

FOR IMMEDIATE RELEASE

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RE: CHOOSING THE RIGHT FRANCHISE

America has been having a heated love affair with franchises for more than three decades and shows no signs of cooling down. The reason behind this seemingly undying romance is the fact that nearly 90% of all franchised start-ups are still in existence after eight years. Conversely, approximately two-thirds of all regular start-ups fail in their first three years.

The secret to the success of franchises is found in the International Franchise Association (IFA) definition of a franchise: "A continuing relationship in which the owner (franchisor) of a product, service or method provides a licensed privilege to do business, along with assistance in organizing, training, managing and merchandizing, in return for some consideration from the franchisees." In essence, when you buy a franchise, you buy a learning curve that is the sum total of the knowledge and experience gained by both the franchisor and its franchisees over the life of the company.

So how do you pick the right franchise opportunity? Here are some guidelines to help you choose the business of your dreams. Most of the information you need can be found in a franchisor's Uniform Franchise Offering Circular (UFOC).

1. Make sure the technology or process is understandable. Franchises requiring professional or technical expertise can exasperate those who don't possess that particular aptitude. That's why there are more fast-lube franchises sold than accounting franchises. To help ensure your success, pick a franchise that fits your background and educational experience.
2. Review the franchisor's track record. Let sturdier hearts pursue emerging franchises while you focus on those that have been in existence for at least five years and have more than twenty-five operating units. Investigate the franchisor's history, paying careful attention to the number of lawsuits it has incurred with franchisees, the qualifications of key individuals and its financial strength.
3. Understand your commitment. There is no free lunch (not even with a fast-food franchise). You pay for the franchise's name recognition and services with a one-time franchise fee, followed by weekly or monthly royalty payments most often expressed as a percentage of gross sales (typically five to ten percent). Most franchisors also charge a weekly or monthly advertising fee that usually ranges from two to four percent of gross sales. Franchise agreements place restrictions on territories, operating hours, products or services, advertising, signage and architecture, and they can last as long as twenty years. To those entrepreneurs who want to play the game fast and loose, a franchise is seldom the answer.

4. Analyze the franchisor's support services. In return for your franchise fee and royalty payments, the franchisor should help you choose a suitable site, design your store, purchase equipment and inventory, prepare an ad campaign and even help you find financing. Prior to opening for business, you should also receive solid training at the company school or in a successful operating unit. Once the store is up and operating, the franchisor should continue to provide on-going management and marketing assistance as well as improved products or services. Professional assistance should never be more than a phone call away.
5. Call existing franchisees. Each UFOC must contain a current list of all franchisees, which should be your Fort Knox of information. Contact the ones in the most demographically similar communities, but avoid wasting your time on company-owned stores. Ask franchisees if they are satisfied with the franchisor's training and support as well as their own profitability. In other words, find out if the franchise is living up to its advance publicity.
6. Get expert advice. Your attorney should look at the franchise agreement before you sign it and your CPA should review a copy of the franchisor's income statement and balance sheet, as well as any other pertinent financial information found in the UFOC. The Federal Trade Commission (FTC) severely limits the financial claims that can be made by the franchisor, so any promises of high profits should be seen as a warning.
7. Don't be rushed. The FTC has protected "impulse buyers" by mandating a ten-day "cooling off" period between the time the UFOC is received and the signing of the franchise agreement and transfer of funds. As a compliance "incentive", the FTC can assess sizable fines for each violation. Every time a franchise "circus" comes to our convention center, we receive calls from people who unwittingly wrote checks to high-pressure salesmen. We refer these calls to the FTC. Franchises can be diamonds in the rough for those seeking the safety of an existing business along with the excitement of a start-up. However, like diamonds, the weekly or monthly royalty and/or advertising fees are *forever*.