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# The Definition of Franchising

**Franchising:** A long-term cooperative relationship between two entities - a franchisor and one or more franchisees - that is based on an agreement in which the franchisor provides a licensed privilege to the franchisee to operate the business. The franchisor grants the franchisee the right to use a developed concept, including trademarks and brand names, production, service and marketing methods and the entire business operation model, for a fee.

The product, method or service being marketed is usually identified by the franchisor's brand name, and the holder of the privilege (franchisee) is often given exclusive access to a defined geographical area for a defined period of time.

**Franchise:** A privilege or right officially granted to offer specific products or services under explicit guidelines at a certain location for a declared period of time.

**Franchisor:** The company owning/controlling the rights to grant franchises to potential franchisees.

**Franchisee:** A person or entity to whom the right to conduct a business is granted by the franchisor or licensor.

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## What's The Difference Between A Franchise And A Business Opportunity?

### Franchise

When a franchise is awarded, it establishes a relationship between a seller (franchisor) and a buyer (franchisee) that continues for the duration of the buyer's involvement in the business. The franchisee operates under the franchisor's brand name/trademarks and adheres to a set of guidelines in the operation of the business.

### Business Opportunity

With a business opportunity, you buy and own a business outright and operate it under a name you choose. The seller makes his money by delivering the business system, training, equipment, or service method to the buyer. In some cases the seller may also make residual income for the ongoing sale of products or services but for the most part, the relationship is over once the initial purchase is final.

A Franchise Opportunity Provides:	A Business Opportunity Provides:
<ul style="list-style-type: none"><li>• FDD disclosure information</li><li>• Brand recognition</li><li>• Marketing expertise</li><li>• Training program</li><li>• Site selection management</li><li>• On-going support</li><li>• Security of proven processes</li></ul>	<ul style="list-style-type: none"><li>• No on-going royalties</li><li>• Usually lower investment</li><li>• Minimal direction provided on:<ul style="list-style-type: none"><li>○ Advertising</li><li>○ Training</li><li>○ Site Selection</li></ul></li><li>• Freedom to make choices</li></ul>

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# Franchise vs. Business Opportunity – Best Option For Me?

The answer, obviously, is that it depends on the buyer. An entrepreneurial individual may find the confines of a franchise opportunity limiting and instead would thrive in a business opportunity where he makes all the decisions. Another person may find the brand recognition, ongoing assistance, and company-wide marketing programs associated with a franchise just the safety net he needs to feel confident when starting a new career.

There are two effective ways to become a business owner without reinventing the wheel and starting from scratch: buying a business opportunity and/or being awarded a franchise business. Each has advantages and disadvantages so knowing how each works and how you would fit their model is important before you begin your search for a particular business.

## **Franchise**

A franchise opportunity is a relationship between a seller (franchisor) and a buyer (franchisee) that continues for the duration of the buyer's involvement in the business. A franchise differs from a business opportunity in two important ways.

First, a franchisor generally collects a franchisee fee up front from the buyer and also collects on-going royalties. What the buyer gets for these fees are access to a brand, a proven business model, comprehensive training and ongoing support.

The second difference is that in a franchise, the franchisor will require the franchisee to adhere to strict guidelines in the operation of the business. This is done because it is the franchisor's name on the business. The brand must be protected for the benefit of all franchisees in the system and the service or product provided must be consistent from store to store and state to state. Such consistency is a hallmark of a well run franchise system.

## Government Protection

The Federal Trade Commission (FTC) regulates franchising at the federal level. In order for a business to be labeled a franchise, three elements must be in place:

1. Franchisor allows the buyer to use the franchisor's trademarks.
2. Franchisor collects a fee (of at least \$500) from the buyer within the first six months of operation.
3. Franchisor exercises "significant control" over the buyer's operation on an ongoing basis.

The most critical FTC guideline requires franchisors to provide buyers proper disclosure information prior to finalizing the sale. This document is called a Franchise Disclosure Document (FDD) and will assist a buyer in completing the due diligence (the process of investigation into the details of a potential investment and the verification of material facts) before purchasing the franchise. In many cases, individual states have additional guidelines a franchisor must meet to sell franchises in that state.

The FDD is of enormous value to a prospective franchisee and is the best way to differentiate the good franchisors from the bad. Franchisors must disclose any litigation they have faced, list all franchisees in the system and address turnover, terminations, etc. Although not required, the FDD can also list the earnings potential for a franchise.

## **Business Opportunity**

With a business opportunity, you buy and own a business outright and operate it under a name you choose. The seller makes his money by delivering the business system, training, equipment, or service method to the buyer. In some cases, the seller may also make residual income for the ongoing sale of products or services, but for the most part, the relationship is over once the initial purchase is final.

## Government Protection

While a business opportunity is not federally regulated, some states will encourage a general form of disclosure prior to purchase, but most do not require it. If a business opportunity does offer a disclosure document, it may provide only general information. The lack of regulation can speed up the purchase process, but it also leaves the buyer responsible for completing a thorough investigation of the business.

Some advantages to a business opportunity are that there are no ongoing royalty payments and the buyer is given complete freedom to run the business as he chooses. On the downside, there is no vested interest by the seller to ensure that the buyer succeeds in the business so they are less likely to offer ongoing support, marketing help, etc.

Income expectations for a business opportunity may be lower than for a franchise opportunity, but they typically are available at a lower overall investment than most franchises. A business opportunity may not require costly leasehold improvements or large working capital reserves, making it an option for many people who may not have the capital available to purchase a franchise. For many buyers, a business opportunity provides the flexibility to start out as a supplemental income or home-based business, but has the potential to support their lifestyle and meet their financial goals in the future.

### **Best Option for Me?**

If you've never owned a business, you may find that franchising offers a significant advantage to you over a business opportunity. A good franchisor is continuously working on refining the product or service and building the brand. As the marketplace or technology changes, your franchisor will be there for you, providing new products, upgraded equipment and training as needed. As a franchisee, you have the benefit of learning from your peer groups – other franchisees in your area, region, state and even across the country. You may also have such advantages as group buying power and national advertising.

A franchisor has a vested interest in seeing each franchisee succeed for many reasons, including the royalty it receives. The royalty revenue makes it possible for the franchisor to have a strong corporate staff and to provide a superior level of ongoing support to the franchisees. Finally, franchising offers one exceptional benefit over a business opportunity and that's the power of the brand. A consistent, recognizable, and everywhere brand is important to customers with an added benefit of increasing the value of the investment the franchisees make in their business.

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## **Where Can I Look For A Franchise?**

There are many good sources of information about franchise opportunities. For most people, the process that makes the most sense is to first make sure you understand the business model of franchising. After you're clear on what franchising is all about, then you can try to identify industry segments that may be of interest to you. Finally, you can research individual companies to see which ones match best with what you are looking for in a franchised business opportunity.

There are many good reference works and periodicals you can use to understand franchising in general and business format franchising specifically. The best sources to rapidly access this information at no or very reasonable cost are:

- Internet web sites
- The public library
- A good bookstore
- [A franchise consulting company](#)

The best way to scan industry segments to find ones that potentially have interest for you is to refer to lists compiled and organized by others. These lists usually contain information on many companies segmented by industry. One of the best organized is the Entrepreneur Magazine's Franchise 500 (January issue each year). Spend some time looking at the investment level requirements and thinking about what the pros and cons of that particular industry might be. Make a list of the ones that you are qualified to pursue financially.

Finally, franchise consulting networks are growing in popularity. There are many to choose from and they can be found on the internet. At [Quest Franchise Advisory Group](#) we offer a free service to people looking for franchise opportunities and have helped many people find the business that is right for them.

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# Will I Make a Good Franchisee?

Have you ever wondered if you have the personality and skills to be a successful franchisee? There are over 1,600 franchise companies operating in the US, each requiring a plethora of different skill sets in a franchise owner.

Some companies say they have many franchisees that came from corporate downsizing, former CEOs and CFOs and such. Others claim they don't want franchisee candidates with too much structure. Some companies want a marketing and sales background and others prefer someone without preconceived ideas so they can train that person in their system, their way.

Confusing? You bet! But there are a few key characteristics that you should be aware of to determine if franchising could work for you. Consider the following:

## **Making Connections**

A successful franchisee needs good interpersonal skills. Seem obvious? Well think about this carefully. In your current and past jobs, did you really enjoy working with people?

A franchisee will need to manage employees and work to retain them. You'll have to build good-will with your customers and gain their loyalty and trust. In many cases, a franchise owner's role will be to make community connections by joining civic organizations and networking with various groups.

If you are truly a people person, you have one of the most valuable assets to successful franchise ownership.

## **Following a System**

Many people think being your own boss requires you to be a true entrepreneur, someone who wants to take charge and challenge each step in the process. That's simply not true for franchising. If someone has already done the work, tested the procedures and proven that a system works, a clever person will pay attention and follow that system. This person is truly focused on success.

Someone willing to listen and learn from others to avoid making mistakes will avoid many of the pitfalls of business ownership and find success sooner. That is the essence of franchising.

## **Willing to Ask for Help**

In the same vein, a good franchisee candidate is someone who will let the franchisor help and support them. At most franchise companies, there are teams of people who will train you in every aspect of the business. There are people to call for help. There are people who will come to your place of business to show you the way. The motto of franchising is that you are in business for yourself but not by yourself. It is up to you to take the help and follow the advice. When you are successful, the franchisor is successful.

## **Doing Whatever it Takes**

There is just no substitute for hard work, particularly during the first year. A successful franchisee is someone who is willing to do whatever it takes to get the job done. They show their employees by example. They put in whatever hours necessary to get the job done.

If you are someone who understands what it takes to be successful and have the motivation to make your business succeed, you have the cornerstone of a winning franchisee personality.

## **Avoiding Risks**

Starting a business by yourself is taking a big risk. Buying a franchise can help reduce the risk. In fact, successful franchisees are typically risk averse. They want to minimize their risk as much as possible and so they choose a strong franchise system with a proven track record.

If you love to take big, bold risks, franchising probably isn't for you. If you are careful and thorough in your franchise research so you know just what you are signing up for, then you have the stuff to triumph as a franchisee.

So, how many of these qualities do you have? Unlike a magazine survey on health concerns, you can't get some of the answers wrong and still be in good shape. You need all of the above attributes to consider yourself a great candidate for franchise ownership.

This new business you are considering is your business and the money you invest is your money. You'll want to have every advantage possible to make it successful. So before you begin research on a franchise company, do some soul searching about your own assets and how they fit with a franchise opportunity.

There's nothing more exciting than embarking on that road to owning your own business. Just make sure you can avoid the speed bumps along the way.

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## Beginning Your Search For A Franchise?

Before you even begin looking at franchises, you need to do an introspective self-evaluation of your own strengths and challenges. Sit down, get out paper and pen, and as objectively as possible answer these questions:

### SKILLS / STRENGTHS

- What part of your current and past jobs have you liked doing the most?
- List your skills and evaluate how well you perform each.
- Describe the work environment that most appeals to you.
- Are you an animal lover? Auto buff? Artistic? What skills/hobbies do you have that may be applicable to a franchise business?
- Are you status conscious? Does it matter to you what the product or service of the franchise is or does the business potential matter more?
- Are you comfortable with sales and the sales process?

### CHALLENGES

- What part of your current and past jobs have you liked doing the least?
- List your weakness, those things you'd not want to do or would want to hire someone to do in a business.

### MANAGEMENT SKILLS

- Do you have experience managing employees? Did you enjoy it?
- Are you comfortable with recruiting employees?
- Do you have the experience and skill needed to create a work environment that will allow you to retain employees?

### FINANCIAL CONSIDERATIONS

- How much capital do you have to invest?
- Can you afford to do without a regular income during the start up phase of your new business?
- What are your financial goals?
- How do you see your lifestyle changing as a result of meeting your financial goals?
- How do you feel about taking the risk of becoming self-employed?

### ARE YOU A TEAM PLAYER?

- Franchising is all about following someone else's system. Can you picture yourself in this role, executing a system you didn't create?

Once you have answered these questions, you'll begin to see a clearer picture of what talents you can bring to a franchise business and what you expect to receive in return. The next step is to start looking at opportunities and evaluating them based on your answers. It may take some effort to find the right franchise, so don't compromise.

Franchise opportunities come in many shapes and sizes and you never need to settle for one that is just not a great fit. There are businesses you can run yourself from your home and others that call for multiple unit locations in upscale malls with numerous employees. Choosing the franchise opportunity that best matches your needs, interests and style is your greatest assurance of happiness and success.

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## Choosing The Right Franchise

Like any major life decision, buying a franchise requires careful consideration. There are two ways you could make a mistake. The first is that you fail to do thorough research and end up buying the wrong franchise. The second is that you fail to do thorough research and so lack the confidence to buy the franchise that is right for you.

The point is that when evaluating a franchise opportunity, you should be able to eliminate those that don't meet your needs and won't help you reach your goals. When you find an opportunity that you can't eliminate, you'll know that this is the "one."

To help you establish your search criteria, the first thing you need to do is look in the mirror and carefully evaluate yourself. This is an area where a professional service, such as a franchise consultant can help you understand the importance of honest, clear-minded interpretations. At [Quest Franchise Advisory Group](#), a member of 25 year old network of franchise consultants who have worked with hundreds of people, helping people find their ideal franchise opportunity is what we do.

Here then is our recommended approach of determining what to look for in a franchise that will meet your needs, expectations and goals:

### STEP 1

Before you start looking at franchises, take stock of that most important component of the equation – YOU.

- What skills, experience and interests do you have?
- Consider your past jobs and determine what you liked best and least about them; then make a list of your strengths and weaknesses.
- How much money can you invest and how much would you like to make?
- Are you comfortable managing others or would you prefer to work alone?
- Where do you want to work? Are you willing to relocate?
- What hours are you willing to work while the business ramps up and what lifestyle expectations do you have after the business is established?
- How do you feel about selling and the sales process?

By starting with a list of what you have to offer and what you need from a business, you can create a strategy and model for your research.

### STEP 2

Keep an open mind. Whether (at Step 1) you use a resource like [Quest Franchise Advisory Group](#) or do your own franchise research via the Internet, it is best to keep all options open when considering a franchise.

An inexperienced person may approach the process by thinking, "Well, I love donuts. How about a donut franchise?" And after spending days or weeks of research on Krispy Kreme, Dunkin' Donuts and others, the individual may find he doesn't have the required capital, the territory he wants is not available, and he'd have to give up weekends if he owned a food franchise.

Another ineffective way to begin your franchise research is to lock yourself into one or two concepts. If you think, "I'll only look at ice cream and exercise franchises," you may miss finding that that gem of a concept that would mesh perfectly with your needs.

With thousands of franchise companies available, keeping an open mind is the best strategy you can employ to get on the ground floor of that new, hot concept or to find something that will really take off in your market.

### **STEP 3**

Let's say you've found an assortment of franchises that look promising. What do you do next?

Contact the franchisors and request information about their concepts. You will probably get a call from someone in the franchise development department who will gauge your interest and advise you if the territory you seek is available. You will want to thoroughly view the web site information and any brochures and videos they send you.

Keep notes on your impressions. Are their materials professional and up-to-date? Are you treated courteously by a friendly and knowledgeable member of the corporate office? Are your questions and concerns answered to your satisfaction?

What you see from the company at this time may be an indication of the type of support you would receive as a franchisee in their system.

### **STEP 4**

Your next step is to read the company's FDD (Franchise Disclosure Document), a document every franchise in the United States is required to provide. From this you will learn the history of the company, the training and marketing programs, and what costs, royalties and fees you will be required to pay.

Some franchisors also provide earnings claims in the FDD that will help you estimate the potential of the business.

The FDD is full of information about the franchise and it clearly explains the responsibilities of the franchisee (you) and the franchisor. Your FDD review and understanding is a very significant part of the research process. Every FDD is structured identically so they are relatively simple to navigate.

By paying attention to what you discover in a company's FDD, you can weed out franchises that just don't measure up. Some warning signs of a franchise that is facing challenges are extensive litigation with franchisees or a closing rate of units greater than what's being opened.

### **STEP 5**

We consider this step to be of monumental importance when judging the likelihood of finding happiness in a particular franchise: **CALL EXISTING FRANCHISEES!**

Existing franchisees are your best source of information for finding out what really happens in a business on a day-to-day basis. You can ask what they like and dislike about the business, if they are happy with corporate support, and even get a feel for the type of earnings a franchise makes.

Gather a variety of opinions and you'll get a clear picture of not only the franchise itself but of how you'd fit into the organization. That is why this step is so significant to your being able to make a definitive decision.

### **STEP 6**

Your next step is to narrow down your choices. Okay, maybe it's not all that easy. Let's review what you've done so far:

1. Made a list of your strengths, experiences and needs
2. While keeping an open mind, found some companies that looked promising
3. Requested information
4. Reviewed the FDD
5. Talked with existing franchisees

Hopefully you've now found one or more companies that will meet your needs. When you've made it this far, it's time to go to Discovery Day (an on-site meeting with a franchisor). At this meeting you will be introduced to the top people in the home office and

you may make a visit to a local franchisee, allowing you to ask even more questions and maybe to get some hands-on experience with the business.

Discovery Days are very interesting and exciting. When you leave, you will have a good understanding of the franchise. Don't forget that this is a two-way street. They'll be evaluating you as thoroughly as you evaluate their business.

#### **STEP 7**

The last step, of course, is making the final decision. Like any major decision, you will be filled with anticipation and anxiety, excitement and fear. Those are very normal feelings, experienced by almost everyone.

But if you've done your homework and followed the steps as outlined, you should be very comfortable with your decision. Congratulations – you're ready to be a franchisee.

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## **How Much Cash Do I Need?**

There are a wide variety of franchise opportunities that have initial cash investments as low as \$20,000 to \$30,000. It is important to note that the investment required in any franchise is often not a good indicator of the total returns that may be available. In any case, the most important requirement is that the concept fits your needs and goals. The concept can cost \$1,000 or \$1,000,000 but the only way to know if it's the right opportunity for you is to match it against your personal interests and skills.

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## **Is Financial Assistance Available?**

Financing can be a major hurdle for any potential franchisee. Start-up costs can reach a high level and it is essential that the franchisee have adequate working capital. It is important to address any financing issues during the investigation of franchise opportunities.

The best source of information about financing options for any franchise is the franchisor. Once again, we are dealing with an issue that the franchisor has addressed numerous times with other franchisees and they will have a good deal of information about the practical options that are available.

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## Do I Need Experience To Be A Successful Franchisee?

No, in fact most franchisors are looking for people with no experience in their industry. This is because they want their franchisees to focus on running the business and not performing the labor their concepts require. Franchisors need people who can be effective in areas such as motivating employees, generating sales, and running the day-to-day operations as efficiently as possible. The franchisee role is typically one of management rather than labor.

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## What Do Franchisors Look For In A Franchise Partner?

Although it may not be immediately evident, a franchise company is under no obligation to award a franchise to just anyone who can afford the franchise fee.

Like any good business, a franchise company will want to populate their system with great people. Since franchising has as its foundation a strong, consistent brand, a franchisor looks for franchisees who will present the brand in the most positive light. In the same manner, they will want to have only those people as franchisees who are able and willing to learn the system and work within the specific parameters of the business.

When researching a franchise company, you will find that they may have as many questions about you as you do about their company. A franchisor is putting their time, money and reputation on the line, so most have developed a "profile" of a successful franchisee which they use to determine if you are "right" for their business.

While this may sound exclusionary, franchisors have a very good reason to learn what works and then to stick with it. Successful franchise companies want their franchisees to excel. They have refined their systems around a set of standards they have learned franchisees need to thrive.

These are the most common items a franchisor looks for in a potential franchisee:

- **Capital:** This is one of the first hurdles you'll encounter when trying to qualify for a particular franchise. Most franchisors have a minimum net worth and liquid capital requirement for their franchisees. While this may seem obvious, there are other demands on cash availability beyond the initial costs of the franchise – such as the length of time it will take your business to start making money and the living expenses you will have during that time. There are financing options available that may help you qualify if you are short of capital, however no good franchisor will want to see you start out your business heavily in debt.
- **Personality:** There are some personality characteristics that seem to be common in all successful franchisees. Other characteristics are specific to individual businesses. Are you willing to follow a system or are you the type who wants to do everything your own way? Do you enjoy working with people? Are you focused and decisive? Do you enjoy solving problems? Are you willing to work hard? These are some of the questions a franchisor may have for you and your answers will determine not only if you can qualify for a particular franchise but also if you will be a successful franchisee.
- **Skills:** Your skills are closely related to your personality. If you like working with people, chances are you will be good at it. Are you customer service focused? Can you lead a team of employees? Can you set and meet personal goals? Do you understand financial concepts? One attribute required by most franchisors is that you have business acumen and understand how the parts of a business contribute to the whole.
- **Experience:** Franchising is one area of business where your specific experience is less important than other factors. That's because of the excellent training provided by most franchise companies. In truth, many franchisors prefer franchisees without industry experience because it is easier to train someone in a franchisor's system than it is to "un-train" a franchisee that has ideas which may conflict with the way a franchise system works. Again, it is the overall business experience you've attained through life that will make you a "star" in a franchisor's eyes.

The goal for every franchisor is to have successful franchisees. As much as you may want to qualify for a franchise opportunity that interests you, remember that the franchisor has the background and experience to know what type of person makes a good franchisee in their system.

If you encounter a franchise that doesn't discriminate when choosing franchisees – look out. They're just going for volume and hoping some of the businesses succeed. Stay clear of these companies as they will not be vested in helping you achieve your long term goals.

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## What Is The FDD (previously called the UFOC)?

Prior to the 60s, there was little franchising momentum in the US. However after the success of McDonald's, many other companies began to franchise their concepts and the franchise industry expanded rapidly. In 1979, the Federal Trade Commission's Franchise Rule became effective, requiring that all franchisors submit to all potential franchisees a document called the Uniform Franchise Offering Circular (UFOC). The purpose of the Franchise Rule (manifested in the UFOC) was to provide enough information so the prospective franchisee could make an informed decision about purchasing the franchise. In 2008 this document was renamed the **Franchise Disclosure Document (FDD)**.

The FDD serves as a protection for the individual against making a decision based on information not supported by fact. The FTC Rule requires franchisors provide the FDD to the prospective franchisee at the earlier of the first personal meeting or 10 business days before the franchisee signs an agreement or pays any money. It also provides that the franchise agreement must be given to the prospective franchisee at least five business days before the franchisee signs any agreement or pays any money. A franchisor's FDD must be updated on an annual basis, or sooner if certain conditions are met.

**Here are some of the items an FDD must contain:**

- **History and Experience.** The franchisor must provide you with a history of their past activities, especially as it may relate to potentially negative information. This information must be provided not only for the company itself but also for the officers and directors. The information includes factors like the business experience of the company and its principles and any fairly recent litigation or bankruptcy history for either.
- **Financial Factors.** The company must disclose to you the relevant financial terms of the franchise opportunity. This would include the initial franchise fees, other startup costs, and an investment range estimate for your total cost to get into the business. The FDD must also disclose any other fees, such as the royalty, marketing and renewal fees that the franchisee will have to pay throughout the life of their franchise.
- **Obligations and Restrictions.** The company must disclose the obligations of both you and the company under the terms of the franchise agreement. They must also spell out any mandated restrictions that you will operate under in terms of your purchasing options and behavior as a franchisee.
- **Other Considerations.** The company must also disclose relevant information on a number of other factors such as financing programs, territory, trademarks and patents, renewal or transfer provisions and public figures.
- **Exhibits.** The company must also provide other data including audited financial statements, current franchisee lists with contact information, contracts and receipts.
- **Earnings Claims.** FTC rules leave it up to the franchisor whether they want to supply information about the earnings that can be achieved in their business. If a franchisor does want to provide earnings claims, they must follow stringent rules on how this information can be given to a prospective franchisee. It is essential for the franchisor to make sure that the data provided is as accurate and representative as possible and they must also clearly label any assumptions or qualifications on the data provided. As a result, earnings claims can take a variety of angles and approaches, so reviewing the background information is vital.

### Individual State Requirements

In addition to the laws that mandate disclosure, there are also some states that have passed specific laws to further protect franchisees in that state. These laws may add additional disclosures or rules about franchise agreement terms. As an example of this,

there are a number of states that require that the legal venue for any dispute must be in their state rather than in the state where the franchise company is located. These types of additional requirements vary from state to state but any that are appropriate to your situation in your state should be disclosed in the FDD you receive.

The following "filing states" currently have additional requirements above and beyond the requirements of the FTC: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Oregon, Rhode Island, South Dakota, Virginia, Washington, Wisconsin.

### **Your responsibility**

The most important point to remember regarding the FDD is that you need to read and understand the material that the franchisor is disclosing to you. The FTC has a requirement that these documents must be presented in understandable English so that the material should be clear. It won't make any difference, however, if you don't carefully review the material.

Make sure you take the time to study the information supplied to you and you'll have a much better chance of making sure that these legal requirements actually serve their purpose of protecting or safeguarding your interests.

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## **How To Evaluate A Franchisor?**

After you've taken a look at a franchisor's overall concept and business model, and evaluated their FDD, there are a number of ways to help determine if the company is going to be able to support you, both initially and down the road.

- A company must provide you with their Franchise Disclosure Document (FDD - formerly called the Uniform Franchise Offering Circular or UFOC). The FDD will tell you if there is any litigation against the company and the number of franchisees who have left the organization. These items are red flags, particularly if the numbers seem large compared to the size of the system.
- Make sure you personally meet the franchise staff with whom you will be working. You will evaluate their style, professionalism and competence. If they seem hurried or stressed out, the franchisor probably doesn't have sufficient staff to handle further growth.
- An important measurement of the health of any given franchise company is the rate of growth of their system. Specifically, the franchise system should be growing at a rate that shows it is healthy and vital and is able to attract a number of new people to the system but should not be adding new franchisees so quickly that it will have problems managing this growth. When doing your research on a franchise opportunity, you will find a variety of ways to evaluate a franchise's growth. The following may assist you in your examination:

1. **Determine the number of new franchisees added each year:** This information is not usually available in the FDD so you will have to ask the franchisor for these numbers. Ask also about the number of operational support people devoted to new franchisees.

It is obvious that if a franchise system has been franchising for a number of years but has added very few franchisees, there may be problems in their system. It could be that current franchisees don't validate well due to problems with the business model so potential franchisees are rejecting them. Or the problem may be that the franchisor has insufficient staff to handle all the elements associated with getting a new franchisee up and running and must reject a number of qualified applicants. Either way, lack of new franchisees may mean this isn't a healthy company.

A good number to look for would be when the percentage of new franchisees falls somewhere between 10% and 35% of the total number of franchisees. A company currently with 100 franchisees should have the infrastructure to add up to 35 new franchisees in the coming year.

This formula will not work for very large or very small companies, however. Therefore, another number to look at is the ratio of operational support personnel compared to new franchisees. A ratio of one support person for every 10-20 new franchisees tells you that new franchisees are likely getting adequate preparation and support to develop their businesses.

2. **Talk to existing franchisees:** You will be contacting a number of existing franchisees from any system you are serious about joining. Besides asking them about such items as marketing effectiveness and earnings potential, spend a sufficient amount of time covering such areas as the training they received as well as initial and ongoing support. Pay particular attention to the answers from those franchisees that have recently joined the system as their answers will most likely reflect the type of support you would receive.
3. **Meet the support staff:** Once you've spent time evaluating the numbers and talking to existing franchisees, there's a final step to take before giving a franchise company thumbs up as a potential purchase. If everything looks good up to this point, you will want to personally meet the franchise staff with whom you will be working. You will evaluate their style, professionalism and competence.

Make a note of the impressions you get during this visit. Does the staff seem warm, friendly, knowledgeable and helpful? Are they able to spend time answering your questions or do they seem rushed, distracted and overwhelmed by their busy schedule? Will the staff be there for you, both at the beginning and also years down the road? Will you enjoy working with them or be frustrated by the lack of clear direction and slow response time?

There are many important elements to consider when researching a franchise business that will meet your needs and desires. A system that is successful and expanding should be right near the top of your checklist. If you've done your research and you are happy with all of the results of the interaction you've had with the franchisor, you can be confident that you are investigating a growing, healthy franchise system, one which will provide you an opportunity to make your personal and professional dreams come true.

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