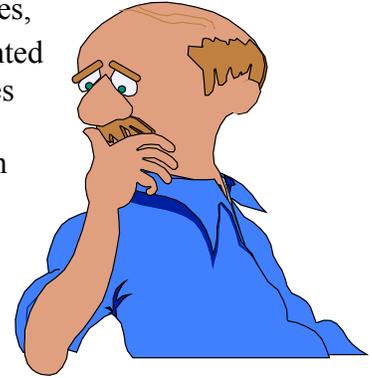


# THE FRANTREPRENEUR MENTOR FRANCHISE BUSINESS JOURNAL

*VOLUME 113*

## Why Do I Pay A Franchise Fee? *The Cost of Putting a Franchisee into Business*

**F**ranchising is a strategy that the Franchisor uses to achieve its objectives, including market penetration and market domination. Franchises are granted or awarded to a qualifying Franchise Candidate that has similar objectives in their own marketplace. That Franchisee will have the responsibility to fully implement the operating and marketing systems of the Franchisor in their defined area for a specified period of time. The relationship is not generally one of parity.



If it were a relationship of parity, the Franchisee would take on a great deal more responsibility, and of course, liability and risk as well. So the relationship is not one of actual partnership in the legal sense. However, good Franchise systems will generally recognize their Franchisees as Strategic-Partners, meaning they are in a partnership of sorts that is aimed at achieving unified goals, but not one of legal partnership or equity.

The Franchise Fee is the cost of putting the Franchisee into the business of the Franchisor, not as a partner, but as a participant. Costs include:

- ◆ The development costs of all of the elements of the Franchisor's system
- ◆ Training the individual Franchisee to use those system elements and programs
- ◆ Marketing and advertising to find Candidates
- ◆ Costs of qualifying Candidates including rejecting many unqualified Candidates
- ◆ Salaries, travel and administration etc.
- ◆ Legal expenses to draft agreements defining the methods and terms for the franchisee to participate

The Franchise Fee is the Franchisor's assessment to cover those costs as well as a reasonable markup. In other words, it's the entry fee to the point of the completion of the initial training programs.

To the Franchisee it must represent a reasonable fee to allow you to become a part of the existing system, including all of the training programs that are a part of that system, to help you reach your own business goals.

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When asked about the Franchise Fee, the Franchisor should have this concept clearly defined in their approach to Franchising. They should recognize that the Franchise Fee should be reflective of the value of entry into a well-developed, comprehensive system for the participant Franchisee. They should also recognize it as the recovery of costs to find, qualify, and grant legal rights to participate in that system to the very best Franchisees for the Franchisor's business.



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*The Frantreprenuer Mentor helps folks just like yourself, to quickly find and match you with the ideal franchise; one that fits who you are, will work well in your area, you'll enjoy operating and have the opportunity to be highly successful at. Some clients call us a "Franchise Match-Maker". In addition, as a franchise consultant and advisor, I mentor, coach and support you throughout the entire franchise process with regular coaching, communication, mentoring and advice.*

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