

A CLOSER LOOK

Is that new franchise or biz op a ground-floor opportunity—or a flash in the pan?

BY ANDREW A. CAFFEY

Today's booming economy offers you more choices than ever when it comes to investing in a franchise or business opportunity program. New franchise and business opportunity companies are springing up all the time. Many are based on recent computer innovations; others are simply clever new ideas whose creators hope to hit it big with a popular investment concept.

Selecting and investing in any business package has its challenges, but when checking out a new franchise or business opportunity, it's especially important to go slow. New programs tend to offer fresh, exciting opportunities. By definition, you're getting in on the ground floor when you buy into a new program. The concepts are often based on current market sizzle: They look hip and impress investors with cutting-edge technology or the latest trends. They may target a valuable emerging market or appeal to a market segment that has great potential.

These features can really get your entrepreneurial juices flowing, and the urge to jump into the deal may be almost too much to resist. But one nagging fact should make you stop and think: A new company has no track record of success. The concept is unproven, and there may still be some expensive bugs in the system. It pays to go slow. Take a deep breath—and take the following steps to thoroughly investigate the new investment concept.



WHAT'S THE SCOOP?

All franchise programs are required by law to provide investors with a Uniform Franchise Offering Circular (UFOC). The UFOC offers you a bonanza of information: Everything from the background of the franchisor's executives to the financial details of the investment is laid out in plain English.

However, when you're dealing with a new franchisor, the UFOC can

leave you wanting more information. Expect to see all zeros in the Item 20 charts describing the system, and perhaps nothing more than an audited opening balance sheet for the company's financial statements. The business history of the new franchisor may be nothing more than the fact that it was recently incorporated. The list of franchisees in Item 20? There may not be any to list, meaning you can't contact people who've already

invested to see how they've fared.

But a new franchisor's UFOC still contains extremely valuable information. It will show you, for instance, whether any of the franchisor's key players have been involved in a bankruptcy or a material litigation in the past 10 years. The estimated cost of the franchise is spelled out in Item 7, and the fees you will pay to the company are detailed in Items 5 and 6.

Ask the franchisor's representative what experience the franchisor has had operating similar businesses or company-owned locations of the franchise. How long have they been operating these businesses? How many are there? How are they run? Plan to visit one of these locations to learn as much as possible about the business.

A visit will also give you an idea of how well the business is doing. "Is it making money?" and "How much money can a franchisee make?" are questions a new franchisor probably can't answer. Earnings information is carefully regulated by franchise laws, and often, a new franchisor simply doesn't have performance data available on which to reasonably base an earnings statement. If the franchisor makes any performance information available, it will appear in Item 19 of the UFOC. You should also review the audited financial statements with your own accountant.

OPPORTUNITY KNOCKS

A business opportunity program is, by and large, more self-contained than a franchise relationship. If that's the case with the program you're considering, the seller's track record may not be that important to the success of the venture. On the other hand, if you will rely on the seller to supply products, services or information, you must carefully assess the seller's strengths.

If you don't receive a disclosure statement from the business opportunity seller, plan to look into the company's qualifications. Ask tough questions of the representative:

- ♦ Can I have the names, addresses and phone numbers of other buyers in this state?
- ♦ Do I need any business experience to run this program?
- ♦ Do I need a computer or other equipment?

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◆Has the business opportunity seller registered its offering under any state business opportunity law?

◆May I see the audited financial statements of the seller company?

◆Has the company ever been sued by a purchaser for problems with this program?

You should also check with your state's attorney general's office to determine if there are any pending legal problems or enforcement actions. Call the Better Business Bureau for a report of any consumer complaints.

GET WITH THE PROGRAM

Whether the new program you're considering is a franchise or a business opportunity, you have an enormous advantage when it comes to buying into the system, and you shouldn't squander this valuable position. Your leverage? All sellers of newly created business package programs are under huge pressure to sell. That means you have an excellent chance to negotiate for favorable price and terms.

Offer the seller an amount below the asking price. After all, why should you pay a premium for a new concept that hasn't yet proved itself? Propose a structured payment over time. Go in with a portion down and the balance on favorable financed terms. Get aggressive; you'll be surprised at the response you get.

A structured, negotiated purchase might also give you some protection. If, in a few months, you find the venture doesn't live up to its promise, you can stop paying on the deferred purchase price and resolve your problem with the seller on reasonable terms, with a substantial portion of your purchase money still in your pocket.

The uncharted waters of a new program might make it attractive to risk-taking entrepreneurs seeking a challenge. But be careful: It's the *calculated* risk that creates wealth. Before you dive in, assess the program with care and evaluate its real potential in the market. ☐

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