

Presidential Secrets

It's time to research some franchises. Grab your UFOCs . . . and your history book?

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If you've caught the franchise bug, you're certainly not alone. Franchising has long been the business investment vehicle of choice for hundreds of thousands of entrepreneurs, and a healthy percentage of them have become multimillionaires.

Selecting and building the perfect franchise, however, isn't for the fainthearted. To make it less daunting, you must understand the process and what's available to you as a prospective franchisee. Of course, to franchise neophytes, the very idea of researching a franchise may be discouraging. Don't worry. The personal courage and insight you need can be found in a variety of sources: books, consulting services . . . even former presidents. Don't laugh. Here, in the classic maxims of our previous leaders, we find insights that ring as true in the world of franchising as in the political arena. Our leaders offer more than two centuries of sound advice that can make the-let's face it, dry-process of franchise research not only more colorful, but also more memorable.

Taking the Leap

"Things may come to those who wait, but only the things left by those who hustle." -Abraham Lincoln Inertia is the single greatest foe of the new entrepreneur. It takes a real spark of initiative and get-up-and-go to launch into a franchise search-and-purchase project. To succeed in such an endeavor takes a high level of drive, energy and gumption.

"Don't foul, don't flinch-hit the line hard." -Theodore Roosevelt Researching also takes a plan and an ability to focus on your goals. If you haven't engaged in a personal planning process, creating a mission statement and listing the actions that will advance that mission, you should do so before you start kicking franchise tires.

"We must ask where we are and whither we are tending." -Lincoln The

reason is simple: If you're not focused on the type of franchised business you want, you'll be distracted, swamped and ultimately defeated by the choices available to you in the franchise arena. Think hard about business ideas that fire your imagination. I have yet to meet a successful franchisee who didn't have a passion for the business he or she owned.

List the businesses you imagine yourself running. Do you enjoy serving customers in a retail setting? Are you comfortable providing services in the homes of your future customers? Or is the B2B sector more appealing?

It's also important that you make a realistic assessment of your financial resources. Check your personal credit report. Talk to your banker; consider asking an accountant for assistance. Confirm your family's financial resources. If good old Aunt Mildred once offered to help back you in business, now is the time to have a heart-to-heart with her to talk specifics. Spend time with your spouse, so you can approach this task with his or her full support. There may be some significant sacrifices involved with buying a business-financial investment as well as a decline in family time.

These questions are more important than whether a particular business at a given location will make money. Sure, it's important the business make money-or it won't be a business for very long-but it's more important over the long term to find the type of business that's right for you. If it's the wrong business, if you're not excited about it day in and day out, you'll grow to hate it over the years.

Getting Started

"Let no feeling of discouragement prey upon you, and in the end you are sure to succeed." -Lincoln. Now that your goals are in sharp focus, it's time to begin the process of gathering information about franchise programs that meet your criteria. Look through magazine ads and attend one of the frequent franchise and business opportunity trade shows that travel the land. Contact franchisors and express interest in their programs.

The first response of the franchisor will be to send you an application package that helps them determine your financial and business experience qualifications. Be prepared to reply to a request for your personal financial statement, recent work experience, references and interests. Most of this

information can be prepared in advance, to be attached to the application forms as they arrive. Your prompt and complete response will take your application to the next level.

"Speak softly and carry a big stick." -Roosevelt. Your big stick in conversations with franchisors is the fact that you're an interested, qualified prospect. Franchisors spend huge sums of money finding prospects like you, and if the sales team is well trained, they won't let you get away easily. Show the franchisor by your educated questions that you're seriously interested in their program.

"Let your countenance be pleasant, but in serious matters, let it be somewhat grave." -George Washington. Your objective in these preliminary conversations is to get a feeling for the program, to learn where the company is planning to expand and what type of owners have had success owning one of these franchises.

Your secondary objective is to receive a copy of the company's Uniform Franchise Offering Circular. Federal law and laws in more than a dozen states require this UFOC document to be delivered to a prospective franchisee. That doesn't mean you can call up a franchisor on a preliminary inquiry and force them to send you a copy of their UFOC. The law mandates delivery only after you sit down with a franchisor representative for a detailed discussion about the program (this doesn't include routine conversations across a trade show booth or a chance meeting on an airplane), or at least 10 business days before you close on your purchase and pay the franchise fee.

These documents are a bit expensive to send out in bulk, so franchisors are generally conservative about who receives one. Giddy inquiries written in crayon aren't likely to receive a disclosure document on request. You certainly improve your chances of receiving a UFOC if you present yourself as a serious candidate, if not a person of grave countenance.

You should also realize the franchisor may not be authorized to engage in franchise sales activity in your state. If you live in one of the 14 registration states (California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin), the franchisor must register with state

authorities annually before it can sell to you. If it chooses not to register in your state, the company is prohibited from even talking to you about the program. Contact the attorney general's office in one of these states to check on a company's registration status.

Understanding the UFOC

"Keep your eyes on the stars, and your feet on the ground." -

Roosevelt. The UFOC is a composite document of three layers: the franchisor's audited financial statements, sample forms of all contracts you'll be asked to sign for the franchise and a 23-item narrative description of key areas of the franchise offering. It's designed by regulators to deliver the essential information any prospective investor should have in hand before buying a franchise, and it's chock-full of information you'll need to evaluate a franchise and compare its benefits and costs to other programs.

A disclosure document is easy to drop in the file and avoid. Read the UFOC! It'll teach you an enormous amount about the franchise program and the franchisor. Here's how the information in the UFOC is organized:

Items 1-4: Information about the corporate structure of the franchisor, its affiliates and predecessors, the business experience of the company's key executives and the litigation and bankruptcy history of the franchisor.

Items 5-7: The initial fees charged franchisees, other fees assessed during the course of the relationship and a chart showing the franchisee's estimated total investment to purchase the franchise rights.

Items 8-9: Summary of the franchisee's contractual obligations, with a chart cross-referencing important sections in the franchise agreement and a description of the purchasing requirements imposed on the franchisee.

Items 10-11: A description of any financing provided by the franchisor, and a recital of the franchisor's contractual obligations.

Item 12: A description of territorial rights.

Items 13-14: Details of trademarks, copyrights and patents.

Items 15-18: Information regarding the franchisee's obligations to

participate in the operations of the business; restrictions on what the franchisee may sell; renewal, termination and transfer provisions of the franchise agreement summarized in chart form, and a recital regarding any public figures used in the promotion of the franchise.

Item 19: Earnings claims. A franchisor may choose whether to provide performance information about its franchises, but it's not required to do so. If the company does make performance information available, it must be presented in this Item and have a reasonable basis at the time it's made.

Item 20: Statistics about the franchise system, company-owned units and franchised units. This Item provides the number of franchises broken down by state, shows the numbers that have been terminated or assigned and lists names, addresses and telephone numbers of both active franchisees and those who have left the system for any reason in the past fiscal year.

Items 21-23: Record of up to three years of audited financial statements, the franchise agreement(s) and the receipt pages for the UFOC.

The good news here is the UFOC is required to be written in plain English. Unless it's poorly prepared (and that does happen), it should be quite well organized and reader-friendly. Don't be put off by its length or weight—just dive into it and look over the offering. Expect to find no "parties-of-the-first-part," "heretofores" or "hereinafters" to numb the eye.

Get Professional Help

"It depends on what the definition of 'is' is." -Bill Clinton. When you find one or two programs that provide a solid match for your interests, experience, ability and financial resources, seriously consider taking those UFOCs to an accountant and an attorney. You may follow the advice about reading the UFOC, but if you're not skilled in understanding legalese, reading a balance sheet or preparing your own detailed projections and financial plans, the information in the UFOC will be of limited value to you.

An accountant experienced in assisting small businesses can be an enormous help to you in the evaluation and early planning stages of the new business. With your accountant, you can estimate how much it'll cost you to build out the business, when the business is likely to begin breaking even and how the financing should be structured. A set of projections

showing the likely early performance of the business will be an invaluable roadmap for you in the early days.

"Undertake not what you cannot perform, but be careful to keep your promise." -Washington. Just as important is a review of the contracts by an experienced business attorney. He or she can look over the UFOC and franchise contract, and explain to you the contractual obligations imposed on you, and the legal dynamics of the franchisor/franchisee relationship. Your legal counsel can also advise you regarding any provisions that are unacceptably contrary to your legal interests, and can explain any provision you don't understand. If these concerns need to be addressed with the franchisor, you'll have the benefit of your attorney's experience in explaining your position.

Expensive? Sure, accountants and attorneys can be expensive, but it's some of the best early development money you'll invest in the franchise. They don't look quite so expensive when you take a close look at the alternative.

Investigate the Franchise

"I am not a crook." -Richard Nixon. Confirming the legitimacy of a franchisor can be difficult. More often than not it's a matter of evaluating the franchisor's experience or lack thereof in the business. The less time the franchisor has been in the business being franchised, and the fewer the number of franchisees in the system, the higher the risks posed to the investor.

Investigating the legitimacy at the government level is relatively easy. Contact any one of the attorneys general in the franchise registration states and ask whether the company is currently registered and about any cases or investigations they can tell you about. The franchisor will also be on file as registered or exempt under the state's business opportunity law in the states of Kentucky, Florida, Nebraska, Utah and Texas.

Check with the Better Business Bureau in your state and find out whether a significant number of complaints have been filed against the company. If that is the case, follow up with other franchisees or the franchisor.

If you're in a non-registration state, your state's attorney general or

consumer protection Office may also be able to give you information about any problems experienced with the company. The Federal Trade Commission, the federal agency that regulates franchise sales nationally, will be of less help on a specific inquiry but is a great source of general information about franchise investments. Contact the FTC on the Internet at www.ftc.gov, where you'll find a bonanza of information about recent enforcement actions and booklets on how to purchase a franchise. Call its Consumer Response Center in Washington, DC (202-326-3128), and you'll be invited to volunteer information that the Commission might use to discern patterns in the marketplace or identify companies causing widespread consumer injury or complaint. According to the recording offered by Consumer Response Center, the FTC cannot respond individually to complaints submitted.

"Trust, but verify." -Ronald Reagan. By far the best way to confirm the legitimacy, experience and expertise of a franchisor is to interview current franchisees in the system. Check the list contained in Item 20 of the UFOC and call a number of those closest to your market. Jump in the car and visit them. Sit in a unit for an afternoon watching the business operate. Ask the owners about their experience with the franchisor. Was the training helpful and complete? What do they wish they had known going into the business? Do they make enough money at the business to meet their expectations? How much did the business gross last year? Is this year looking stronger or weaker? Why? Ask franchise owners whether there's a strong and active franchisee association, and if the franchisor pays attention to the views of franchisees. Finally, ask them if they would do it again knowing what they know now about the business. Be sure to meet several franchisees so you hear a fair sampling of views. Take careful note of responses made to your questions, and follow up with the franchisor to discuss comments that concern you.

The final word on researching and finding a great franchise is from one of our greatest presidents, Roosevelt: *"Far and away the best prize that life offers is the chance to work hard at work worth doing."*

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opportunity law; and former general counsel of the International Franchise Association. E-mail him at ACaffey@compuserve.com.