

Information Not Included

5 great questions not answered in the UFOC

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Don't make the mistake of assuming that the UFOC will tell you everything you need to know about the franchise investment. It is designed by regulators to deliver information that they consider "material" to the investment—that is, information that should be important to the investor. However, there are some gaping holes in the UFOC, key pieces of information it does not convey that are material to your purchase decision. Take a look at the five of the most important areas. There may be more, depending on the type of business you are buying.

1. Pricing/Product Distribution. Item 8 of the UFOC delivers some of the product and pricing information you need, but the guidelines for franchisors to follow in preparing this section are complex and cumbersome, resulting in confusing disclosures that are not particularly helpful. After all, smooth product sourcing, the savings on prices available based on large group purchases, and carefully considered product specifications are all fundamental business reasons for buying a franchise. If this part of the business is not working well, there may be little reason to go into the franchise.

Make a point of exploring product dynamics with the franchisees you meet. Press the franchisor representatives about purchasing arrangements, any buying cooperatives in your area, and pricing strategies. Check the franchise agreement and any other paperwork from the franchisor describing product matters. In many franchises this is the economic engine of the business. It never hurts to look under the hood and make sure it is running well.

2. Franchisee Associations. Nowhere in the UFOC is a franchisor required to disclose the existence of a franchisee association or advisory council. Yet this is an important aspect of the franchise program for a new investor. The presence of a strong association that is well attended and

governed by franchisees is an attractive asset of any franchise program.

I have long suspected that omitting any mention of a franchisee association in the UFOC is due to the swift internal political waters surrounding franchisee associations. Some associations are created by the franchisor and promoted by the company; others are "renegade associations" created by the franchisees and resented by the franchisor. Ask current franchisees about the role they play through an association or a franchisee council.

3. Training. One of the keys to franchisee success is solid training. The UFOC will give you some of the basic facts, including a chart outlining the sections of the training, who teaches the sections, the experience of the trainers, how much time is devoted to each topic, and where the training takes place. However, you need assurances about the program that cannot be delivered in a disclosure document. Is the training effective? Do franchisees feel that they are well prepared to run a successful business upon completing it? Is the training based on current thinking, and is it the best available in the field? Is it complete, and how much of it is hands-on, under supervision? Be sure you explore these ideas with franchisees and your franchisor representatives.

4. Market for Product/Service. This is a basic but intangible question that is difficult to address in a disclosure document: Is the market for the product or service a strong one? Is the growth of the market for the business on the rise or decline?

5. Franchisor Support. The language in a franchise agreement that describes the level of the franchisor's continuing support may be surprising. You are likely to find something like: "The franchisor will provide such continuing advice and support as it deems appropriate in its absolute discretion."

How's that for reassurance?! Attorneys for franchisors learned decades ago that specific promises of support in the franchise agreement, such as quarterly meetings, monthly newsletters, and regular telephone calls, would lead to legal trouble when the franchisor's business practices changed. And they always change. The result is the smallest, most flexible promise of support imaginable.

Even though the promises might be modest, the practice is important. Find out exactly-from franchisees and franchisor's representatives-what the company does for its new franchisees when they are planning to locate the business, when they are hiring staff, and during the opening and start-up phase. Is help available? Is it responsive? Will the franchisor be there to help if and when things go wrong?

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