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FROM 9/11**

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SMART WAYS TO BUILD A BIGGER BUSINESS

PLUS—SCAM ALERT!

**DON'T GET
RIPPED OFF**

17 Most Common Scams



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WATCH OUT!

HEY, SUCKERS! HERE'S HOW TO
NOT THROW YOUR MONEY AWAY
ON A GET-RICH-QUICK SCHEME.

BY ANDREW A. CAFFEY

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.

AGE ISSUES

You'll have to make two fundamental decisions before you can find the right franchise: (1) Existing unit or new location? and (2) New franchise program or one that's been around for 30 years?

	PROS	CONS
NEW DEVELOPMENT	<ul style="list-style-type: none"> + Pick your location and cut construction costs + No "good will premium" payment required for the operation + Hire your own management and employees, increasing likelihood of loyalty 	<ul style="list-style-type: none"> - Location selection always something of a gamble - Problem of finding great managers/employees, depending on job market - Higher risks overall
VS.		
EXISTING UNIT	<ul style="list-style-type: none"> + Track record you can measure + Management and employees already in place + Measurable, and possibly lower risks. 	<ul style="list-style-type: none"> - Aging building, fixtures and equipment requiring more investment - Unforeseeable problems with management and employees
	PROS	CONS
NEW FRANCHISOR	<ul style="list-style-type: none"> + Can be new and exciting + The program may be fresh in the marketplace + Possibility of getting a discount on fees because you're a "pioneer" + Potential for very high return on investment 	<ul style="list-style-type: none"> - Business not tested or established in marketplace - Unknown trademark - Possibility the concept is a fad with no staying power - Franchisor may lack experience in delivering services to franchisees
VS.		
ESTABLISHED	<ul style="list-style-type: none"> + Probably well-known to the consumer; a "built-in market" for the products or services + Smooth delivery of services such as training + All the bugs worked out of the program 	<ul style="list-style-type: none"> - High and non-negotiable prices and fees - Program may be declining in the marketplace - Trademark may call to mind an outdated concept - Trade dress in need of redesigning and updating

Read All About It

EVERYTHING YOU NEED TO KNOW SHOULD BE IN THIS ONE DOCUMENT, BUT WHERE?

A UNIFORM FRANCHISE OFFERING CIRCULAR (also known as a UFOC, a "disclosure document" or an "offering prospectus") is a detailed set of prescribed disclosures the law requires every franchisor to deliver at least a couple weeks before the completed franchise sale. All UFOCs follow the same guidelines regarding structure and content. That makes them useful for comparing two or more franchise programs side-by-side.

Reading the UFOC thoroughly gives you a substantial advantage. It's chock-full of information you can use. Thankfully, it's also well-organized into 23 items of narrative descriptions, and includes up to three years of audited financial statements from the franchisor and a copy of the franchise agreement you'll be asked to sign.

Here's a quick summary of the topics addressed in a UFOC:

ITEMS 1 THROUGH 4: Background information about the franchisor, key executives, and the company's litigation and bankruptcy history.

ITEMS 5 AND 6: Fees charged by the franchisor, with continuing fees organized in chart form.

ITEM 7: An estimate of your total investment in establishing the business.

ITEM 8: Restrictions and details on purchase limitations for products sold.

ITEM 9: The franchisee's obligations.

ITEM 10: Franchisor-provided financing, if any.

ITEM 11: A summary of services provided by the franchisor, such as training and site selection.

ITEM 12: Territory protections.

ITEMS 13 AND 14: Description of trademarks, patents and copyrights.

ITEM 15: The franchisee's obligations to participate in the actual operation of the business.

ITEM 16: Restrictions on what the franchisee can sell in the business.

ITEM 17: A chart showing renewal, termination, transfer and dispute resolution provisions of the franchise agreement.

ITEM 18: Details regarding public figures promoting the franchise.

ITEM 19: Business and financial performance statistics.

ITEM 20: System statistics and lists of franchisees and former franchisees.

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UFOC



KEN HIGGINS
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Baltimore area

people to service the customers and keep the business running smoothly. Also, being the boss, having the "buck stop here," can be both frustrating and lonely.
—Wein

QUESTION: Should you have started your own business instead of joining a franchise?

ANSWER: No. The franchise allowed us to be up and running faster and more effectively earlier than if we had gone on our own. The beauty of any franchise is that others have made mistakes and have learned from them; in turn, you have the benefit of their lessons. —Murray

ANSWER: No. I started my own independent business seven years before. Even though that business was a success, I like having a structure I can call on for advice and expertise. —Turner

QUESTION: What's the one question someone should ask when looking for a franchise?

ANSWER: What relationship do the franchisees have with the franchisor? —Higgins

ANSWER: How well does this business fit my personality? —Wein

ANSWER: Is the way this company does business consistent with my values, work ethic and business approach? —Murray

ANSWER: What's my competition? —Turner

QUESTION: What's the one question you didn't ask but wish you had?

ANSWER: How important is location and visibility to my success? I ended up relocating my store after four years in business to the opposite end of my shopping center—a costly but very worthwhile move. —Wein

ANSWER: How do I deal with buying an existing location from another franchisee? I wish I would have been able to anticipate how the customers would feel about the transition, how to handle the staff and how to incorporate new policies. —Ellifrits



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