

Good Buy

So you think buying a franchise is the best path to your business dreams? Now you need directions to the right choice of opportunity.

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Getting from point A to point B is the fundamental challenge for all travelers. Savvy voyagers know the second most important tool for the journey--the first being a dry pair of socks--is a road map. This is true even if your personal point B is not a charming town on the other side of the state, but the twin destinations of owning your own business and achieving financial success. Franchising is a well-worn route to business success and offers a clear map of how to make business ownership work for you.

Forget your impression of fast-food restaurants, and think of franchising this way: A franchisor is an experienced partner prepared to teach you how to operate its successful business concept, license to you the right to use its famous--or at least established--trademark, and provide continuing support while you build and operate your business. You own the business; you're nobody's employee. You invest in a substantial initial franchise fee, designed to cover the costs of your training and support during the business launch, and a monthly or weekly fee for the continuing right to participate in the program. Now apply this set of ideas to virtually any retail business, and you'll begin to understand why franchising excites so many people.

A franchised business is more than most of the packages "business opportunities" you've seen advertised. A franchise is not a one-time package purchase, and it's not a get-rich-quick come-on. The franchise company creates an ongoing relationship with you, the investor. You aren't left to find your way on your own, as you are with a business opportunity investment. A solid course of training sets you up to succeed, and detailed printed and electronic materials guide you in every aspect of preparing the product or service, managing employees and excelling at customer service. This service does come with a price: The franchisor receives a

regular royalty payment based on the level of business you conduct, usually assessed as a percentage of your gross sales.

When it works well, everybody wins. Hundreds of thousands of franchised businesses have employed this carefully balanced approach to franchise business expansion and individual investment. In business terms, no one has ever devised a better road map to business ownership success.

Starting Point

If a journey of 1,000 miles begins with a single step, your route to franchise business ownership starts with a rather introspective planning exercise. Spend a few minutes with a note pad, writing down your interests, strengths, resources and the areas of business that draw your attention. Focusing as much as possible now will save you time and cut down on distractions when you plunge into the franchise marketplace.

Jot down your financial resources. List ready cash, savings and assets like a house or a car. Then visit with a banker. If your Uncle Leroy once offered to back you in business, now is the time to get more specific.

Know Where You're Going What information trip would be complete without a cruise on the Net? The Internet is a terrific source of surface information about franchise opportunities. It's weaker as a source of in-depth, detailed information. That makes it a great place to start, to get a feel for the programs available to you. Browse for ideas, bookmark what catches your eye and discount the hype surrounding the claims you see.

Start at the Web site of the [Federal Trade Commission](#) for some solid insight into franchise and business opportunity investing, your rights under federal franchise law, and a peek at some of the enforcement work the FTC has done.

Trade Show Truck Stop One of the most significant stops on your route to franchise success will be a franchise trade show in your town. These gatherings give you a terrific opportunity to kick some tires and conduct a reality check. Trade shows can be fun, overwhelming events, some with hundreds of exhibitors and thousands of people cruising the aisles. It helps to get your thoughts organized before plunging in.

Memorize a few key questions to ask exhibitors, like "What's the total investment required for one of your units?" (to self: "Can I afford it?") and "How many franchises have been established in this state, and what are your plans for new units in the coming year?" (to self: "Is there room for me?").

When you arrive at the show, head for a quiet corner with a cup of coffee and go through a directory with a pen or a highlighter. Flag the companies you recognize or that you've seen on the Net, or that fit the profile of the type of business you have in mind for yourself. As you work your way through the show floor, keep checking your directory, and make sure you see every company you highlighted. If you don't keep yourself on track, distractions may prevent you from covering your list during the show.

What to Bring

- **Common sense.**
 - **Money.**
 - **An eye for detail.**
 - **A hunger for information.**
 - **Above all else, a knowledge of yourself.**
- SBA programs

The UFOC Road Map

As an investor in a franchised business, you enjoy a huge advantage: The franchisor is required to deliver to you a meaty disclosure statement well before you commit to the investment. It's known as a Uniform Franchise Offering Circular, a disclosure document or an offering prospectus, and it's a treasure trove of information for any curious traveler. It must be delivered to you at the earlier of: 1) your first personal meeting to discuss the franchise investment (routine trade show encounters over an exhibition booth generally do not count) or 2) at least 10 business days before you pay money or sign a contract for the franchise. Note that the law does not require a franchisor to deliver its UFOC to you when you request one, but you will certainly see it if you attend a hospitality suite meeting at the trade

show convention center or if you visit the company headquarters to explore the program. At the same time, it never hurts to request a copy as soon as you decide you're interested in looking at the offering in more depth.

Take the time to read the UFOC; it's remarkable how many people don't. It's written in plain English, not dense, off-putting legalese. It's also laid out in logical fashion. You'll find three basic sections of the UFOC: 23 items of narrative discussion of the franchise offering, financial statements of the franchisor audited by an independent CPA, and a copy of the franchise agreement form you'll be asked to sign.

The 23 narrative items discussing the franchise are organized into these rough information categories:

- **Items 1-4:** The franchise program, the franchisor, the business experience of key franchisor personnel, and the franchisor's litigation and bankruptcy history
- **Items 5-8:** Fees to be paid to the franchisor, an estimate of your total investment in establishing the franchised business, and the requirements to purchase from the franchisor and/or approved suppliers
- **Item 9:** Your obligations under the franchise agreement summarized in chart form
- **Item 10:** Details of any financing provided by the franchisor
- **Item 11:** A lengthy recital of the pre-opening and post-opening obligations of the franchisor
- **Item 12:** Territorial rights
- **Items 13-14:** Trademarks, patents, copyrights and proprietary information
- **Items 15-16:** Your obligations to participate in business operations, and restrictions on what products and services the business may offer
- **Item 17:** A summary in chart form of renewal, termination, transfer and dispute resolution under the franchise agreement
- **Item 18:** Details of the franchisor's use of a public figure in the promotion of the franchise
- **Item 19:** Performance data and earnings claims, if the franchisor has provided any
- **Item 20:** Summary of the franchisees who have entered or left the

system in the past year, the company-owned units and the franchisor's expansion plans for the coming year. Also, a complete list of the names, addresses and telephone numbers of regional franchisees

- **Items 21-23:** The financial statements, franchise agreement form and the receipt for the UFOC (which you will be asked to sign, date and return to the franchisor)

Professional Travel Guides Before you sign anything, have an accountant and an attorney look over the franchisor's financial statements, the Items 5-7 fee charges and investment estimates, and the franchise agreement. Sure, it'll cost you a few hundred dollars, but think of these fees as a toll on the bridge to franchise ownership. The value of the financial planning, the insight into the franchisor's financial standing and the understanding of the legalities of the franchise agreement will be worth it to you. And if Uncle Leroy comes through with any financial backing, he'll insist on a professional review of the program.

Hit the Road, Jack After you've reviewed the UFOC and drilled the franchisor representative with questions, it's time to travel (literally) to existing franchisees. Look them up in Item 20 of the UFOC; get in the car and go. Watch their operation for a while, and ask for a 30-minute personal meeting with the owner when it's convenient.

Visiting with an existing owner is a golden opportunity to explore whether this franchise is the right investment for you by testing it against the experience of others. Be prepared to run down several key questions with the franchisee, including: "Is your business strong, and if not, how could it be improved?" "Did the franchisor do what it promised to do?" "Was the training valuable?" "What were your business's gross sales last year and is this a stronger year?" And the clincher: "Knowing what you now know, would you make the same decision to buy this franchise?"

You've Arrived Following a road map makes the trip more satisfying. You can better appreciate the sights and information you find along the way, and you increase your odds of arriving at a business that meets your needs. That is the very definition of the road to business success.

Travel Assistance

- **FTC:** [Federal Trade Commission](#) [Web site](#)

- **Better Business Bureau:** [BBB](#) [Web site](#)

- **State Agencies:**

STATE	AGENCY
California	Department of Corporations
Hawaii	Department of Commerce and Consumer Affairs, Securities Compliance
Illinois	Attorney General's Office, Franchise Division
Indiana	Securities Commissioner, Securities Division
Maryland	Attorney General's Office, Securities Division
Michigan	Attorney General's Office, Consumer Protection Division Antitrust and Franchise Unit
Minnesota	Minnesota Department of Commerce
New York	Department of Law
North Dakota	Office of the Securities Commissioner
Rhode Island	Division of Securities
South Dakota	Division of Securities
Virginia	State Corporation Commission, Division of Securities and Retail Franchising
Washington	Department of Financial Institutions, Securities Division
Wisconsin	Wisconsin Securities Commission

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