

# The Franchise Academy

**FRANCHISING**

**101**



**GUIDEBOOK**



**ARE YOU READY FOR A  
CHANGE?**

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# Career Transition Guide

How to change careers through franchise ownership

**FranChoice, Inc.**

Are you stuck in a dead end career? Have you been downsized, laid off, fired or forced into early retirement? Are you frustrated or bored with your job?

If your career has stalled or you've been laid off, it has probably occurred to you that there must be something better than working for someone else. Something that pays you what you're worth and let you be in control of your future. Something that lets you build on your experiences, skills and accomplishments and will allow you to achieve the lifestyle you've always dreamed about. For many people that something is franchising.

**My mentor, Jeff Elgin, started FranChoice in 2000.** Jeff has been involved in the franchising industry for more than 30 years, both in corporate settings and as a franchisee. Elgin decided to use his experience and insights from the franchising world to create a consultant company that would provide a free service to those people interested in buying a franchise. With a team of industry experts he developed a comprehensive process to evaluate the needs of potential franchisees and then to match them to pre-screened franchise companies that would provide optimal support and the potential to achieve their financial goals.

Those two elements: 1) a comprehensive evaluation of the franchisee candidate's needs and 2) pre-screening franchise companies and only working with the best, formed the nucleus of this business. Since 2005, I have been successfully helping people find franchises with Jeff's system.

This Free Report on Franchising, How to Change Careers Through Franchise Ownership, was written specifically for you and will help you decide if franchise ownership is the key to unlocking the secrets to your successful future.

Franchising allows you to start a new business without starting from scratch.

# What is franchising?

## FRANCHISE STATISTICS\*

By 2018, franchising in the U.S. had expanded to more than 4,000 franchise concepts in over 90 industry sectors.

Fast Food continues to have the largest market share but industries such as personal services, pet services, senior services, fitness, business-to-business services, and automotive are all growing through the use of the franchise model.

Franchising has gained astounding popularity for one reason: it works.

Franchising is a model for growing a business by selling the rights to the brand to investors (franchisees) who agree to follow a set of rules and guidelines for running the business.

This business model is successful for a number of reasons, including:

- It provides the franchisee with branding, training, marketing, operations manuals, a peer group of fellow franchisees and ongoing corporate support

- Franchising allows a business to grow rapidly without tying up significant cash

- Franchisees “own” their own business; their motivation is high to make that business successful

- Customers have come to trust the quality and service provide by a franchise

- Group buying power allows franchisees to take save money on products, advertising and other goods and services For someone who has not previously owned a business, the support and guidance provided by a franchisor can be invaluable. Along with the items mentioned above, many franchisors provide market evaluation, site selection and lease negotiation assistance, and help with the design and layout of the store along with details of where to purchase the components. Because a franchisor makes money on royalties paid by the franchisees; they are heavily invested in the success of each franchise unit.

# Why people are drawn to franchising

Unlike a job, owning your own business allows you to:

- Have control over your career. You make the decisions and accept the responsibility – and the credit for your decisions!

- Create wealth. If you are tired of making money for other people, owning a franchise can let you begin to realize your income goals.

- Achieve your ideal lifestyle. Tired of working long hours and missing important family events? You can choose a business that will let you create your own schedule, allowing plenty of time for family and personal interests. **PEOPLE ARE DRAWN TO FRANCHISING BECAUSE THE FRANCHISOR HAS DONE MUCH OF THE WORK FOR YOU**


Starting any new business is risky but a non-franchised business has much more uncertainty than any franchise. You invest a substantial amount of money and a significant amount of time and effort and hope to turn your investment into a profit.

You have to attract customers and compete against other, similar businesses. You need to create and build a brand and then test various advertising avenues trying to reach your audience.

Your first few years in business are all about trial and errors, trying to find out what attracts customers, how to get the best pricing from your suppliers and finding the best way to manage your employees. Surviving until your business catches on is an additional challenge, leaving you to wonder if you have the right business at the right time in the right place.

People are drawn to franchising because you get to skip most of these steps and go right into running the business.

Before a business franchises, they go through a process of trial and error to find out what works. Once they have thoroughly tested everything, they open a number of units, either company owned or franchisee owned, and do further tests. When their units become profitable, they document everything, hire corporate support staff and offer franchise units for sale in more areas.



As a general rule, once a franchisor has 100 or more open units, they are considered a well-established brand.

## Franchising offers a safety net to

For a majority of people, franchising has proven to be a viable way to become a business owner. It offers the lowest risks and the highest level of support when compared to opening your own business or purchasing a business opportunity.

Assuming you've chosen to join a top quality franchise company, you'll find a team of dedicated professionals willing and able to help you every step of the way. They will keep in touch with you from the very beginning to years down the road and they have web sites, toll free numbers and a dedicated staff to make sure all of your questions are answered quickly.

A franchisor doesn't succeed unless the franchisees do, and the cost of this continued support is usually in the form of royalty payments based on earnings. Most franchisees feel the benefits are worth the expense. Research and development is possible because of feedback from those in the field and this cooperative involvement is a hallmark of a well-run franchise business.

Another benefit of franchising is that you buy a package – product or service, brand name and trademarks, marketing and advertising, operations manuals and proven systems – along with thorough training in every aspect of the business. You can totally change careers without years of schooling or apprenticeship or research. One day you can have a “job” in technical support or marketing and a few months later have a “career” as the successful owner of a business, which may be an auto detailer or a pet spa or a home improvement franchise.

And that's why franchising succeeds – because it works, for the franchisor, for the franchisee and for the consumer. For someone interested in a career transition, franchise ownership can be an exciting alternative to “just another job.”

# Is franchising the right choice for you?

It takes a certain kind of person to be a successful franchisee. It takes a drive to achieve your goals. You need to be someone who can follow the franchisor's system while also able to make your own decisions. Most franchise businesses require some management of employees. An outgoing personality with customer service skills will be a tremendous asset. You will need to attract customers so a background in sales or marketing will be a plus if not a requirement of most franchisors.

While there are franchises available at every almost investment level, we strongly advise a minimum of \$100k net worth and \$20k in liquid capital.

You will also want to consider whether you want to work full-time in your franchise or keep your current job and start your franchise on a part-time basis.

## THE SELF TEST

Start with a process of self-evaluation to determine these and other attributes. The following test may help you determine if franchising is right for you. Circle the number that best describes your strengths in each area.

<<WEAK – STRONG>>

Service oriented	1	2	3
Customer focused	1	2	3
Goal setter	1	2	3
Decision maker	1	2	3
Likes to control/direct	1	2	3
Thrives on achieving results	1	2	3



High confidence / self esteem	1	2	3
Follows business procedures	1	2	3
Fits into the organization	1	2	3
Gets along well with others	1	2	3
Coach-ability	1	2	3

### Scoring your self-test:

If you have circled mostly 2s and 3s, you are strongly qualified to be a franchisee. However, if you score weak in a number of areas, franchising may not be the ideal vehicle for you to achieve your career goals. People ideally suited, as franchisees need not be risk-seekers because of the built-in support offered.

There are also four other factors you need to consider:

#### Management experience

Under 5 years ☐ 5+ Years ☐

#### Net worth

Under \$100k ☐ \$100k+ ☐


#### Liquid capital

Under \$20k ☐ \$20k+ ☐

#### Time to invest

Part-time ☐ Full-time ☐





How did you do? If you scored well on the self-test, go ahead and consider these additional topics:

- Have you ever owned your own business?
- In what city would you like your franchise to be located?
- How do you feel about managing employees?
- Will you have the support of your spouse or significant other in this venture?
- Are you willing to work whatever hours necessary to launch your business?
- Are you willing to commit your savings to starting your own business?
- Do you enjoy being challenged and finding solutions to problems?
- Can you motivate yourself and follow-through on tasks?
- Would you rather sell to retail customers or have business clients?
- Will the status of your business (what others think) be important to your decision?

Traditionally, entrepreneurs are big-time risk takers who are easily bored with routine. They don't have a high need for security and prefer working alone rather than as part of a team.

People ideally suited as franchisees, however, need not be risk-seekers because of the built-in support offered. Statistics gathered over the years by the Small Business Administration and others show a much greater stability in franchised businesses than in self-startups.

As a franchisee you must also be willing and comfortable working with people. You will be managing your employees, dealing with your customers, and will need to develop and maintain a strong working relationship with your franchisor.

A franchise is not the place for a lone wolf and if you don't play nicely with others, this is not a career transition plan that will work for you.

## Industry Statistics

- An estimated 4,000 franchise companies operate in the U.S.
- Almost 50% of all retail sales come through Franchising
- 1 in 12 businesses is a Franchise
- There are more than 850,000 (Individual Units)
- Franchised businesses in the US that generate almost 7 TRILLION dollars in sales each year.
- Nearly 86% of all Franchises opened during the past 5 years are still under the same ownership

## How do you search for a franchise business?

If your career transition plan involves buying a franchise, keep in mind that there is a hard way and also a better way to conduct your search.

The hard way is to make a list of all of the popular franchise companies you can think of (such as McDonald's, Subway, Quizno's, Pizza Hut) and try to find out if you can open one in your area. We call this the hard way because these franchises may or may not fit what you are looking for in a business, either financially (because of the cost to get into them is more than you can afford) or realistically (because they may require you to work 7 days a week and manage a horde of employees when what you are looking for is more time for your family). After months of research where you consider only popular fast food franchisees, you may find yourself no closer to owning a business than when you started.

A better way to search for a franchise opportunity is to start with a model for your research. Your model will list the types of business that appeal to you, the investment level that you will feel comfortable with, the hours/days you want to work in your business, and many other details such as those discussed in the previous section. Whether you use a franchise consultant service like [FranChoice](#) or do your own franchise research via the Internet, we suggest you use the following *Seven-Step Process* as a guide:



## SEVEN SURE STEPS TO FINDING THE RIGHT FRANCHISE OPPORTUNITY

### Step 1

Your franchise search should begin with a self- evaluation. Create a model for your research by listing your goals and your answers to the self- test questions. This will guide you in your search.

### Step 2

Keep an open mind and think beyond fast food. With more than 3,000 franchise concepts in over 75 industries, the perfect business for you is out there.

### Step 3


Contact the franchisors that make your list 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. 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?

### 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.



The FDD can help you weed out non-performing franchises. 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

**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.

## Step 6

Narrow down your choices. At this step you get to cross off any companies that just don't measure up. You should have one or more companies remaining on your list that really excite you. If they feel the same way about you, they will invite you to their Discovery Day, (an on-site meeting with a franchisor) so you can ask more questions and meet with company staff.

## 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!**

# Details of buying a franchise

## FINANCIAL QUALIFICATIONS FOR BUYING A FRANCHISE

The evaluation of your capital 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 it may seem obvious that you will need to pay the initial franchise fee and any start-up costs, there are other demands on cash availability that you may not be aware of – 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.

Even if you are approved by the franchisor, you will want to do your own evaluation to be sure you are comfortable with the figures provided. You need to have realistic expectations about the total investment that the business is going to require and the amount of income that it can produce.

Make sure that the total investment figures include adequate working capital amounts and verify all the other investment estimates in the FDD with each franchisee you speak to during your due diligence. Determine what is realistic in terms of income and the time frame that it can be realized. How long does it normally take to reach break even? How much income is realistic in the first, second and third years? Thereafter? What is the most important thing that a franchisee can do to influence these income figures?



Even if you have enough cash to finance your franchise purchase, it may not be the best plan for you. Be sure to weight the “opportunity cost” of tying up your capital and compare that to the “hard cost” of another type of



financing.

Just as it is in purchasing a house, your credit history is important and will determine if you can qualify for loan.

## FINANCING A FRANCHISE PURCHASE


There are many options for financing a franchise besides using your own cash. Probably your best source of information on financing is from the franchisor you are interested in joining as they should be familiar with the costs involved in the loan and will understand the likelihood of you obtaining financing from any particular source. These are some of the financing options that may be available:

### Small Business Financing Options

- Cash
  - Home Equity Line of Credit
  - Bank Loan
  - SBA guaranteed Loan
  - Equity Financing
  - Retirement Accounts
  - Franchisor Financing
  - Partners/Friends/Family Credit Cards
  - Bank Loan.
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One option is to set up a line of credit at a bank. This option only works if you have sufficient personal collateral to secure a loan for the amount you need and this collateral is usually in the form of home equity. Banks require collateral on most loans because they will want recovery if you default on the loan – and this is true whether your business is a corporation or any other type of entity. Besides giving banks a way to recoup a loss, when you have personal collateral on the line it gives the bank some assurance that you will work hard to protect your own investment as well as theirs. A loan from a financial institution is called Debt Financing. The usual sources are banks, savings and loans or commercial finance companies. If you do decide to borrow money, remember that lending institutions will require that you pay cash for a part of your business start-up costs – usually 25 to 50 percent.





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Recognizing that small businesses are an important part of our economy, the government has established through the SBA, its own loan program, the Small Business Investment Company Program (SBIC). The SBA does not make the loans but is primarily a guarantor of loans made by private and other institutions. You can find out more about the loans programs offered by the SBA at <http://www.sba.gov/financing/sbaloan/snapshot.html>. Equity Financing. Equity financing requires that you sell someone an ownership interest in your business in exchange for capital. Investors may be friends, relatives or employees or they may professional investors, generally known as Venture Capitalists. Attracting venture capitalists to help you purchase a franchise may be difficult, however, as they are usually more interested in companies with great potential rather than a single unit/multi-unit/territory based start-up franchise company.

Retirement Accounts. If you have an IRA or other retirement saving account, you may be able to use that money to help invest in a business. By working with a financial advisor you may be able to set up an account that allows you to use retirement funds for investing in a franchise without taking a taxable distribution or incurring penalties. Essentially you are investing in yourself and saving the debt you'd incur by taking out a loan. As your business becomes profitable, your retirement account will also realize gains – tax deferred.


Franchisor Financing. Some franchisors work directly with financial companies to provide loans for new and existing franchisees, often at low interest rates. This may be a good option if you can qualify for the financing.

Partners, Friends and Relatives. If your friends and relatives have confidence in your entrepreneurial abilities they may be willing to loan you money as you begin your business venture.

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Private loans are often provided at a low interest rate which can be helpful as you get started. You may also want to look for a partner to help you finance and run a business. This may be a good idea if you are lacking some business skills or experience. We've seen great results when partners compliment each other, for example when one is a dynamic cold





caller and the other can handle the employees and customer service aspects.

**Credit Cards.** Because of high interest rates and low credit limits, credit cards are usually not the best place to look for money when financing a business. It may take many months before your new business is making money and the last thing you want to do is hurt your credit rating by borrowing money you can't easily repay. Plus, the monthly finance charge can add significant costs to your overall investment.

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## **DETERMINING A FRANCHISE'S POTENTIAL RETURN ON INVESTMENT**

Without even consulting a crystal ball, we are pretty certain that you are looking for a franchise investment with good returns.

Most people accept the general principal that the more money you invest, the more money you'll get back. For example, if you invest \$100k in the stock market and receive a 15% return, you'll be ahead \$15k. If you invest \$200k, you should expect at least \$30k from your investment.

However, a franchise is not like the stock market. A franchise that costs more to buy will not necessarily offer you a higher return on your investment. In fact, there seems to be little correlation between the total initial investment and the amount of money you can make in the business. Returns in franchising vary all over the board, depending on the concept, the industry, the market and the operator.

Another difference between an investment in a franchise and a passive investment is that you are investing a significant amount of your time and talents in the business as well as your capital. You should therefore expect a much higher return on your investment than if you were only investing money.

So, just how do you determine a particular franchise's **ROI**?

# ROI

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A critical step in your investigation of a franchise is to determine the average earnings of a typical unit during the first three years of operation. You can sometimes find this information by reviewing the franchise company's FDD and focusing on Item 7, which details the investment required, and Item 19, which discusses the earnings of locations within the franchise system. Item 19, however, is optional and not all franchisors list this information. If this information is available for those companies, you are researching; you should be able to project the average three- to five-year returns on investment.


The most accurate information about this subject will come from the franchisees. Item 20 of the FDD provides a list of current and former franchisees along with their contact information. You will want to call a number of these franchisees and have a list of questions ready, including financial performance and operating costs. Your thorough research should leave you completely confident that you know both the high and low end of the range. Remember that your location or territory may only make a return in the average range so be sure it is a number that will make you happy.

With so many great franchise opportunities available, your due diligence and understanding of how to best leverage your personal assets of time and talents, along with your financial assets, will allow you to find a franchise that meets your ROI requirements in a relatively short period of time.



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## WHAT'S A TURNKEY FRANCHISE?




One of the wonderful things about buying a franchise business is that the franchisor has done so much of the work for you, allowing you to concentrate on the business itself instead of managing hundreds of details. When looking at franchise opportunities you will often see the term turnkey, which basically refers to a franchise package so complete that all you have to do is “turn the key” and open the door for business.

There are plusses and minuses to a turnkey franchise. It could be a great advantage to you because of the work and aggravation it can save or it may be an unnecessary expense if the package is overpriced for what it offers.

If the business you are looking at says it is a turnkey opportunity, here are some ways to evaluate the value of the package offered.

1. Most franchisors offer only a partial turnkey program, doing some but not all of the items needed before the business can be opened. Make sure you understand what they will help you with and what tasks you'll need to tackle yourself.
2. You should expect to pay a reasonable price for the labor involved in putting the package together, but not an outrageous price. If the price seems high, ask for a breakdown of the services provided.
3. Group purchasing power is a definite benefit of franchising. You can expect to get a good deal on the components needed for the business since you are taking advantage of the buying power of the chain. Make sure you have an understanding of the savings you are receiving so you can be sure you are really receiving value for your invested dollars.
4. Ask the current franchisees about their perceived value of the turnkey package. You'll be calling them anyway as part of your due diligence so be sure to cover this topic thoroughly. Ask them if they feel they got a fair value for the turnkey and if the process (build-out, stocking, opening, etc.) went as smoothly as they expected.
5. Finally, remember that you are paying a large up-front franchise fee and substantial ongoing royalty payments to this franchisor. These are accepted costs of a franchise business. You should not also have to pay a large markup above the actual costs to put the turnkey package together.



The exception is when a franchisor does not charge a royalty but actually makes their profit by selling you the components of a franchise, for example a food franchise that will sell you their particular product rather than collect royalties.

As franchising becomes more and more sophisticated, most franchisors offer at least partial turnkey features. They understand that it is to their benefit to provide their franchisees with every possible advantage to give them the best chance at success.

In addition, the more the franchisor provides the franchisee in the way of training, marketing, materials, products, build-outs, etc., the more consistent the brand is from one location to the next. This helps cement the branding in the mind of consumers and generates more revenue for the franchisee.

It still takes you to make it work

In most cases, a franchisor will do a lot to get you up and running but you will still need to take care of a number of start-up items yourself. But no matter how turnkey the business, there is still one element of the equation that a franchisor cannot provide – and that's the drive, talent and determination to make the business successful. That's completely up to you!

## Evaluating franchise opportunities

Now that we've covered some of the basics of franchising, it's time to discuss various ways to evaluate a particular franchise opportunity that looks like it may fit into your career transition plan.

You are choosing to enter franchising because you have some expectations: you want to make a certain income, you want training and support from the franchisor, and you expect value from any mandatory marketing program.

Finally, you want to avoid any franchise with potential problems – one where you have a high chance of failure.



The following are methods you can use to evaluate a franchise opportunity:

### *How much money can you make?*

We've covered this topic pretty thoroughly in the section called Franchise Buying Details, under Determining ROI. If the franchisor lists an earnings claim in #19 in their FDD, this will be a reasonable indication of the potential from this franchise.

But whether or not this earnings claim is listed, you will definitely want to speak with a variety of franchisees in the system to determine what they make in their particular area, how long it took before they began making money, and what they were earning after several years in business.

Remember that you are not guaranteed a particular income and that many factors determine the success and earnings of each franchise unit.

For more advice on this topic, read the section called “Talking with Franchisees,” page 26.


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## **FRANCHISEE TRAINING SHOULD INCLUDE:**

- Everything you need to know about the product or service
- Everything about using/protecting the brand
- How to find your business location
- How to negotiate a lease
- How you complete the permits and build-out
- How to find, hire and manage employees
- How to market your product or service
- How to keep books and records for the business
- The reporting requirements and processes
- Where to get the equipment, supplies and inventory
- How to get help when you have a problem

## **EVALUATING A FRANCHISOR'S TRAINING PROGRAM**

A comprehensive training program fulfills several functions. It lets you, the franchisee, learn everything about the product or service, setting up the



business, marketing, employee management, business procedures, record keeping and reporting, etc. Hands-on training helps the franchisee get a running start in the business and the faster the business starts; the quicker both the franchisee and the franchisor make money.

Training of franchisees also allows the franchisor to ensure that the brand remains consistent no matter where the franchisee is located.

One of the most exciting aspects of franchisor training is that it allows people to change careers. In fact, a majority of franchisors don't require previous industry experience. Because the systems of a franchise are structured for maximum success, previous industry experience often gets in the way when training a new franchisee.

You'll find that a good franchise system will take pride in their training programs because, through the payment of royalties, your success becomes their success.

If you've been reading this career transition guide from the beginning, you can probably guess what we're going to tell you next: The best way to find out about the scope of the training program is to ask existing franchisees.

Ask them what stood out about the training they received and what they feel could have been covered more completely. Find out how prepared they felt when they opened their business and what ongoing training they have been provided.

To get full value for your investment in a franchise business, the training should answer all your questions and set you up as a confident and successful owner.


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When evaluating a franchisor's marketing, you want to be sure there is a good balance between promoting the brand and attracting customers.

## **EVALUATING MANDATORY MARKETING PROGRAMS**

Most franchise companies have mandatory marketing programs in which franchisees are required to participate by contributing either a fixed amount or a percentage of the gross sales of the unit.





The upside to this bundled marketing is that franchisees are more likely to have professionally produced marketing materials available. Also, by pooling your resources with other franchisees, the company may be able to afford more expensive advertising, such as television. Therefore, the franchisor will be better positioned to build a recognizable national brand – something difficult for an individual business owner.

The downside is that these marketing programs are usually mandatory and the amount of input each franchisee has is often limited – which is not necessarily a bad thing. The more consistent and professional the marketing, the better for the company as a whole and for each franchisee.

Look for a good balance between the promotion of the brand and the attraction of customers. While it is important to build a brand, it isn't the only purpose of advertising. A consumer may be familiar with the Starbucks franchise name but unless the advertising makes her want to buy the product, the individual franchisee is getting little benefit from his marketing contribution.

The best way to find out how a franchisor spends its mandatory marketing fund is to ask the existing franchisees. If the majority is satisfied with how marketing contributions are spent, you will likely be satisfied as well.

When you know your mandatory marketing contribution is being used to help you grow your business, it makes the mandatory part of the mandatory marketing program much easier to embrace.

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## **READING THE FRANCHISE DISCLOSURE DOCUMENT**

The Franchise Disclosure Document (FDD) is an FTC mandated document each franchisor is required to provide to prospective franchisees. The purpose is to provide enough information so the prospective franchisee can make an informed decision about purchasing the franchise.

The FTC Rule requires franchisors to 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 states 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 a 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. 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. Any that are appropriate to your situation in your state should be disclosed in the FDD you receive.

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Due Diligence is the process a buyer will go through when investigating a business to purchase. Besides the information provided by the franchisor, do research on the particular industry you are interested in, the competition in your area and potential competition from similar franchise companies who may move into your area.

## **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. 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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## **UNDERSTANDING YOUR FRANCHISE AGREEMENT**

Like any contract, a franchise agreement can be intimidating. You may wonder if buying a franchise is like buying a new car – is there room to negotiate? Are you getting the same deal as the other franchisees?

Every franchise company has a standard franchise agreement which states what the franchisor expects from you and what is allowed. The better and stronger the company, the longer the agreement and the less likely they will be to negotiate the terms of the agreement. This is only fair. Why should a better negotiator get a better "deal" on their franchise than someone else?

There are also legal issues involved when a franchise company makes some agreement terms negotiable to only some franchisees. A franchise company must comply with laws requiring them to disclose any special



deals or terms they have negotiated, which protects potential franchisees. And, having many different agreements can be cumbersome to administer.

A franchise contract will cover the following items:

1. The costs associated with being awarded a franchise
2. The length of the franchise agreement (10 years is the average)
3. The issues regarding physical property, such as the location, building, equipment and supplies
4. The operating practices which protect the entire franchise system
5. The description of your protected territory

A franchise agreement protects the franchisor but it also is important to the success of each franchisee. The contract will insure that the quality of the product or service is equivalent from franchise site to franchise site. The rules of the relationship are carefully constructed to make sure each franchisee has an equal opportunity for success, and that the brand integrity of the franchise is protected.

In the same manner, having a protected territory spelled out guarantees you that your franchise won't be competing with an identical franchise on the same street. The size of your territory, however, is one item that can occasionally be negotiated in a contract. So, if that is a concern for you, be sure to ask.

Here's an example of other items you can expect to be covered in a **FRANCHISE AGREEMENT**:

- What exactly is covered in the initial franchise fee
- Whether the franchise fee includes an initial inventory of products and supplies
- If the franchisor will provide continuing inventory
- The degree of control the franchisor will exert over franchise identity and product quality
- If continued training and assistance will be provided by the franchisor
- Whether advertising will be local or national and if the cost will be shared

■ How royalties are calculated and paid

■ What will be the bookkeeping, accounting and reporting requirements

Remember, just because a franchise agreement is valuable to you doesn't mean you should sign it without question. Go over each and every provision carefully and be sure you understand why each item has been included and how it will affect you. A good franchisor will spend whatever time necessary helping you to become comfortable with the contract. A good franchise agreement is just your assurance of getting a fair and equal chance at success.



## TALKING WITH CURRENT FRANCHISEES

One thing you may have noticed thus far is that we strongly believe a potential franchisee should spend a considerable amount of time talking to current franchisees of any system he is thinking of joining.

The FDD provided by the franchisor will list all current and past franchisees. They are your best source of what is really happening out in the field day-to-day.

Your job is to speak with a number of these people to determine if this business will reward you in the way you hope. We suggest you speak with a cross-section of these franchisees. Include those new to their businesses and those who have been able to grow their units over time. Compare your own management style to those currently operating stores and you will have a better idea of where you might end up if you purchase this



franchise.

During your due diligence, it will be important to build rapport with these franchisees. You will need to ask them sensitive questions about the earnings they've made and probe into how they feel about the franchisor. To avoid wasting their time, be sure to have a list of the subjects you want to discuss.

You will find that the following list covers the most important areas you will want to cover during your calls with the existing franchisees:


- **Franchisor/Franchisee Relations.** How do the franchisees feel about their relationship with the franchise company? Do they feel the franchisor cares about their success and is willing to help them as needed? If the majority of franchisees feel good about the franchisor, it is a sign that the company is supportive, caring and focused on the success of their franchisees.

- **Training.** Ideally, the training a new franchisee receives should prepare him to open and run the business. If you hear from the franchisees that they were unprepared for some of these issues, you could assume the training program needs more work.

- **General Support.** You should expect to get a glowing report on the overall support provided by a franchisor from the franchisees that have been in business for a while. This support should include helping the franchisees resolve any problems that arise and providing ongoing training as needed. A franchisor should also be responsive to changes in the marketplace so you will want to gauge the comments of franchisees about how innovations/changes to the system are integrated.

- **Opening Support.** A franchise company can truly shine when it provides superior support to the new franchisee during the opening of the business. Ask the existing franchisees if they received assistance in site selection, lease negotiations, build-out and permit processes, or any other areas unique to the opening of the business.

- **Marketing Programs.** We've covered the value of the mandatory marketing programs earlier in this career transition guide. Find out how the existing franchisees feel about the way their money is spent but beware – this is the one area you are most likely to find complaints as every



franchisee considers he a marketing expert. Balancing all feedback is essential in this area.

■ **Initial Investment.** Before calling any franchisee you should have read the franchisor's FDD, which will give you a wide range for the total initial investment that is required for opening this business. Learn what they spent, and even more importantly, ask what they'd do differently if they could do it over again. This is a great question for franchisees that operate in markets similar to yours as you can get a better idea of the costs you will face opening your franchise.

■ **Purchasing Power.** This is another huge advantage of being part of a franchise system so be sure to find out if the franchisor uses the collective buying power of the total system to get discounted pricing on equipment and inventory.

■ **Earnings.** Everyone's favorite subject, the discussion of earnings between a franchisor and a potential franchisee is strictly regulated. While you can often find earnings information in Item 19 of the FDD, your best source of information is from the current franchisees. Hopefully by the time you get to this question on your list, you will have developed a relationship with the franchisee and it will be comfortable for you to ask questions such as, "How long were you open before you showed a profit?" and "What is your typical net profit per month?" You can also glean valuable earnings information by talking about average number of customers, average ticket or invoice amount, or even average number of calls or visits per sale! If you don't get a clear idea of what a typical unit earns, do not proceed with the purchase. You are not interested in franchising because you want to be surprised; you are buying a franchise because of the proven and provable value of the franchisor's system. Besides talking to current franchisees, you may want to talk to some former franchisees of the franchisor you are investigating. You will find the contact information of any franchisee that has left the system in the past year in the FDD. You will want to find out why they left the system and what kind of experience they had. In some cases they will have left for personal reasons or perhaps because they found the opportunity wasn't right for them. If you compare the responses of these people to those of the successful franchisees, you may be able to see a trend that will help you determine if 1) you identify with one group more than the other and 2) if the success or failure of a franchisee is due more to the personality/ experience of the franchisee or to the





support/system of the franchisor.

Your satisfaction and happiness as a franchisee can depend not only on your success but also on the overall culture of the franchise system. By talking to current franchisees you will learn the answers to many questions you may have but you will also find out if you'd fit in with the franchisees. These people will be your peers and valuable resources to you as you build your business. Visit my website to get a copy of 39 questions to ask owners

## Choosing a franchise

### THE VALUE OF FRIC AND FRAC


One of the most valuable tools we use at FranChoice during the investigation of a franchisor is “Fric and Frac.” It’s the term we use for the communication between the franchisee candidate and the franchise consultant and then the consultant and the franchisor. We use it to monitor the progress of the investigation and to help guide the candidate in the right direction.

For example, if a candidate is not getting positive feelings during an investigation of a particular franchise, we either work with that franchisor to solve the particular problem or else we advise the candidate to discontinue the investigation and to move on to the next company.

If you are doing franchise investigation without a consultant, you can still use the “Fric and Frac” process. Each time you talk to a franchisor, make a note of your impressions. If you have questions that you don’t feel are being addressed properly, let them know. This can be in the form of a follow up email or phone call. If you reach a point where you are certain that this is not the business for you, let the franchisor know you are ending your investigation.

There’s no value to you or to a franchisor to let an investigation go on and on when you know it is not the right fit, so open communication is important. If you have a difficult time with this process, you should consider using a franchise consultant as who can facilitate this communication and keep the investigation on track.





Often the worst decision you can make is to make no decision, remaining on the fence. Fric and Frac can keep you focused on your goal, moving you forward towards business ownership.

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## **DISCOVERY DAY PREPARATION**


Once you and the franchisor have spoken a number of times on the phone and thoroughly researched each other “on paper,” you will be invited to an open house, most often held at the corporate headquarters. This is generally the last step in the research process and your chance to meet the franchisor staff face-to-face. The purpose is to allow you to get a real feel for the corporate atmosphere and to allow you to ask any final questions. The Discovery Day appearance also allows the franchisor to evaluate you more closely to be sure that you are a fit for the company.

You may be surprised at the thoroughness in which you’ll be investigated during the Discovery Day process. Franchisors have some very good reasons for being selective about the people they let into their system and understanding their reasons will help you prepare for the Discovery Day process.

A good franchise company will not randomly award a bunch of franchises hoping that some of them will be successful. A business that closes tells the public that something about the concept isn’t working. Also, and of extreme importance to a franchisor, by law they must list all failed franchises in their Franchise Disclosure Document. A franchisor with a list of failed units will be less able to attract new franchisee candidates to the business.

Finally, in most cases the franchisor makes money on royalties based on a percentage of the franchisees’ revenue. Therefore, the more successful their franchisees, the more successful the franchisor.

Of course, it’s not all about them. The franchisor needs to convince you they know what they are doing and will be able to support and help you every step of the way. By the time you get to your Discovery Day, you’ll have done a good deal of investigation into the business and talked to a number of current franchisees. If you have any outstanding questions, this is the time to ask them. You’ll have the opportunity to meet with various teams so you’ll have a more in-depth understanding of each aspect of the



business, from operations to marketing support. Here are some tips for make the most of your Discovery Day meeting:

- Be prepared. Although you may consider this meeting as an opportunity for the franchisor to “sell” you on the attributes of their business, you are also there to sell yourself. You should be able to prove to the franchisor that you understand your responsibilities as a franchise owner, have enthusiasm for the business and a passion for success. Franchisors are looking for people who are willing to follow their system, which is the fastest route to their and your success.


- Be likable. A franchise is like a family and the franchisees of a system form a valuable peer group. A franchisor takes this into account when awarding franchises. Be personable, enthusiastic and outgoing. Maintain eye contact when speaking and ask questions that show your interest. Be a good listener. Remember that not everyone is interested in every idea that pops into your head; however, everyone is interested in having you listen to their ideas.

- Be professional. One of the main advantages of franchising is that you don’t need direct industry experience because when you are awarded a franchise you most often will receive comprehensive training from the franchisor on running your business. Having strong business acumen, however, is vital to any business owner. Be prepared to discuss your past business experiences, particularly as they will relate to running your franchise. Some important areas to elaborate on include managing people, customer service, and sales and marketing. Success you’ve achieved in corporate America is a good indication of the results you can see as a franchisee.

The franchisor will closely evaluate you for personality, experience, compatibility, financial stability and business acumen. If you don’t measure up, they won’t risk their business on you. Also, it’s not uncommon in franchising to have two potential franchisees look at buying the same territory. After all the work you’ve done towards finding a franchise to invest in, don’t let the opportunity slip through your hands because of inadequate preparation for your Discover Day.

## **PULLING THE TRIGGER**

Many franchisors will be prepared to offer you a franchise contract at your Discovery Day.



The FTC Rule requires that a franchisor provide a franchisee candidate with the contract for review a minimum of 5 business days before he signs and that the FDD is provided a minimum of 10 business days before the contract is signed or any money is paid to the franchisor.

Many franchisors will provide the FDD at the beginning of any discussion about purchasing a franchise and the FDD document will often contain a copy of the current franchisee contract, thus assuring that this waiting period is more than adequately met.

Again, if you need any help understanding either of these documents, you can hire an attorney. Just be sure you find one who does a significant amount of work in the franchising industry and that you have a thorough knowledge of and confidence in these documents before attending Discovery Day.




## SUMMARY

### **PEOPLE ARE DRAWN TO FRANCHISING BECAUSE IT WORKS SO WELL FOR SO MANY PEOPLE.**

Franchisors are able to grow their business around their area, around the country and even globally because they partner with franchisee investors who are as dedicated to the success of the business and the success of the brand as they are.

Franchisees are able to become business owners and truly experience the thrill of being their own boss without many of the hardships experienced by independent, start-up business owners.

The benefit of franchising extends to consumers as well. Franchising has made affordable products and services available to the public and provided predictable results. If you like the vanilla yogurt from the Menchie's shop in Minneapolis, you'll find it just as palate-pleasing when you visit a shop in Miami. In addition, if you are ever unsatisfied with your franchisee-provided



rug cleaning or muffler replacement, you know there is a corporation standing behind the franchisee. If you don't receive satisfaction from the service/product provider, you can always go back to the franchisor.

If you are ready to transition from a career in corporate America to being a franchise owner, you'll find lots of help and support along the way.

**WE WISH YOU THE VERY BEST OF LUCK IN YOUR SEARCH!**



Franchise Academy