

Different Worlds

How to choose between a franchise and a business opportunity

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To the untrained eye, franchise and business opportunity investments look pretty much the same. Both invite you to purchase a package of goods and services and business concepts. Both offer you the chance to capitalize on a business idea that has already proved to be successful. Both provide some training, handholding and access to a valuable marketplace. In reality, though, there are huge differences between the two concepts. While these fundamental distinctions sometimes appear subtle, detecting and understanding them can help you protect yourself when you take the plunge into your new business.

If there's one telltale difference between a franchise and a business opportunity, it's the role of a trademark. The licensing of trademark rights is a hallmark of franchising: Every franchisee of a McDonald's, Subway or Holiday Inn is operating under a trademark license. The consistent image portrayed by these and other franchise systems symbolizes their strength in the marketplace, and is the direct result of a trademark license. If a program grants you the right to operate under a trademark owned by the seller, you're most likely looking at a franchise rather than a business opportunity.

Never underestimate the value of that trademark. The well-known marks of franchises like Burger King or Pizza Hut are powerful consumer magnets. This magnetism is created and maintained by years of national advertising—we've grown up with these brand names. The power of a franchise trademark is that it promises consumers constancy. When someone pulls off a road at the sight of a trademark on a sign, he or she knows exactly what to expect. Consequently, weaker marks, such as those of a new franchise system or those new to your area, don't have that same marketplace pull and won't be as valuable to the franchisee.

Franchises also put an emphasis on training and ongoing assistance in the operation of the business. The appeal of franchising—being in business for

yourself but not by yourself-is rooted in the know-how and services supplied by the franchisor throughout a long, supportive business relationship. On the other hand, most business opportunity sellers offer self-contained programs with some instruction (often recorded) and little or no ongoing business support.

Another distinction between franchises and business opportunities is the cost. A retail franchise program can involve initial fees of \$30,000 or more with a total business investment of \$50,000 and up. In contrast, most business opportunity purchase prices are low enough to be put on a credit card, running from a few hundred to a few thousand dollars.

Federal and state laws subject the two types of programs to similar disclosure and registration requirements, but the rate of compliance is significantly higher in the franchise community. This means a franchise investor is more likely to receive a disclosure statement (the Uniform Franchise Offering Circular, or UFOC) than is a business opportunity investor.

Going For The Goals

Your goals in selecting a business package investment are the same whether the program is a franchise or a business opportunity: You must find a package that meets your needs, fits your pocketbook, and will allow you to succeed. As simple as these objectives may sound, choosing the right program presents a serious challenge. When you begin your research, you'll find yourself in a large marketplace, teeming with several thousand potential investments and enthusiastic sales representatives who know you're interested in taking an entrepreneurial leap. Most investors in this marketplace are in unfamiliar territory. Make sure you hold on to your wallet-buying a franchise or business opportunity can be very expensive.

Take yourself through a mini self-evaluation before you go too far in your quest for a franchise or business opportunity. Your success as an investor depends on the focus you bring to this self-evaluation, the solidity of the professional advice you get, the utilization of your skills and interests, and, well, just plain luck.

Assess your skills, work experience and interests. Jot them down on a

piece of paper, and talk them over with someone who knows you well. Also write down your personal mission and goals for this business venture. Are you looking for a part-time activity that involves weekend work or full-time self-employment? Do you want to pursue a personal interest? Do you have a knack for sales? Do you enjoy working with the public? Would you be comfortable making cold calls to pitch your product or service? Knowing your skills, needs and interests can help immensely in sorting through the enticing possibilities you'll face.

Information Is The Key

Armed with this information, you're now in a position to evaluate facts and figures from franchise and business opportunity sellers.

If you're interested in buying a franchise, you can expect to receive a UFOC describing the investment. This extensive document is required by federal law to be delivered to a prospective franchisee at the earlier of two events: (1) the first serious personal meeting between you and the franchise representative to discuss the franchise investment, or (2) at least 10 business days before you pay any money or sign the contract. UFOCs contain a narrative description of the offering, the franchisor, its business and legal background, applicable restrictions, estimates of the total investment, plus lists of current owners in the system as well as those who have departed the system for any reason in the prior year. The UFOC also contains a sample copy of the contracts you'll be asked to sign as well as up to three years of the franchisor's audited financial statements.

Read it! Far too many investors toss the UFOC aside or file it without review. It's chock-full of information that's vital to your decision whether to buy a franchise. If the company you're considering has a long history of litigation or bankruptcy, you'll read about it here. If the company has lost 50 percent of its system in the past two years, that should be summarized in the UFOC. The fees you pay and the total investment you make are outlined in Items 5, 6 and 7. Your obligation to purchase supplies from designated sources are in Item 8. Item 13 tells you about the company's principal trademark and whether it's federally registered. The UFOC is a tremendous help in your task of finding the franchise program that best fits your needs and shouldn't be ignored. If you're seriously interested in a franchise program, you should request a copy of the company's UFOC

early in your investigation.

Is there a comparable disclosure statement for business opportunity investments? Yes, but not all business opportunity sellers are required to deliver a disclosure statement to you because of the inconsistent definitions of a "business opportunity" according to state and federal laws. Because what may be regulated in one state may not be regulated in another, you can't predict when or even if you'll receive a disclosure document from a business opportunity seller. In addition, many sellers don't comply even if they're required to by state or federal law. Ask for a disclosure statement from the business opportunity seller anyway. It should contain basic information about the company and the program being offered. If a business is required to have a disclosure statement and it doesn't, be concerned.

If you don't receive a disclosure statement from the company, conduct your own information-gathering exercise. Find out who in your area has purchased a program; get details about any training or support offered; request a copy of the company's financial statements; and be sure you know exactly what products or services are being offered for your purchase price. Check with your state's attorney general's office if you have any questions regarding the company's legal status in your state.

Make the effort to collect and review information from a number of programs. How do they compare with your self-evaluation? Do you find them exciting? Can you imagine yourself actually conducting the business described? One of the most important steps in your research is talking to current owners, be they franchisees or business opportunity operators. Request a list of current owners from the seller (or look at Item 20 of the UFOC), and give several of them a call. Ask whether they've been pleased with the program, if it has met their expectations, if they've encountered problems, and the ultimate evaluation question-if they would make the same investment decision again. There really is no better source of reliable information about a business package than current owners. Talking to them may also provide a reality check for over-enthusiastic investors.

Budget Check

Buying a franchise or business opportunity is like buying a car: You'll

quickly find yourself at the intersection of wants, needs and wallet. Move with caution in your decision-making, or you could end up with a lemon.

As with anything else, you must look beyond the company's glossy brochure to the substance of the program. As an investor, what exactly will you receive? If training is promised, find out how much, how long and where it will be given. If you're promised an initial inventory, know what you'll be getting and when you should receive it. Don't assume you'll be able to easily sell that initial inventory. Too many buyers react to the concept of a business without thinking about the necessity of approaching customers to make a sale.

Never be afraid to negotiate the purchase price and terms of either a franchise or a business opportunity. Behind the scenes at these companies, there's enormous pressure to make the sale to you; use it to your advantage. When you find a program that meets your needs and wants, fight to make it fit your wallet. Propose a lower initial purchase price, a reduced franchise fee for the first year, a deferred portion of the initial investment, the option to put purchase money in escrow until inventory is delivered, and special payment terms. You'll be surprised how often the company's answer will be yes.

Success At Last?

It's easy to lose sight of the ultimate goal of this exercise: business success. Will this venture make money? There are never any guarantees in business, so you need to do your homework. If you're buying a business opportunity, ask other owners what kind of money they've been able to generate; if you're buying a franchise, check Item 19 of the UFOC or ask current owners about their sales figures. In either case, you should hire a good accountant before you make any substantial investment. He or she can prepare a cash flow projection that spells out just how risky the investment is.

As a rule of thumb, never invest money you can't afford to lose on a business opportunity venture. You might lose personal interest in the project or experience a fizzling of the energy and persistence needed to earn sufficient sales. An enthusiastic buyer never wants to think this way, but losing the entire amount of your business opportunity investment is a

real possibility. Be especially cautious about loading your investment onto your personal credit cards. Not only is this an expensive borrowing option, but if the business disappoints, your credit will sag under the financial weight of the investment.

Whether you buy a franchise or a business opportunity, look for value, follow your instincts and resist claims of easy money. Move cautiously, and you'll have a far better chance of finding the business vehicle that meets your definition of success.