

# World of Opportunity

Franchise, business opportunity or MLM? What you don't know can hurt you. Here's how to choose the entrepreneurial investment that's right for you.

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URL: <http://www.entrepreneur.com/article/15996>

Being an entrepreneur means constantly making choices. Good businesspeople weigh the options, make a decision and move on. Great businesspeople measure the advantages and disadvantages of the options against their business plans, make the right decision and move on.

You know you want to go into business, but you're not interested in starting from scratch; instead, you want to research investment packages available to you. Here are your options: a business-format franchise, a business opportunity venture or a multilevel marketing package. Each has advantages and disadvantages. Before you decide which route to take, understand the structures of the various formats. Their pluses and minuses may make all the difference.

## Franchise Facts

Franchising is defined by state and federal laws as a commercial relationship in which three factors are present: a licensed trademark, a prescribed marketing plan, and the payment of a franchise fee for the right to participate in the program. When these three factors exist, the relationship is regulated as a franchise by state and federal laws.

In business terms, a franchise is a continuing commercial relationship in which the buyer, or franchisee, owns a business but agrees to operate it using the trademark and business system developed by the franchisor. The franchisor provides the franchisee with detailed training and assistance to start and run the business. In exchange, the franchisee pays an initial fee, typically \$5,000 to \$25,000, as well as an ongoing weekly or monthly royalty fee of anywhere from 3 percent to 8 percent of his or her gross sales.

The greatest strength of franchising is its ability to bring independent retailers together using a single trademark and business concept. The benefits of this affiliation are many: brand awareness, uniformity in meeting customer expectations, the power of pooled advertising and the efficiencies of group purchasing.

For the individual owner, there are several advantages to franchising. The ever-present risk of business failure is reduced when the business program has already proved successful in the marketplace; the use of an established trademark saves the business owner the cost of creating and advertising a name that customers will recognize; and the advantages of group advertising and purchasing make operations more profitable. In addition, ongoing training creates an instant operational expertise that would otherwise need to be acquired through trial and error. Also, with franchising, expansion seems to come more naturally. Operating a successful franchise may quickly lead to building a second and then a third business, and so on. Fortunes have been built this way.

Franchising, however, is not for everyone. Fiercely independent entrepreneurial types (you know who you are) may chafe under the strict operational requirements and specifications of a franchised business. If things have to be done your way, you may want to head in another direction.

Remember that some franchise systems are better than others. A weak franchise program will not train you well to handle the challenges of the business, will not do a good job of assisting you when problems arise, and will not make the best use of your advertising dollars.

If you're considering buying a franchise, don't let wild expectations influence your decision. While franchising is designed to put people into business who have never owned a business before, the excitement of ownership can create an impulse to move forward without proper planning. If you rush headlong into buying a franchise expecting to boost your current working salary, but the earnings don't allow you to pull out more than half your former salary, you will be one unhappy camper. Work with a good CPA to prepare a cash-flow projection for the business before you take the plunge. Know how long it will take to break even and turn a profit, as well as the amount of salary you'll realistically be able to pay yourself.

## Road Map

Federal and state franchise laws require a franchisor to provide each franchise buyer with an offering prospectus, otherwise known as a Uniform Franchise Offering Circular (UFOC). This document provides a detailed description of the franchisor as well as the franchise program being offered, and it's required reading if you're serious about investing in a franchise.

Key sections in the UFOC will answer these questions for you:

- What exactly is the franchise company all about, and how long has it been in this business? (Items 1 and 2)
- What is the company's litigation and bankruptcy history? (Items 3 and 4)
- How much will the total investment be, and what are the fees involved? (Items 5, 6 and 7)
- Do I have to buy supplies, inventory or product from the franchisor or from third parties designated by the company? (Items 8 and 16)
- How much training will I receive? (Item 11)
- Must I buy a computer system, and will the franchisor have access to my computer data? (Item 11)
- Will I receive a protected territory? (Item 12)
- Is the company's trademark on solid legal footing? (Item 13)
- Must I personally manage the business, or can I hire a manager? (Item 15)
- Can the franchisor terminate the contract under any circumstances? (Item 17)
- What are the names and addresses of the current franchise owners and those who have left the system in the past year? (Item 20)
- Can I see a copy of the franchisor's audited financial statements for the past three years? (Item 21)
- Can I see samples of the contracts I will be asked to sign? (Item 22)

Franchise laws require that a UFOC be delivered to you, the prospective franchisee, at the earlier of either the first personal meeting to discuss the specifics of the franchise (a trade show presentation generally doesn't count), or 10 business days before you pay money or sign a binding contract.

## Biz Opps & Network Marketing

Business opportunities are less structured than franchises, so the definition of what constitutes a business opportunity isn't easy to pin down. In essence, a business opportunity is any package of goods or services that enables the purchaser to begin a business and in which the seller represents that it will provide a marketing plan or sales plan, that a market exists for the product or service, and that the venture will be profitable.

This definition encompasses a dizzying variety of business packages, such as product distribution programs, product and service reselling, work-at-home programs based on computerized services, selling advertising for publications on the Internet, and specialty product sales. A business opportunity does not generally feature the seller's trademark; the buyer operates under his or her own name.

Business opportunities tend to be less expensive than franchises, and they allow the buyer to proceed with no restrictions as to geographic market and operations. The purchase price of a business opportunity venture usually ranges from a few hundred dollars to several thousand. Business opportunities generally don't charge ongoing royalties.

Most business opportunity ventures have no continuing supportive relationship between the seller and the buyer; after the initial package is sold, the buyer is on his or her own. Many independent operators don't want the pressure of operational requirements in their business activities and are satisfied with contacting the seller only when specific questions arise. In addition, investors may want to operate a homebased business on a part-time basis. In a word, the primary advantage of buying a business opportunity is flexibility.

But the very flexibility that makes a business opportunity attractive is also its principal weakness as an investment. Many buyers will spend the money, put the package on a shelf and never take it down to put it into operation. With no continuing relationship, contract requirements or support from the seller, many buyers feel overwhelmed by the challenges of business and never even get started.

Another weakness in the concept is the limited availability of investment

information. Business opportunity ventures are regulated by the Federal Trade Commission (FTC) and 25 states. Under the FTC Rule and most state laws, a business opportunity seller is required to prepare and deliver to the buyer a detailed disclosure statement before the sale takes place. Many of the state laws also require the seller to register the program before it's offered in the state.

However, the rate of compliance with these laws is relatively low. Odds are, you won't receive a disclosure statement with your investment. This means you must do all the investigating to find out whether a particular business opportunity is right for you.

### **On the Level**

Multilevel marketing is big business in the United States. Household names like Amway, Mary Kay Cosmetics and Avon have built immense organizations of independent contractors who buy products from the company and sell them directly to their customers. This type of business entails a willingness to approach friends, family and acquaintances who might be interested in buying the soap, cosmetics, telephone service or other product or service you represent.

Many people who get involved with a multilevel marketing program work the business on a part-time basis or only for a season to bring in extra money. The financial investment is low, usually not more than \$200, and there are usually no required purchases. You take orders for products from your customers and submit the orders and payments to the company; products are sent directly to you or your customers. You make money on the difference between the retail prices paid by your customer and the cost of the products from the company. Multilevel marketing companies may also pay you a commission on the sales made by those you recruit to the network, called your "downline."

There is probably no business package available to the new entrepreneur that is easier to get into and out of than a multilevel marketing program. For a few hundred dollars, you receive access to a line of products or services with a recognized trademark. Sales support is often made available through managers in your "upline"; they have a direct interest in seeing you succeed.

Regional meetings can be energizing. Mary Kay Cosmetics and others are famous for the levels of enthusiasm, motivation and empowerment that representatives feel at large gatherings of the network. As you work your way up the sales ladder, generous bonuses and prizes may also be offered.

Like every other type of business, multilevel marketing has its weaknesses. For one, the business depends largely on sales made to friends, family and acquaintances. Not everyone is comfortable making sales presentations to people close to them. Also, the turnover among direct sales representatives is high, possibly reflecting the short-term goals of most people who get involved. It could also reflect disappointment with the quality of the product or service. If a multilevel marketing program is new, the risks--and the allure of potential rewards--increase. As with any business, thorough research is your best defense against getting involved in an undesirable program.

## What It's Really Like

When Vanessa Barron's employer asked her to relocate two years ago, the airline sales executive decided to start her own business instead.

Barron's choice of business was partially the result of a chance occurrence: When her husband, Lawrence, had to visit BikeLine's headquarters regarding a damage claim related to his UPS account executive job, he liked what he learned about the West Chester, Pennsylvania, bike sales and repair company's franchise opportunities. The couple opened a BikeLine franchise in Coatesville, Pennsylvania, in March 1996.

Vanessa, 42, found the franchise appealing because it came with a built-in support system--from the franchisor as well as from its company-owned locations. "You have a wealth of knowledge in the people who have been running the corporate stores," she says.

Would she recommend franchising? Absolutely. "A lot of the mistakes you're bound to make starting a business can be [avoided] with the guidance you get from corporate locations or your franchisor," says Vanessa.

She advises prospective franchisees to do their homework before signing up, however: Look at the franchisor's financial track record, and investigate the amount and type of support it provides franchisees.--*Rachel Balko*

### **If the Shirt Fits**

Linda and Don Rienzo say they couldn't have asked for a more supportive parent company. When the Las Vegas couple opened their Definitions T-shirt kiosk in a mall in 1995, the business opportunity company helped every step of the way. "Whatever we needed in the beginning, they were there to help guide us until we felt comfortable dealing with it on our own," says Don.

The Rienzos had been selling another product in the same mall when a Definitions kiosk caught their eye. It looked like a good product--T-shirts with attitude--and when the owner decided to sell the business, they scooped it up. "We thought it had a lot of potential for the tourist malls in town," says Don. "So we approached the parent company and wound up becoming its dealer out here."

The Rienzos opened their second kiosk, which they called "Nationalities," in a large outdoor mall called the Freemont Street Experience, where crowds of spend-happy tourists have contributed to their success.

And they attribute much of this success to their parent company's support. Definitions extended credit to the Rienzos, walked them through the early stages of the business, provided manuals and gave pointers to help get them started. "Now they help us come up with new [products] to keep things fresh," says Don. "It has really worked out well. We like what we sell, and we're proud of it. I think customers can sense that, and it really makes things work for us."--*Jesse Hertstein*

### **Toy Story**

Product possibilities are infinite in multilevel marketing, but how often can distributors say what they're selling promotes a brighter future? Junith Koon, a Discovery Toys Inc. educational consultant, makes this claim with conviction. The 20-year-old Livermore, California, company has given Koon the opportunity to better the lives of her children and others with its

award-winning products.

This toy story began when Koon's now college-age daughters were toddlers. She signed up with another company that sold educational toys and books, but nine months later, that division folded. Her growing customer base wasn't stranded, however: Koon had heard about Discovery Toys and sought out Discovery's educational consultant in her hometown of Atlanta. "It was a flexible, part-time business I could run from my home that, instead of taking time away from my children, really benefited them," she says.

What started as a brief selling stint until her daughters reached school age turned into a full-time success story for Koon, now 50. After 16 years selling Discovery's developmental children's products, the former librarian has earned the title of "ruby sales director"--only one step away from "diamond sales director," the apex of Discovery's selling stardom. Koon's downline--approximately 1,200 people--should make more than \$2 million this year.

And reaching new heights shouldn't take long: Climbing the ladder of success is much easier when you know you're making a difference. "I've become a better parent as a result of working with Discovery because it taught me so much about children and child development," says Koon.

Koon can see how fortunate she's been. "I was able to go to [my children's] swim meets and honors assemblies," she says, "while having a very successful business that brought me income and a sense of personal accomplishment." Who says you can't gain success through fun and games?--*Michelle Prather*

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