

Perfect Match

Owning a franchise or business opportunity is within your reach--it's just a matter of finding the right one.

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Your first million may be the hardest to make, but an edge, a system, a method can get you a fair shot at it. Franchising has cleared the path toward your first million. Find a successful franchise concept that's knocking them dead in the marketplace, and buy and build one of your own. Then do it again, and your net worth starts to zoom toward the *next* seven-digit plateau.

Finding the right system for you will take some research, persistence and franchising street smarts--but you can get there if you take the following steps.

The Right Fit There's no perfect franchise; there are only franchises that fit perfectly with the franchisee. And it's high time you got away from your singular association of franchising with food establishments. Restaurants have led the way in franchising, no question, but the franchising concept has spread its wings in dozens of other business categories, from specialty product distribution to publishing, from fitness centers to children's parties. The first time you research franchises on the internet, you're confronted with hundreds of opportunities.

Your first job is to sort through your own objectives, personal preferences and resources so you can knowledgeably evaluate the choices. Also, give some thought to what work you would enjoy doing. Do you see yourself dealing directly with the public, working a retail counter or selling services to businesses? Do you dream of owning a restaurant or a commercial cleaning service, or do you live for working on cars or teaching people how to use computers? As daunting as the number of choices may be, franchising presents a remarkable opportunity to find a business you'll love.

Also consider your financial resources. Write down your liquid assets, the assets against which you can borrow money and funds you can scrape together or borrow from friends and family. You need a sense of the level of business investment you can afford. For instance, if you can borrow up to \$100,000, that dramatically affects the categories of franchise businesses you can consider. Most leased and built-out retail locations cost \$350,000 and up, but you can operate scores of franchise businesses in your investment range from home. Think hard about these issues and start to close in on the challenge of finding the perfect fit--the real key to making your first million.

One practical way to approach the franchise market is to attend a franchise and business opportunity trade show. These shows rotate through most major cities and are well worth your time and effort. Dress in business casual attire, take personal business cards and talk to representatives of the franchises you think you might enjoy. Have a series of questions ready to go with each booth. (What is the total investment range? Do they provide any financing directly to franchisees? How well-developed is the system in this market?) Let the reps know you're a serious prospect (they get more than their fair share of dreamers), and that you'd appreciate detailed follow-up information.

Protecting Your Investment If you don't proceed with caution, you'll not only fumble your best shot at your first million, but you'll also unnecessarily risk your entire investment. State and federal franchising laws provide limited protection of your investment, but nothing protects your money like taking a few steps to check out the franchisor and the track record of the franchise program over the past few years.

The Federal Trade Commission regulates franchise sales nationwide and requires franchisors to provide you with an offering prospectus (also called a franchise disclosure document, Uniform Franchise Offering Circular or UFOC) at least 10 business days before you sign a binding franchise contract or pay money to the company. No central registration of UFOCs is required by the FTC rule--this is simply a disclosure requirement.

Several states also regulate franchise sales, and they go further than the FTC rule by requiring franchisors to go through a registration process, have their UFOCs reviewed by state examiners and renew their

registrations annually. The franchise registration states are California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin. If you live in one of these states, you enjoy slightly better protection from a fraudulent or merely weak franchise offering.

Gaining Prospectus

Gaining Prospectus If you gather a handful of UFOCs from different franchises, they'll seem very much alike, all following the same outline. It's a sandwich of three sections: 1) a 23-item narrative describing the franchise, the franchisor's back-ground and details of the investment; 2) a copy of contracts; and 3) the franchisor's audited financial information.

The UFOC must be written in plain English and be well-organized, so it's fairly easy to read. Here are some of the more important items to review.

Items 3 and 4: Litigation and Bankruptcy. You'll find details here if the franchisor or individuals listed among the company's managers have been sued in the past 10 years in material litigation, or if the company or its officers have been through a bankruptcy.

Items 5, 6 and 7: Fees and Total Estimated Investment. These items describe in detail the fees required by the franchisor, and the estimated total investment for opening a franchise. Show the total investment estimate to your accountant; it's an invaluable tool for financial planning.

Item 8: Restrictions on Sources of Products and Services. This describes your obligations as a franchisee when buying inventory, supplies and operating equipment, and is important in your everyday operation of the franchise.

Item 11: Franchisor's Obligations. This item summarizes the franchisor's obligations to a franchisee both before you open for business and during operation. It also notes the requirements relating to business computers, locations and training programs.

Item 12: Territory. Most franchises--at least those with retail locations--grant articulated territorial rights in a specific geographic area; this item lays out those rights.

Item 17:Renewal, Termination and Transfer. The basic rules are summa-razed in a chart form; these provisions and the corresponding sections of the franchise agreement will be of particular interest to your lawyer.

Item 19:Financial Performance Information ("Earnings Claims"). In about 70 percent of UFOCs, this section conveys no information about performance. Under disclosure rules, the franchisor has the option to present earnings claims; if it makes earnings claims, they must be disclosed here.

Item 20:List of Franchisees. Here you'll find several charts showing the growth (or shrinkage) of the entire franchise system over the past three years, the growth and projections regarding company-owned locations, and projected franchise sales categorized by state. The most valuable portions of Item 20 for your research, however, are the lists of existing franchisees as well as those who left the system in the past fiscal year, plus contact information. This is your best tool for essential field research. Franchisees will tell you the unvarnished truth and give you a feel for day-to-day operations. Call for an appointment, then go and sit in the location while you ask about the owner's experience. Has the business done well in this location? Was the training valuable? Has the franchisor been supportive? What is the net on gross sales? Knowing what they know now, would they make the investment again?

The UFOC also contains an exhibit of as many as three years of the franchisor's audited financial statements. This information reveals a lot about the franchisor's stability--whether it has the financial roots necessary to remain in business and support the continuing needs of its franchisees. If you don't have experience reading financial statements, hire an accountant. If the franchisor is on the verge of insolvency, you need to know; if it's well-capitalized and shows financial signs of healthy growth, you need to know that, too.

Finally, the disclosure document contains a copy of all the standard franchise agreements and related con-tracts you'll sign as a franchisee. These are typically lengthy documents jam-packed with legalese. Before you sign a franchise agreement, have an experienced attorney review it. He or she can go over what obligations will be imposed on you, and

whether your rights are clearly stated.

Can you negotiate the terms of a franchise agreement, or do you have to sign the standard form? It depends on the franchisor. In general, newly established franchisors are more likely to negotiate. Why? Often, a newer franchisor is more anxious to make the franchise sale and perhaps more willing to yield to requests for franchisee-favorable changes.

Use your franchise street smarts to navigate down franchising's well-worn path to success, and you'll find a structured and systematic approach to making your first million.

All You Need to Know Here's where you can find the best information on franchise investing.

The FTC's website (www.ftc.gov).

Entrepreneur.com (www.entrepreneur.com). Collected articles, industry analysis and a listing of the top 500 franchisors in various categories.

International Franchise Association (www.franchise.org).

SBA Registry (www.franchiseregistry.com). When you're applying for an SBA-backed loan at a participating bank, the review process is shorter if your franchisor is on the Registry.

FranSurvey (www.fransurvey.com). This internet company surveys all existing franchisees in a system, summarizes the responses and publishes these summaries.

Better Business Bureau (www.bbb.org). The BBB publishes "Reliability Reports" on businesses, including some franchise companies.

Franchises & Business Opportunities: How to Find, Buy and Operate a Successful Business (www.amazon.com).

The Biz Opp Option

If you go the business opportunity route, follow these research

guidelines.

If you're interested in a smaller investment and a completely independent business package generally not associated with a licensed trademark, you may be looking for a business opportunity investment. A business opportunity company may or may not provide a disclosure document. The law is not as universally applied as it is in franchising, so getting a disclosure document is a hit-or-miss proposition. In any case, investing in a business opportunity package requires many of the same self-protective steps, with a few subtle but important differences.

- 1.** The typical business opportunity is designed to be an impulse purchase that costs no more than a few thousand dollars. The best advice: Use your credit card to make the purchase. Then, if the company is bogus and doesn't come through on the promised package, you at least have a shot at objecting to the charge on your card. If you write a check or pay cash for the same purchase, that money's gone. Also, take a day to think about it and talk to your spouse or a friend about it. Don't believe the salesperson's claims that "territories are going fast," that he's only offering a few packages before the opportunity is gone, or that you'd better "strike while the iron's hot." Impulse purchases often disappoint.
- 2.** Assuming you don't receive a disclosure document, you still must take a close look at the company and the offering. Step one: Ask the company rep for a list of current buyers of the business opportunity in the area, and call those buyers. If you're told a list isn't provided, be mildly suspicious. See if you can find a few people operating the business opportunity and making a go of it. If you can't find anyone actually running the business, hold on to your money.
- 3.** Dig beneath the hype of most business opportunities, and you'll find little more than a chance to buy a sales job. You may be a "distributor" of greeting cards or vending machines, and your job is to visit places of business to arrange for the placement of your products. Do you have experience in product or distribution device placement? If you assume it's easy, you may be surprised when business owners say "no thanks."
- 4.** One advantage of business opportunity investments is that they're flexible-you can work most programs part time. If you want to build up a weekend, evening or seasonal business (for instance, selling Christmas

products), a business opportunity generally offers you more choices than a franchise.

5. Buyer beware. I advise clients not to invest money in a business opportunity if they cannot afford to lose the entire investment.

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