

Watch Out!

Hey, suckers! Here's how to *not* throw your money away on a get-rich-quick scheme.

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Every stage of researching, evaluating and buying a franchise offers warning signs that the opportunity may not be right for you. Pay attention to them, and you won't get suckered into a bad investment.

- **No UFOC.** If you haven't received a UFOC, that doesn't necessarily mean the franchisor is reluctant to deliver one. A franchisor isn't required to deliver one until the first face-to-face meeting where a sale is discussed (trade show encounters don't count), or 10 business days before you sign a contract or pay money. But if the company really does not have a UFOC to give you, run, don't walk, to the nearest exit.
- **The Hustle.** The seller is excited, his speaking voice is hyped up, he's moving fast and he wants you to be in a hurry, too. "Territories are going fast. Act now or you'll miss this train." You start to think you're going to miss out on an opportunity. You feel indecisive, then courageous and ready to take a gamble. Before you know it, you've been hustled into making a decision you weren't ready to make. Don't let this scenario become your reality. This decision is far too important to let someone rush you into it.
- **Big Money Claims.** The seller says his franchisees are getting wealthy, some stores are netting six figures and some franchisees with a few stores will hit seven figures soon. If a franchisor chooses to make claims like this, the law requires that they appear in Item 19 of the UFOC. Don't be swayed by earnings claims until you've verified them with current franchisees.
- **Money Flows Like Water.** Look out for the rented Rolls Royce syndrome. You should know it when you see it: an overdressed sales rep, too much jewelry, hints of an ostentatious lifestyle that can be yours for the price of your investment. Be sure to discuss the

reality of the money potential with existing franchisees. They'll tell you exactly what to expect, and whether the picture really includes a Lamborghini.

- **Weak Franchisor Financial Statements.** Check out the company's financials in the back of the UFOC. Make sure they're audited by an independent CPA and certified as complying with Generally Accepted Accounting Principles (GAAP). If the company's financials show weakness, move with caution. Ask an accountant to help you review them. If the company is relatively new, realize the opportunity may be a good one, but it involves the risk that the franchisor won't have the capital necessary to grow with you. Ask your accountant what he or she thinks, and do some careful business planning.
- **Too Many Lawsuits.** What does it mean if Item 3 of the UFOC lists page after page of lawsuits with franchisees? Don't take it at face value; dig a little and find out what's going on in the system. It could mean the franchisees are deeply unhappy.

One last piece of advice: Be smart about using the Internet. As you know, the quality of information can be iffy. Use it to read about companies that catch your interest, but be careful not to rely on any information without checking it out thoroughly.