business opportunity can get very confusing sometimes. But knowing the difference is important to understand before you sign on the dotted line.

The most common types of biz ops are rack jobbers, supplier – dealers distributorships and vending machine routes. These are opportunities where the operator typically sells products or services supplied to him by the company or through an affiliated company; the company provides the operator with outlets or accounts or provides them with locations to set up vending machines or racks; and the operator services the customers by filling the machines and racks.

While some franchise systems also have these elements, the difference between a biz op and a franchise is in the degree of the relationship between the operator and the company.

| | Franchise | Business Opportunity |
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| Common Name | A franchisee's business is identified by the franchisor's trademark | The licensee may not be identified by the trademark |
| Support | A franchisee receives training, marketing and other support on a continual basis | The licensee may receive very little, if any, in the way of support from the company – except for sources of products |
| Standards | A franchisee typically offers products and services on an exclusive or semi-exclusive basis and has minimal standards of performance set by the franchisor | The licensee can usually handle a variety of different lines of products and services – some which may compete with the other |

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| Fees | A franchisee typically pays a continuing royalty based upon the gross sales of their business | The licensee's payments are not typically on sales but on the purchases they make from the licensor. |
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Business opportunities have several advantages over franchising, the principal one being that business opportunities offer far more independence and flexibility than you would find in a franchise relationship. They usually cost less to start up than a franchise in the same industry and they do not usually require the licensee to pay a continuing royalty fee, as you would find in a franchise. It is often a good method for home-based, part time or second income businesses.

There are some significant drawbacks however. The biggest is that you seldom receive any significant help in setting up the business, management systems, training, marketing and you don't get much in the way of ongoing support, either. In good franchises, it's the system provided by franchisors to its franchisees that is cited by franchisees for their success.

Franchisors like to say that in a franchise you are in business for yourself but not by yourself. In a biz op, you are not only in business for yourself, you are usually also in business by yourself. If you are looking for the initial and ongoing support that comes with a franchise system, buy a franchise. If you're a rugged individual – then biz ops could be for you.