

Opportunity Knocks

By Andrew A. Caffey

Illustrations: Scott Pollack

INVESTING IN A FRANCHISE or business opportunity can be a defining moment in a person's life. These investments can bring you financial security, present a thrilling personal challenge, and even allow you a more balanced family life. On a smaller scale, they can provide a welcome second income, a quick fix to cover holiday expenses or a temporary cash injection to make ends meet.

Buying a franchise or business opportunity can also fizzle on you. Whether your purchase is the first step to a new business or a failed experiment in misguided independence depends largely on the same factors inherent to any serious investment in your life: preparation, investigation, caution and aggressive protection of your interests.

Just remember the one universal truth in this field: The right opportunity will not come looking for you. You have to go out, hunt it down, bag it and drag it back to the cave.

and supervise—they do.

On the other hand, if you're used to the security of a full-time job, franchise ownership can offer the support you need to make the transition to entrepreneurship. These days, many downsized middle managers are bringing a wealth of business savvy to the franchise world. Thousands are at that stage in their careers where they have some capital to invest and are not interested in inventing a new (and risky) business concept, yet are attracted to the dream of self-employment. In this case,

Know Thyself

OWNING A FRANCHISE is not for everyone. The right person in the wrong program can lead to profound unhappiness. And, because the investment can involve your life savings and a long-term legal commitment, this is not a step that should be taken lightly.

Fiercely independent entrepreneurs are rarely happy in the franchise world. If you're interested in running and designing every aspect of your operation, think twice before buying a franchise. You may be better off with your own independent business.

Most franchising programs impose

a strict regimen on franchise owners, dictating everything from how to greet customers to how to prepare and present the product or service. If you chafe at any restrictions, you may find franchise life too confining. You may want to consider business opportunity programs, which typically offer you the independence lacking in most franchise programs.

If you've been an employee of a large corporation for a long time, the jolt of small-business ownership can be hard to take. The owner of a franchise has to put his or her full energy into the daily operation of the business. Small-business owners (at least at first) do not delegate



franchising may be the ticket.

To determine if franchising is for you, start with a self-examination:

•Are you personally motivated to make the investment of time, energy and money involved in small-business ownership? The first year of business can be especially trying; the time necessary to get a business up and running is intimidating. Your days of punching and watching the clock will be long over.

•Is your family behind you? Many franchises are designed for total family involvement. Even if you invest in one that isn't, the necessary commitment of time and energy cannot be made without the full support of every member of your family. Have you talked it over in detail with them? If your spouse is supportive but skeptical, involve him or her in the decision-making process and listen to all doubts or concerns expressed.

•Have you realistically evaluated your financial resources? Take out a pad of paper, and jot down all possible sources of capital. Include not only cash, securities and other liquid assets but also insurance policies, home equity and retirement funds. Don't forget what the bankers refer to as NAR and NAF ("Nail a Relative" and "Nail a Friend"): Your well-heeled friends and relatives could make all the difference, especially if you need a co-signature or additional equity pledged as security when applying for financing.

Also be aware that you will most likely need a steady revenue stream while the new business is being established. Can you live off savings or your spouse's income? How can you cut back on household expenses? Is your spouse willing to take a second job to make ends meet until your franchise starts generating a salary?

•Have you realistically evaluated your dreams? Dreams provide the courage and drive new entrepreneurs need to make the leap of faith into business ownership. But they must be tempered with concrete, achievable plans. Get feedback from others—family, friends, businesspeople in your community—to make sure you are thinking with your brain, not your dreams.

Making A List

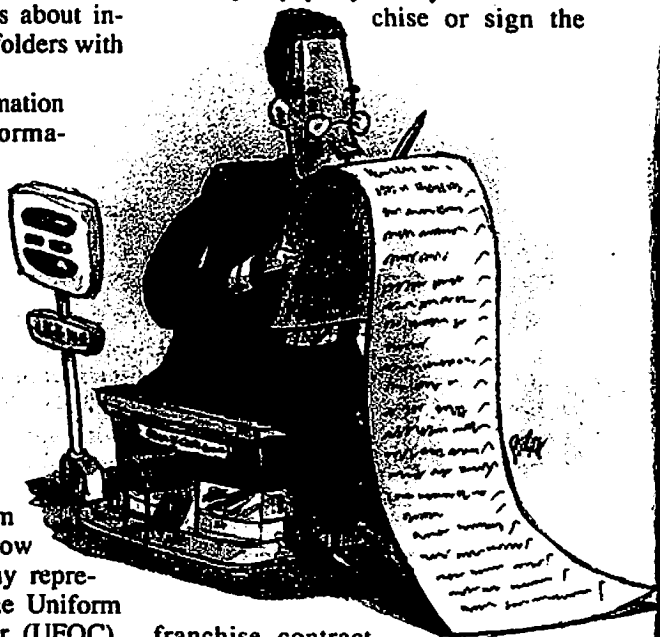
USE THE FOLLOWING simple checklist when researching a franchise opportunity. (The same checklist can also be used for a business opportunity, although some of the information may not be available.) For each franchise system you're serious about investigating, set up four file folders with these labels:

- Key Franchisor Information
- Key Franchisee Information
- Government and Other Third-Party Information
- Advisors' Recommendations and Comments

1. Key Franchisor Information: In this folder, you will file the promotional pieces distributed to all prospects, your notes on the program from your telephone or trade show conversations with company representatives, your copy of the Uniform Franchise Offering Circular (UFOC), copies of your correspondence with the company, and any other pieces of paper generated in the course of your deal-

ings with the franchisor. Keep photocopies of all papers, letters, application forms, financial statements and other information you submit to the franchisor, making sure everything is clearly dated.

Federal law requires that franchisors deliver the UFOC to all prospective franchise investors at the earlier of a) the first face-to-face meeting to seriously discuss the possible sale of the franchise, or b) at least 10 business days before you pay any money for the franchise or sign the



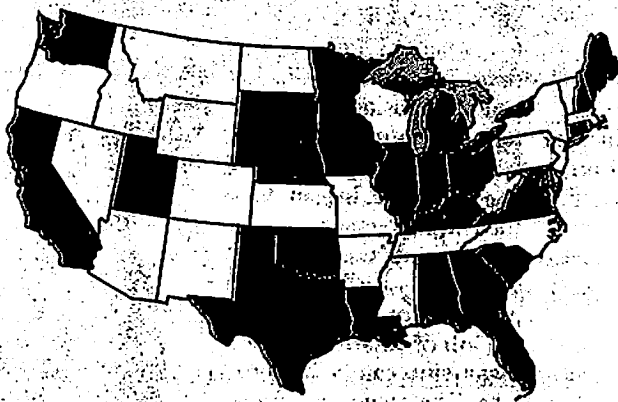
franchise contract.

This document is a treasure-trove of information for the serious investor. It contains an extensive written description of the company, the investment, the fees and costs, the litigation and bankruptcy history of the franchisor and its officers, the trademark being licensed to you, required product purchases, the advertising program, and the contractual obligations of both parties. It contains two other vital sections as well: a sample copy of the franchise agreement you will be asked to sign if you decide to buy the franchise and three years' worth of the franchisor's audited financial statements.

Investor Tip: Read the UFOC; it is surprising and dismaying how many otherwise serious investors do not.

LAWS OF THE LAND

The 25 states that regulate business opportunity sales*



For more information on specific states' regulations, check with consumer protection agencies—often a part of the attorney general's office—in your state.

*Alabama, California, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Nebraska, New Hampshire, North Carolina, Ohio, Oklahoma, South Carolina, South Dakota, Texas, Utah, Virginia and Washington

Money Hunt

FINANCING IS ANY ENTREPRENEUR'S biggest challenge—and it's no different for franchisees. The good news: Much of the franchise community these days is focusing its energies on helping you solve this problem.

•**Bank financing:** What ever happened to the old-fashioned bank loan for a new start-up business built on enthusiasm and a good idea? Well, that quaint idea faded into memory around the time Jimmy Stewart found himself in the snow in "It's A Wonderful Life," but it has been repackaged and has re-emerged under the auspices of the Small Business Administration (SBA).

The SBA offers a variety of loan programs, including guaranteed loans (which means the U.S. government is your co-signer). Check with your local SBA District Office for details on programs that apply to you.

Investor Tip: Working with the right bank makes all the difference in finding an SBA loan. Ask around for an "SBA Preferred Lender." Only about 10 percent of banks do enough of this type of specialty lending to earn this designation from the SBA. The loan officers at an SBA Preferred Lender bank are the most experienced and competent in SBA loan programs.

•**Franchisor financing:** Many new franchise owners simply turn to the franchisor for financial assistance, which can take a number of forms. Some franchisors defer their initial fees or offer to finance a portion of them for the new investor. Check Item 10 of the Uniform Franchise Offering Circular for a description of any financing offered by the franchisor.

Investor Tip: Ask the franchisor representative whether the company offers any financing programs. If you are a minority or a woman, for example, you may be eligible for special incentives, assistance or financing. Even if the franchisor does not offer financing, it may have a strong bank relationship that can benefit franchisees.



2. Key Franchisee Information: No franchise research project would be complete without interviewing a good number of current franchise owners. As thorough as the UFOC appears and as glowing as the picture painted by the company may be, there is nothing in the research phase as valuable as meeting with current franchisees. You'll have to get in the car and put in some miles to get to their locations, but make the trip. Your money and your future deserve no less an effort.

When you meet a current owner, ask

them the following questions to get a good idea of the franchise program:

- Was the training you received useful in getting the business off the ground?
- Is the franchisor responsive to your needs?
- Tell me about a typical day for you.
- Have there been problems you did not anticipate? How has the franchisor responded?
- Has your experience proved that the investment and cost information in the UFOC was realistic?

•Is the business seasonal? If so, what do you do to make ends meet in the off-season?

•Have your sales and profits met your expectations? Tell me about the numbers in this business.

•Are there expansion opportunities for additional franchise ownership in this system?

•Knowing what you know now, would you choose to make this investment again?

Meet as many owners as you can, and take careful notes of these conversations so you can review them later.

Investor Tip: It would be a mistake to meet only those few owners selected by the franchisor or business opportunity seller. It's better to go over the list of owners appearing in the UFOC and track down a fair sampling.

3. Government and Other Third-Party Information: It's usually a good idea to check with the state consumer or franchise regulators in your state regarding the franchise company you're interested in. If there are serious problems—such as an investigation launched or a number of complaints received—they will often tell you about the problems.

Fourteen states (CA, HI, IL, IN, MD, MI, MN, ND, NY, RI, SD, VA, WA, and WI) regulate the sale of franchises; if you live in one of them, you should contact the state authority as a matter of routine. That agency will tell you if the seller has complied with the state's registration requirements.

Business opportunity sales are regulated by 25 states, usually by the consumer protection division of the attorney general's office. (For a list of these states, see "Laws Of The Land" on page 4.)

Investor Tip: It never hurts to check with the Better Business Bureau (BBB); if there is bad news, you will often find it there in the form of complaint reports, lawsuits or state investigations. Check with your local office of the BBB listed in the Yellow Pages.

4. Advisors' Recommendations and Comments: Hire an accountant to look over the financial information contained in the UFOC and to help you prepare a realistic financial projection for your own franchise.

You should also enlist the help of an attorney to advise you about the franchise agreement and any other contracts you will be asked to sign. In

addition, a competent small-business attorney can advise you on the organizational options available to you for conducting business. Should you form a corporation, a limited liability company, a partnership or a sole proprietorship? Your attorney can advise you in these and other matters.

Investor Tip: When evaluating a franchise, professional advice is the wrong place to pinch pennies. A few hundred dollars is a small price to pay to get help with the selection and organization of your business. Find an experienced lawyer by asking other businesspeople you know for the names of lawyers they have worked with. Also ask for referrals from franchisees you meet during your investigation.

Show Time

FRANCHISE AND BUSINESS opportunity trade shows present a sterling opportunity to explore what business investment packages might have to offer you. Attending one of these shows can be exciting... and overwhelming. Prepare carefully for the show, and you will get a lot more out of the experience.

Before the show:

•*Give detailed thought as to what you are after in a franchise or business opportunity investment:* Part time or full time? What type of business do you think you would enjoy? Consider your hobbies and passions in life.

•*Figure out your financial resources:* What is liquid, what can you borrow from family and friends, and how much do you need to live on while starting a new business? What are your financial goals, and what do you need to

serious about considering their business program.

At the show:

•*Take a moment when you arrive to study the floor plan of exhibitors listed.* Circle the businesses you recognize or that look interesting to you. Make sure you stop by these booths during your visit.

•*Don't waste time:* Pass on the sellers who are out of your price range or do not meet your personal goals. (You know these going in, remember?)

•*Have a short list of questions ready to fire:*

—What is the total investment?

—Tell me about a franchisee's typical day.

—What arrangements are made for product supply?

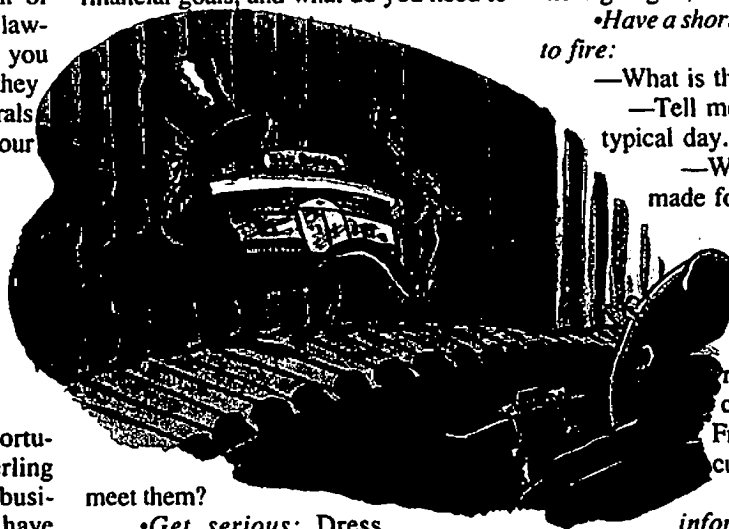
—Is financing available from the franchisor?

Indicate your level of interest, and request a copy of the company's Uniform Franchise Offering Circular (UFOC).

•*Collect handout information for all programs that interest you:* Also gather business cards. Sort all the materials when you get home.

After the show:

•*Organize materials into file fold-*



meet them?

•*Get serious:* Dress conservatively, carry a briefcase, leave the kids at home, and take business cards if you have them. Don't go just to eat the free cookies; show the representatives you meet that you are a serious prospect,

Party Line

WHAT DO Amway, Avon, Mary Kay and Tupperware have in common? Aside from being well-established leaders in the direct sales industry, they are all multilevel marketing opportunities.

Multilevel marketing (also known as MLM) offers a low-investment opportunity that is enormously popular with people seeking part-time, flexible businesses. These programs feature a low upfront investment—usually only a few hundred dollars for the purchase of a product sample kit—and the opportunity to sell a product line directly to friends, family and other personal contacts.

Most multilevel programs also feature the recruitment of other sales representatives. These recruits constitute a rep's "downline," and their sales generate income for those above them in the program.

Legal problems occur when a network leans too far toward compensating participants primarily for recruiting others rather than for selling the company's products or services. A system where most of the revenues are generated from recruitment may be considered an illegal pyramid scheme, which in many states carries criminal penalties.

Since multilevel programs are generally exempt from business opportunity regulation and are not defined as franchises under state and federal franchise laws, you need

to do your own investigation. Start by contacting the Better Business Bureau to see if there have been any complaints against the company.



ers. Do this for every program you want to take a closer look at.

•*Follow up:* The best way to show them you're serious is to call the representatives you met.

•*Insist on a copy of the UFOC as soon as possible:* Take it to a competent business advisor, such as an attorney or an accountant you trust.

What's Hot

EVERYONE wants to get in on the latest trend. What are some of the hot concepts driving franchising today?

•*"Alternative" locations:* Also referred to as "intercept marketing," this concept involves locating retail businesses—often in miniature versions—wherever you find foot traffic, such as in airports, supermarkets, mall kiosks or convenience stores.

This trend has created new opportunities for franchise investors. Not only have multiple new locations become available, but franchisors have creatively responded to the restrictions of the smaller locations. Smaller locations also mean smaller financial investments for franchisees, putting programs within the reach of more investors than ever before.

•*Combination franchising:* Several franchise systems are experimenting with dual-branding—combining two or more separate franchises in a single retail location. The concept is especially hot in the fast-food arena, where, for example, a Miami Subs store may share space with a Baskin-

Robbins ice cream franchise, each with its own distinct area and cash registers.

•*Low-investment franchises:* For several years now, franchising has seen the greatest growth in lower-end investment programs—those with a total investment of \$30,000 to \$70,000.

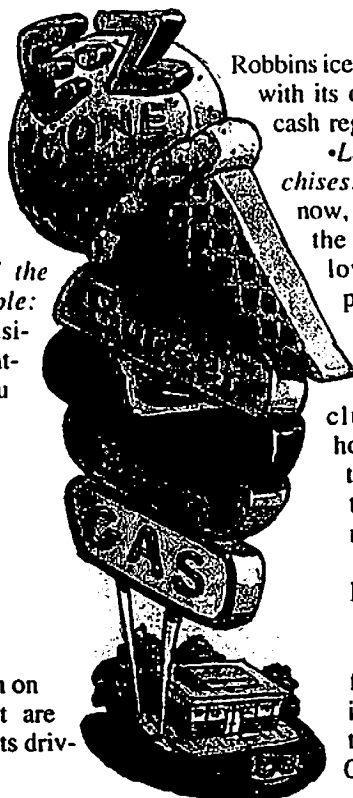
This category includes a number of homebased businesses that can be run without the costly overhead of retail locations.

•*Convenience:* Businesses featuring warm "homebaked" breads, healthy fast fare or fun family dining concepts continue to surge in popularity. Other franchise pro-

grams, such as Takeout Taxi, are taking advantage of the strong demand for home delivery of lunch and dinner items.

In the business opportunity arena, trends are more difficult to identify. Perhaps the biggest trend—so strong that it has nearly come to define the very idea of a business opportunity—is the proliferation of small, part-time homebased businesses. Everything from computer-based services and T-shirt decorating to specialty product distribution is available for operation from your home. And with the continued downsizing of corporate and military America, this trend shows no signs of slowing down. ■

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Biz Op Basics

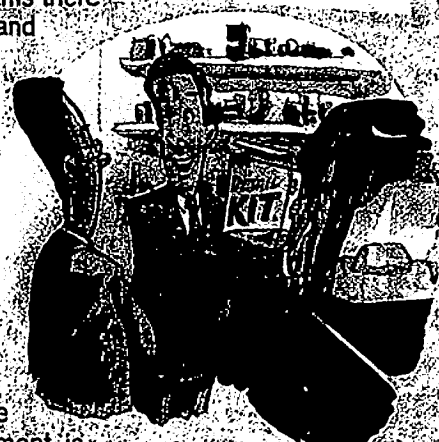
A BUSINESS OPPORTUNITY, in its simplest terms, is a packaged business investment that allows the buyer to begin a business.

In most cases, the seller exercises no control over the buyer's business operation. Indeed, in most business opportunity programs there is no continuing relationship between the seller and the buyer. No trademark rights are licensed, in most cases, and the buyer is free to operate under his or her own name.

The legal definition of a business opportunity is a bit complex. Twenty-five states regulate business opportunities, and with different definitions at play, it's impossible not to generalize. Most definitions contain the following:

- The investor purchases goods or services that allow him or her to begin a business.
- The purchase involves a certain amount of money. In 15 states and under the Federal Trade Commission Regulations, the minimum investment is \$500. In the other 10 states, that figure drops to as little as \$100.
- The seller makes any one of the following statements during the course of the sale:
 - the seller will assist in securing locations for display racks or vending devices;
 - the seller will return the money invested if the buyer is "unsatisfied" with the investment;
 - the seller will buy back the products assembled or produced by the buyer;
 - the seller guarantees (or, in some states, merely represents) that the buyer will be able to generate revenues in excess of the amount of the investment; or
 - the seller will provide a marketing plan or a sales plan to the buyer.

If a seller meets the definition of a business opportunity, it generally means he or she must register the offering with a number of state authorities and deliver a disclosure document to prospective buyers at least 10 business days before the sale is made.



Check Points

AQUA SKILL ◀

1370 Mendota Heights Rd., Mendota Heights, MN 55120
(800)227-5336, fax: (612)454-9542
Aqua skill game canisters
Began: '91, YrOpp: '96, Cost: \$2.3K

CHECKROOM SERVICES INC. ◀

1350 E. 4th Ave., Vancouver, BC, V5N 1J5, Canada
(604)255-5000, fax: (604)254-2575
Coin-operated coat-check system
Began: '93, YrOpp: '93, Cost: \$2.65K

DIVNICK INT'L INC. ◀

1680 East St., Spring Valley, OH 45370
(513)862-4644, fax: (513)862-4644
Spiral wishing wells/coin spinners
Began: '79, YrOpp: '86, Cost: \$1K-2.5K

IMAGE HOLDING INC. ◀

1740 44th St. S.W., #5-195, Wyoming, MI 49509
(616)530-5558, fax: (616)530-9729
Personalized photo postcard booths
Began: '93, YrOpp: '93, Cost: \$25K

IN TUNE INC.

775 N.E. 79th St., #K, Miami, FL 33138
(305)757-4100
CD/music vending machines
Began: '94, YrOpp: '96, Cost: \$20K

LASERVEND INC. ◀

1800 S. State St., Drem, UT 84058
(801)764-9080, fax: (801)764-9079
Automated computer software vending machines
Began: '93, YrOpp: '94, Cost: \$9.5K

MASTERVEND INC. ◀

3355 Lenox Rd., #750, Atlanta, GA 30326
(404)237-2077, fax: (404)841-6663
Pharmaceutical vending machines
Began: '94, YrOpp: '94, Cost: \$8.9K

PRO DESIGN & VENDING TECHNOLOGIES INC. ◀

8 Stiles Rd., #101, Salem, NH 03079
(603)898-4710, fax: (603)898-4145
Vending machines
Began: '94, YrOpp: '94, Cost: \$6.5K

PROTOCOL INC. ◀

1370 Mendota Heights Rd., Mendota Heights, MN 55120
(800)227-5336/(612)454-0518, fax: (612)454-9542
Personal-product vending machines
Began: '87, YrOpp: '87, Cost: \$10K

S. MORANTZ INC. ◀

9984 Gantry Rd., Philadelphia, PA 19115
(215)969-0266, fax: (215)969-0566
Artwork vending machines
Began: '92, YrOpp: '93, Cost: \$5K

VIRTUALISTIX ◀

3233 W. Charleston Blvd., #110, Las Vegas, NV 89102
(702)259-8004, fax: (702)259-8007
Virtual reality machines
Began: '93, YrOpp: '95, Cost: \$25K

COOPERATIVE BUYING GROUPS

THE GIFT BASKET CONNECTION ◀

3 Juniper Ct., Schenectady, NY 12309
(800)437-3237, fax: (518)464-1514
Gift baskets by wire
Began: '90, YrOpp: '90, Cost: \$200/yr.

NATIONAL GIFT BASKET NETWORK ◀

7201 Archibald Ave., #498, Alta Loma, CA 91701
(909)931-2692
Gift baskets & supplies
Began: '91, YrOpp: '91, Cost: \$850

Buying a franchise is exciting—but, like any big purchase, it requires exercising caution. While there's no way to be certain about any investment, you can improve your odds by watching for these warning signs:

1. No UFOC. Franchisors are required by federal law (and, in many cases, by state laws) to give you a Uniform Franchise Offering Circular (UFOC) at least 10 business days before you pay any money for the franchise or sign a franchise agreement. This document is an essential part of evaluating the franchise opportunity. If you don't receive one, don't even think about making the investment.

2. The hustle. Buying a franchise is a substantial investment. If the seller is hurrying you along, or telling you that the window of opportunity is closing, or using any other hard-sell technique, be prepared to walk away from the deal. This is too important to rush.

3. Product price squeeze. Product supply is the ticklish underbelly of franchise relationships. If you're buying a business that sells the franchisor's product line, make sure the product's pricing allows you to be competitive in the marketplace. Ask other franchisees how the pricing structure works for them.

If you're considering a franchise where the product is supplied by third parties specified by the franchisor, or by the franchisor itself, make sure the supply program runs smoothly. Have the franchisees established a buying cooperative? Do franchisees have input about supply arrangements? Make sure this key aspect of the business will not frustrate you.

4. High turnover rates. Check Item 20 of the UFOC to confirm how many franchisees have left the system in the past three years. There's no rule of thumb to determine when this number is too high; it depends largely on the type of business. Lower investment franchises generally have a higher turnover rate than more expensive businesses. If anything looks suspicious to you, ask the franchisor about it.

5. Earnings claims mumbo-jumbo. When you innocently ask the seller's representative "How much money can I make with this franchise?" listen carefully to the answer. Although franchisors are legally allowed to provide an answer to that question with either a projection, a pro forma or a statement about how their system owners have performed, the company must also include the claim in its UFOC (Item 19). If the information isn't in the UFOC, the company must decline to answer the question. If they say "We're prohibited by federal law from answering that question," realize that although that may be true, it reflects a choice made by the company.

If no performance information is provided (only about 20 percent of franchisors actually provide earnings claims), it may be because the true picture isn't a pretty one. Plan to ask the same question of the franchisees you interview. They are free to tell you and are not restricted by franchise laws.

6. Too many lawsuits. Item 3 of the UFOC shows the 10-year history of "material" lawsuits filed against the company. If you see a heavy litigation history, do a little digging to find out what's going on. It could mean franchisees are fundamentally unhappy in the business.

7. Weak financial statements. The UFOC contains three years' worth of the franchisor's audited financial statements. Review them carefully, and take them to a knowledgeable CPA. If the franchisor is in poor financial condition, no matter how wonderful their franchise program, it magnifies your own risk.

Any of these warning signs should prompt you to ask more questions. If you don't like the answers you receive, and your gut (or your professional advisor) tells you to be careful, this may not be the program for you. With a decision as important as this one, you owe it to yourself to be confident you're making the right choice.

—Andrew A. Caffey ■

For More Information...

•The *Federal Trade Commission (FTC)* provides a free package of information about the FTC Franchise and Business Opportunity Rule. Write to the Federal Trade Commission, Public Reference Branch, Washington, DC 20580, or call (202) 326-3128.

•The *American Business Opportunity Institute* is a national information clearinghouse founded by the author. For more information about its publications, programs and services, send a self-addressed, stamped, business-sized envelope to American Business Opportunity Institute Inc., #700, 3 Bethesda Metro Center, Bethesda, MD 20814.

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BUYERS GUIDE

TO FRANCHISE & BUSINESS OPPORTUNITIES

1585 HOT START-UP Businesses

199
Opportunities
Under \$1,000

500
Opportunities
Under \$10,000

792
Opportunities
You Can
Start At Home