

Check LIST

9 Steps To Finding The Right Franchise

Succeeding with a franchise is no fluke. It takes careful and deliberate planning, research and investigation. Building carefully toward success can be frustrating—and about as exciting as a visit to the reference library—but it pays off in the end.

The process of preparing for franchise success has three distinct stages and three keys to success in each one. Don't pass them by. Skip one stage or yield to the pressure of the hard sell, and you're setting yourself up for failure.

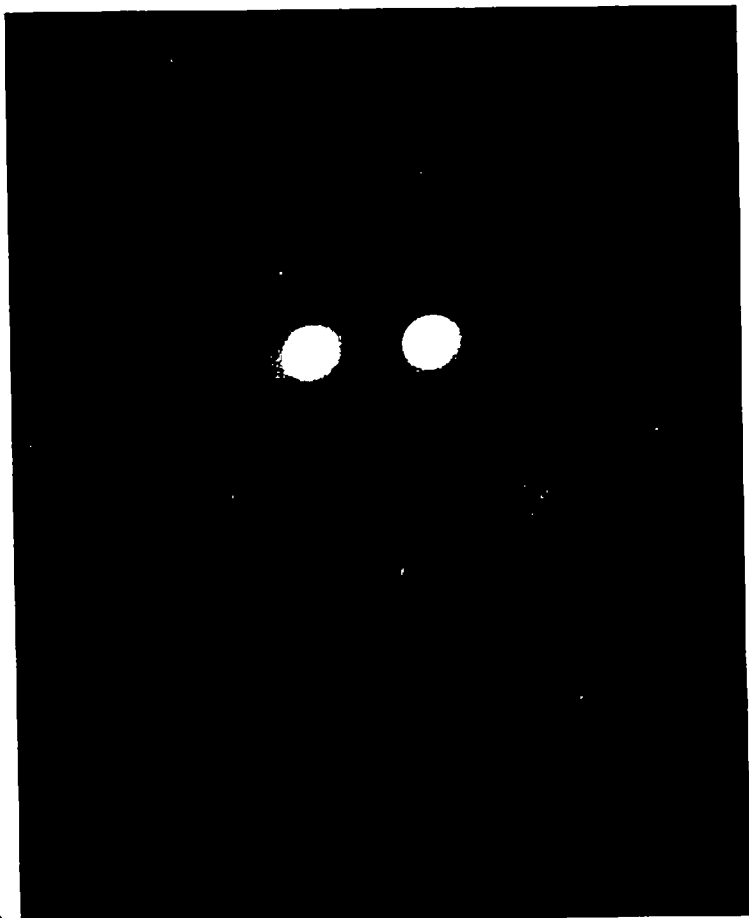
Like most investments, buying a franchise has its own learning curve. If you value the money you are considering investing (and who in the 1990s wouldn't?), you simply cannot afford to rush blindly into the purchase.

STAGE ONE: RESEARCH

Yes, research. This step is the foundation of a successful business.

Key #1: Do a thorough personal assessment. With more than 2,000 franchises available, you will be overwhelmed and lose your focus if you don't have a laser-sharp picture of what you want. Write a detailed outline of your business background, including your employment experience, hobbies, and other activities you enjoy.

Key #2: Gather information. But don't just gather it—read it. Attend franchise trade shows, subscribe to business magazines, contact companies that interest you, and grab all the available materials in



Take a good, close look at the franchise you're considering before investing. Time spent now will reward you with a successful business later.

Photo © FPG International/Charly Franklin

BY ANDREW A. CAFFEY

your areas of interest. Read everything, and then go out to get more. Write to the Federal Trade Commission (FTC), state franchise officials and industry sources (see "For More Information" on page 74) for their advice and information packages.

Key #3: Organize. Get your act together. Compile a full and current financial statement; know what and where your assets are.

Organize the volumes of information you will be gathering on franchises that interest you. It's as simple as setting up file folders for general topics (the franchise industry, general business information), personal information (financial statements, copies of correspondence, notes on general franchise discussions, information from lawyers and accountants), and specific franchise company files (franchise brochures and offering documents from franchises you may be considering).

STAGE TWO: SELECTION AND INVESTIGATION

Key #1: Review disclosure documents. If you have never seen a franchise disclosure document before,

be warned that reading a number of them means mind-numbing information overload. Fortunately, at this stage, all you need to do is scan each document

for vital information, such as the company's track record, litigation history, financial standing and franchise unit statistics. File the documents carefully; you will study them more thoroughly when you begin to narrow down your selection.

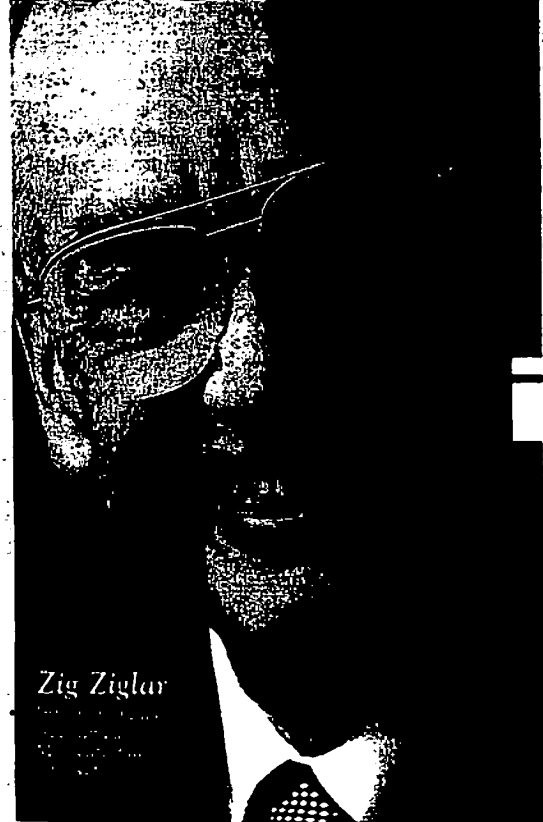
The FTC requires all U.S. franchisors to deliver this disclosure document, known as the Uniform Franchise Offering Circular (UFOC), to prospective franchisees in a timely manner.

"Timely" means the UFOC must be delivered at the first personal meeting for a serious discussion about the franchise opportunity or at least 10 business days before you sign a binding contract or pay any money to the franchisor—whichever comes first. That

means a franchisor is not required to give you a UFOC just for the asking, and you generally will not receive one by stopping by a franchise trade show booth or by merely writing a letter of request.

If you value the money you are considering investing, you simply cannot afford to go blindly into the purchase.

Is there a franchise for you?



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You must press on to get hold of the company's UFOC; the document is essential to your research. It contains a mother lode of information: the company's history and predecessors, the business experience of its managers, its litigation and bankruptcy histories, the fees you'll pay, your initial investment, product supply source, trademark rights, the franchisor's audited financial statements, a sample copy of the franchise agreement and more.

Though all U.S. franchisors are required to provide disclosure documents, your rights as a franchise investor change from one state to the next. Fourteen states—California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin—have adopted additional protections by requiring franchisors to register.

In most of these states, regulatory personnel review the UFOC before the company is authorized to make any offers in the state. These regulations also create specific rights allowing investors to sue for damages if the standards of the law are not met by the franchisor.

Key #2: Narrow the selection. Now screen the franchise program information based on your personal plan and assessment. Do any of the companies offer a program that fits your self-image and financial resources? Work through the materials and list them by order of preference.

Discuss your conclusions with a trusted friend, spouse, mentor, business advisor or accountant. Those close to you can double-check your judgment. It is vital that you choose a business you can see yourself building and enjoying for years to come.

Be realistic here. With an accurate assessment of your resources and interests, you should be able to quickly eliminate those programs that are financially out of reach or off the mark regarding your ambitions and interests.

Key #3: Visit other franchisees. There is no greater reality check in the research process than visiting with other owners in the system. This vital step is often overlooked, however, because of a reluctance to bother busy business owners with your questions.

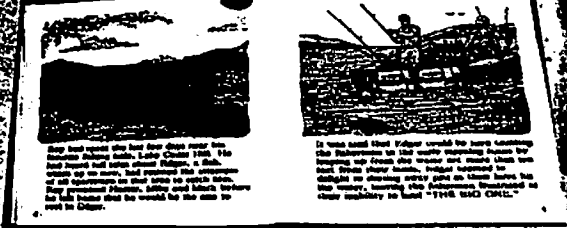
But you owe it to yourself to find out from those who have already invested whether this business makes sense for you. Ask the owners what sort of franchisor the company is, how much money they've made in the business, what problems they encountered during the start-up phase, and, most important, whether they would make the investment again knowing what they know now.

Once you have gone through these steps, you're ready to purchase the franchise. But before you put your savings on the line, there are a few more steps to take in Stage Three that will do as much to protect your investment as anything you have done up to this point.

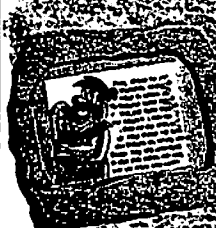
STAGE THREE: PURCHASE

Key #1: Retain competent legal counsel. Many people think hiring an attorney is intimidating and expensive.

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It should not be intimidating; if it is, you need to find another lawyer.

It is expensive, however (although usually not more than a few hundred dollars), for an attorney to review your documents and give you recommendations on how to proceed. Your lawyer can explain in detail the ins and outs of the franchise contract you will be signing and can make suggestions on provisions you should negotiate with the franchisor. Given the commitment involved in most franchise programs, the money you pay for a competent lawyer or an experienced accountant is very well-spent.

Find a lawyer with solid years of experience in matters relating to small business, or better yet, specific experience in representing the type of business you are planning to purchase. Get recommendations

For More Information

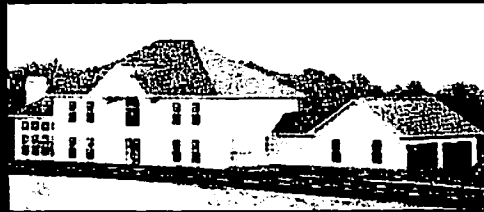
•*The Federal Trade Commission (FTC)* provides a free package of information about the FTC Franchise and Business Opportunity Rule. Write to: Public Reference Branch, FTC, Washington, DC 20580, or call (202) 326-2222.

•*The American Business Opportunity Institute Inc.* is a nationwide information clearinghouse and seminar company specializing in business opportunity and franchise matters. For information on the Institute's publications, programs and services, send a self-addressed, stamped, business-sized envelope to American Business Opportunity Institute Inc., 3 Bethesda Metro Center, #700, Bethesda, MD 20814.

from your business contacts or the franchise owners you visit while researching the program.

Key #2: Secure financing. For most people, seeking small-business bank financing has all the allure of a

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trip to the dentist. Before exploring the bank financing or Small Business Administration loan route on your own, first try consulting with the franchisor. There may be some type of financing available through the company; at the very least, you may get valuable introductions to bankers who are familiar with the financial needs of your franchise program and have arranged financing for other franchisees. (For more ideas on financing, see "Capital Ideas" on page 78.)

Key #3: Prepare a business plan. This is the final and most important key to success in any business. A well-thought-out business plan is essential in trying to obtain financing, lease commitments and trade accounts.

The franchisor is a reliable source of industry and system information here. Check Item 19 of the UFOC for any earnings information you can use in preparing projections for your own franchise. Check your notes (remember your files?) from meetings you had with other franchise owners regarding their income and expense experience.

Do not make the mistake of thinking that because

you have purchased a franchise, this business will unfold on its own. It won't. You will have to push it along like any other business. Many franchise business investors skip over the business-plan portion of their preparation, somehow thinking the franchise is well-packaged enough that a written business plan becomes unnecessary. This is simply not true.

Remember, success is not guaranteed just because the business is a franchise. Making your franchise a success is a common-sense mix of hard work, investigation, good luck and shrewd business planning. If you do not go about the investment in an organized, thoughtful fashion, you could be bitterly disappointed. There is no better way to increase the odds in your favor than by following the three stages to success. R

**There is no
greater reality
check in the
research process
than visiting with
other owners in
the system.**

Andrew A. Caffey, a practicing lawyer in Washington, DC, is the former General Counsel of the International Franchise Association and is a nationally recognized specialist in the fields of franchise and business opportunity law.

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