

WHAT TO ASK WHEN YOU FINALLY MEET THE FRANCHISOR

THE TURNING POINT By Michael Hartnett

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After months of research you are sitting across the table from a franchise company's representative who is offering you the opportunity to buy a piece of the action. You know a lot about the company from your reading, but suddenly, all that information seems too abstract.

Now that the search has been narrowed to just one company, the real work begins. It's time to ask tough questions and get specific answers about the business you are considering buying. The company already has the details of your financial background, and you should have read the company's Uniform Franchise Offering Circular (UFOC) document. Later, your accountant or lawyer (who should be familiar with franchising) will also read it. The UFOC provides most of the general information and some details about the company and its franchises. Surprisingly, franchisors say, many would-be franchisees don't bother to read all the useful information contained in the UFOC document, even though they are investing their life savings in a venture and should know as much about it as possible.

Once you've read the UFOC and are armed with some background on the company--its history, size, market areas, and the products and services its franchisees sell--the next step is to find out what standing the franchise salesperson has with the company. The person sitting across the desk from you may be the company president, the company's commissioned salesperson, or a franchise broker. The first two are part of the franchise company and, as such, should be concerned with the long-term relationship between the franchisor and the franchisee. A broker, however, may represent dozens of companies, and may be more interested in his commission than in the long-term consequences of a sale. If you are dealing with a broker, ask him how many companies he represents and talk to company executives before signing a franchise agreement.

Then, find out exactly what the franchisor's major source of revenue is and how the business works. Does it involve direct sales? Are there any secondary products or services that are important sources of revenue? Be certain that the company doesn't have a hidden agenda--one in which the franchisor derives most of its profits from the sale of inventory and services rather than royalties. A food manufacturer who decides to franchise, for example, may be more interested in selling successful franchises.

Once you are satisfied that the company is what it purports to be, find out what qualifications it requires of its franchisees. What kinds of skills, experience, or personality traits does the franchisor look for? Many franchisee's character is also an important consideration. "We look for people with integrity and honesty who have an inner drive to succeed--the kind of franchisee who would make a good fit with our family," says Robert Funk, president of Express Services Temporary and Permanent Personnel, Inc.

Many franchisors concede that they are less selective during the first months and years of starting a new franchise company, because they have to establish a base of stores quickly in order to finance growth. If you get the feeling that the company you are considering would sell a franchise to anyone who could afford it, be cautious. Shop around for other options--and don't let them rush you. Franchise companies don't have sales or weekend specials. The only legitimate

reason for a recruiter to rush you into buying is if there is an outstanding location for your business that will be lost unless claimed quickly.

Successful franchise companies can afford to be fussy, and they routinely turn away prospects whom they think would have difficulty succeeding with their concept. At Lawn Doctor, Inc., based in Matawan, New Jersey, potential franchisees must be interviewed by a "license review committee," says Ed Reid, the company's national franchise sales director, and about one out of 20 candidates who can afford a franchise is rejected.

The size of the company and the number of operating units is a good indication of its experience, the strength of its franchise concept, and the resources it can offer franchisees. There will almost certainly be less risk if you join a network of 500 franchisees instead of 50, but size isn't the only consideration. Larger companies usually have more overhead and charge higher fees. A large company has probably fine-tuned its concept through years of experience, and that may mean franchisees are required to buy equipment and pay for extensive ad campaigns that would be optional with a smaller company. In turn, the smaller company, though it represents a somewhat higher risk, can offer more choices of territory. The price of admission is also usually lower. And small companies just beginning to franchise can sometimes offer more support and advice than larger companies. "With a small company there is room for a lot more hand-holding, more help from the franchisor," says Pete Balner, president of Palmer Video Corp. in Union, New Jersey.

Another important issue is the franchisor's position on company-owned stores. Most successful franchisors say it is essential for a company to keep up to date on market changes and consumer expectations by maintaining its own stores. Company-owned stores provide a base of information that the franchisor can use to guide his franchisees and test new concepts or products before offering them to franchisees. However, a potential franchisee should be certain that franchising is not just a sideline for a company that has dozens or hundreds of its own stores, and should also make sure he is not competing against company stores in the market he has chosen.

"If a company has 50 or 100 company-owned stores and just a few franchise units, I would stay away from that company." says Joseph Kotor, president of Mad Hatter Mufflers.

Once you've gotten answers to your questions about the company, operations, and its goals, determine how much it would cost to buy and operate a franchise. The UFOC gives you the basics on franchise fees, royalties, advertising costs, and operating capital, but some of those figures will be general ranges, and you need specifics. U.S. Commerce Department research shows that most small businesses fail because the owner didn't have enough money to make it through start-up, not because the business concept was unsound.

You need specific information on what costs will be during the first months of operation, when sales will be slow and expenses high. The franchisor should be able to help compile a list of expenses for your market. The list should include lease or purchase costs for a store or office, utility rates, deposits, licensing fees, taxes, salaries, telephone, equipment, and furniture. Sometimes expensive equipment can be leased.

After a comprehensive list of operating expenses and capital requirements has been compiled, you need some indication of how soon you can expect to generate a profit. Unfortunately, franchisors don't give out earnings estimates because, legally, such estimates can be construed as part of the contract, and the franchisor would be vulnerable to a lawsuit if actual earnings failed to match the projection. Instead, the company will refer the potential franchisee to those already operating a business-ideally, in the same or similar markets.

Before you telephone franchisees and ask how much money they made last year, remember that most people consider their finances very personal. The company's franchisees are not obligated to tell outsiders anything about the way they operate their businesses. A little diplomacy and sensitivity will go a long way.

John P. Hyduke, vice president of franchise development for Minneapolis-based International Dairy Queen Inc., says "Our franchisees are receptive to talking to would-be franchisees because

they appreciated the help they got when they bought their franchises. They can give (Potential franchisees) some good tips." Some companies help the franchise prospect make contact by assuring their franchisees that they will be talking with someone who's genuinely interested in joining the company.

Now, get as many specifics as possible about the support you can expect from the company in areas such as training, advertising programs, and assistance in choosing a location.

"I'm hung up on training," says Funk. "I think it's very important. If the franchisee is not qualified after going through our training program, they get a refund and our best wishes." Kevin Bennett, executive vice president of Metairie, Louisiana-based Speedee Oil Change & Tune Up, agrees, "We are continuing to expand our training program because we believe an organization made up of well-trained people is stronger than one with less training."

Many companies pay the cost of travel, food, and lodging for the training sessions, which last anywhere from several days to four weeks. A company that offers minimal training either has a very simple concept or isn't concerned about preparing franchisees for long-term success.

Similar support is needed when choosing a good location for your business. Veteran retailers say the three most important factors for a successful business are location, location, and location—it's that critical for any business dependent on customer traffic.

Some large companies with their own real estate departments actually go out and find sites for their new franchisees, but most franchisors get the new franchisee involved in the search. "The franchisee should do most of the legwork to find a good location, but the franchisor should give him guidelines on what to look for, and should approve the location," says Dain R. Zinn, vice president of franchise sales for Kansas City, Missouri-based T.J. Cinnamons Ltd. Speedee Oil Change provides its new franchisees with demographics and traffic studies to help them find a good location, and the franchisor must approve the site.

When it comes to advertising, ask what resources the company has to help market the products and services of its franchisees. Most franchised companies collect a percentage of gross sales to pay for advertising. This contribution may be as little as one percent or as high as eight percent. In most cases, the money is distributed among regional advertising councils, made up of franchisees, who decide how and where the money will be spent—local newspapers, radio, or television.

Franchise companies that don't offer their franchisees advertising support may be putting them at a competitive disadvantage. Even if all the company does is collect an advertising contribution from every franchisee and distribute those fees, they have performed a valuable service.

If the answers to all these questions are satisfactory, you will be asked to sign the franchise agreement. After several days, it's time to write a check for the franchise fee. All subsequent checks, except for royalties and advertising fees, will be written to landlords, utility companies, employees, and a legion of others who hope your business will be a success.