

All That Glitters

It's easy to be blinded by all the tempting opportunities out there. Keep these points in mind while doing your research, and you'll be sure to strike franchise gold.

Andrew A. Caffey | February 1, 2004

URL: <http://www.entrepreneur.com/article/68918>

Buying a franchise is a complicated investment-don't let anyone tell you it isn't. If you are new to the idea of getting involved in a franchised business, take your time, and have a good look around. No doubt you'll find some sparkling opportunities. But there are also some sinkhole investments you'll want to avoid. The trick, of course, is to tell them apart. As with most investments, there's no way to separate the gold from the fool's gold without careful investigation. Make sure it's for real, and reduce the risks of the investment as much as possible.

Here are the seven essential things you should know about going into a franchise program:

1. State and federal laws provide some regulation of franchise sales and provide you, the investor, some protection against fraudulent franchise offerings. A franchisor anywhere in the United States must deliver a complete disclosure document known as a Uniform Franchise Offering Circular (UFOC), so you can make an informed investment decision. You must receive this imposing document at least a couple of weeks before you sign a binding contract or pay money to the franchisor. Fourteen states (California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin) require the franchisor to also register its offering papers before selling in the state.

2. The UFOC is a treasure trove of investment information, so read it carefully. Good news: It's written in plain English. This document really does give you a leg up in the investment evaluation. A UFOC is made up of 23 items of narrative discussion about the program (everything from the business background of key executives to trademark information to lists of

current and departed franchisees), up to three years of the franchisor's audited financial statements, plus a copy of the form of franchise agreement you will sign.

3. The UFOC is only the start of your investigation. Do not make the mistake of thinking the disclosure document contains everything you need to know about the investment. It doesn't. You must talk to some of the current franchise owners. Ask them about their experiences, their opinions of the franchisor, and the work involved in the franchise. You can also ask them about the money they've made in the franchised business. If you live in one of the 14 franchise registration states already mentioned, you can check with the attorney general's office in your state to confirm that the company is properly registered. Go to the Better Business Bureau's [Web site](#) to check on the company's complaint record.

4. You need advisors to help you review the franchise agreement and the financial information in the UFOC. Don't be cheap when it comes to hiring a good attorney and accountant. You're going to need their help.

5. Spend some time on the Internet, particularly at the FTC's [Web site](#) and those of other franchise organizations. Read the warnings the government provides, and get a sense of the enforcement steps the FTC has taken to keep the franchise marketplace in balance. Watch out for hype among the franchise sales organizations on the Net.

6. If an investment package is not a true "franchise," it may be regulated as a "business opportunity." Generally, if there is no trademark licensed to the buyer and no continuing assistance provided, the investment is not a franchise, but it's a difficult line to define. Find out from the seller or your attorney how the program is regulated and whether it is in compliance before you hand anyone your credit card.

7. Know the warning signs of a risky franchise investment. These include no UFOC, very weak franchisor financial statements, too many lawsuits, no federally registered trademark, no real answers to your questions, and consistently bad reviews from current franchisees. There may be other problems as well. Keep your head up and your hand over your wallet until you find that great franchise investment.

For more on buying a franchise, check out our [Franchise Zone](#). Keep digging. It's out there.

[Andrew A. Caffey](#) is a practicing franchise attorney in the Washington, DC, area; an internationally recognized specialist in franchise and business opportunity law; and former general counsel of the International Franchise Association.