

# Do Your Homework

The smart first step to buying a franchise or business opportunity: research right.

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Franchises and business opportunities offer investments built on an irresistible principle: Own a business and be your own boss. The appeal may be the same, but franchises and business opportunities are more different than alike. A business opportunity is a one-time purchase, usually requiring a part-time effort and no continuing relationship with the seller. Mostly, it's a smaller investment without ongoing royalties. The seller is a product-provider, although some guidance materials are often available with the purchase. Trademark rights usually aren't licensed to the buyer. The seller is not on hand to provide business assistance when things go wrong. You're on your own.

Franchising is the more sophisticated investment--a full-time, absorbing business experience. The investment can be substantial: A free-standing franchise restaurant can easily cost you more than \$500,000 in total investment.

Gathering information about investing in a particular business opportunity can be difficult. The person you most want to interview is someone who has purchased the business opportunity and had some success with it. Ask the seller for a list of owners in your area. Get on the phone with some of them. The key question to ask is, "Knowing what you know now, would you make this purchase again?"

You can visit the company headquarters to get a personal impression of

the business. This won't always be practical, but it makes more sense for those at higher levels of investment. Check with the Better Business Bureau and the FTC, and contact your state consumer protection authorities for information on a seller or business opportunity investments in general.

Franchise purchasers have a significant advantage over business opportunity purchasers: A collection of information about the investment is handed to them in the form of a Uniform Franchise Offering Circular. If you're serious about a particular franchise, ask for a UFOC early in the process.

A UFOC provides information on the franchisor's business experience, its litigation background, the financial dimensions of the franchise investment, detailed contact information about existing franchisees in the system and more. The UFOC is well-organized and written in plain English, so it's not tough to crack. Take the time to read it--it'll put you ahead of the game.

Take your research to the next level by preparing an accounting projection and a break-even analysis with a good accountant, considering locations and visiting current franchisees. You can also work with an attorney to review the franchise agreement--to find out what rights are granted, what obligations are imposed on you and whether any parts of the contract are unacceptable or injurious to your interests.

With a full list of franchisee contact information, the job of contacting franchisees is simplified. Get on the phone, make appointments, then visit as many as necessary to get a good cross section of opinions on the franchise program. Ask the franchisees for their views on the franchise program, the value of the training and support they've received from the franchisor, the everyday work involved in the business and the profitability of their operations. Sure, you can also ask them what their gross sales

were last year and what kind of performance they expect this year. Most franchisees will be candid and open with you and freely discuss their experiences. Their views are immensely valuable; they're not trying to sell you on the program, and they have firsthand experience. Don't expect 100 percent sunshine about the franchise investment, but if a majority of franchisees endorse the program and tell you they're making a profit, that says a lot about the value of the investment.

State authorities in franchise registration states can confirm over the phone whether a particular franchisor is registered to offer and sell franchises in that state. They can also tell you if initial franchise fees must be deferred until you open for business or if other financial protections are in place for investors in the state. Any protective arrangement will be noted in Item 5 of the UFOC and in the state appendix.

Franchises and business opportunities: Their differences run deep. Put in the time and effort to research the offerings, and you'll find a program that offers an exact fit for your needs.

*For more information on buying a franchise or business opportunity, visit Entrepreneur's [FranchiseZone](#) and [BizOpp Zone](#).*

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