

Franchising has disadvantages to Franchisor:

- Franchisor earns a lower income stream from the franchised outlets compared to that earned by the owner of a comparable chain store operation.
- Start-up Franchisors need to sell franchises quickly in order to establish the credibility of the system, yet most have considerable difficulty finding suitable Franchisee candidates. As a result they relax their criteria and admit unsuitable candidates who later become disgruntled, or who cause widespread dissatisfaction by operating at substandard levels, or who incite other Franchisees to revolt and leave the system.
- Unlike the owner of a chain store operation, Franchisor has much less ability to control vital aspects of the Franchised Businesses, which significantly restricts the ability of the franchise system to respond quickly to competitive initiatives and changing markets.
- Although the franchise agreement normally contains clauses entitling Franchisor to terminate the franchise for a variety of causes, the legal process provides Franchisees with a broad array of legal weaponry which they can use to frustrate Franchisor's effort to terminate.
- Unlike the owner of a chain store operation, Franchisor must comply with the licensing requirements of the *Trade-marks Act*, and in many North American jurisdictions with statutory restrictions on the sale of franchises and the continuing franchise relationship.
- The Franchise Agreement usually contains clauses greatly restricting Franchisee's use and disclosure of Franchisor's trade secrets and confidential information, and prohibiting Franchisee from engaging in competing activity both while the relationship continues and, to a limited extent, after the relationship ends. The enforceability of such clauses is often uncertain, and Franchisors face a risk that their Franchisees may become competitors after the relationship ends.

Franchising also has disadvantages to Franchisee.

- Franchising is not for the individual who is too entrepreneurial, for s/he will soon chafe unbearably under the extensive controls imposed by Franchisor. Similarly, franchising is not for the individual who is overly-dependent on Franchisor's assistance and control to succeed.
- Franchisees cannot use Franchisor's Trade-mark, know-how and systems for free: the individual who could likely succeed without the assistance of these could operate much more profitably as an independent.
- Franchisees often must invest significant "sweat equity" in their Franchised Businesses. In many systems Franchisees must work their outlets "hands on" for long hours, seven days a week, at low margins.
- Franchisees must accept the significant restrictions which Franchisors impose on selling their franchises or involving others as additional owners of their franchises.
- It is often difficult for prospective Franchisees to adequately assess a franchise system, its Franchisor and the mind-set of Franchisor's senior managers.