



FRANCHISING REPORT
AND GUIDE-BOOK:

REALIZING YOUR
DREAMS

 FRANCHISE
MATCHER

Table of Contents

INTRODUCTION: Realizing your dreams via franchise ownership	3	DETAILS OF BUYING A FRANCHISE: Financial qualifications	14
FRANCHISING: What it is and what the stats indicate	5	DETAILS OF BUYING A FRANCHISE: Financing options	14-15
WHY PEOPLE ARE DRAWN TO FRANCHISING.	6	DETERMINING A FRANCHISOR'S POTENTIAL RETURN ON INVESTMENT	16
WHY THE GRASS IS GREEN FOR FRANCHISEES	7	EVALUATING A FRANCHISOR'S TRAINING PROGRAM	17
DETERMINING WHETHER FRANCHISING IS RIGHT FOR YOU, PART 1: Ask (and answer) the right questions to make all the right moves	8	EVALUATING MANDATORY MARKETING PROGRAMS	18
DETERMINING WHETHER FRANCHISING IS RIGHT FOR YOU, PART 2: Consider your own characteristics alongside your ideal business characteristics	9	READING THE FRANCHISE DISCLOSURE DOCUMENT: What can you learn?	19
SIX STEPS TO FINDING THE RIGHT FRANCHISE	10-11	UNDERSTANDING YOUR FRANCHISE AGREEMENT	21
CONGRATULATIONS! YOU'RE READY TO BE A FRANCHISEE! The fear factor: Navigating your (and your loved ones') last minute anxiety	12-13	TALKING WITH CURRENT FRANCHISEES	22-23
		CHOOSING A FRANCHISE AND PREPARING FOR DISCOVERY DAY	24
		SIGNING ON THE DOTTED LINE	25
		SUMMARY	25

Introduction:

Realizing your dreams
via franchise ownership

If you're reading this e-book, it has occurred to you that there is a better work-life situation out there for you—one that pays you what you're worth and lets you build on your experiences, skills and accomplishments. One that fits your life's goals and gives you decision-making power. One that let you be in control of your future and allows you to achieve the lifestyle you've dreamed about.

For many people—from semi-passive investors to folks who are looking to make a complete change, gain autonomy and independence with their available means, or supplement their golden years—that better situation is franchising.

Taking the leap into business ownership, franchise or otherwise, is an important, deeply personal, and sometimes difficult decision. To navigate it, you need a full understanding of the risks, rewards and commitment involved. Having an experienced guide

and a proven process to help you through is the single best way to set yourself up for success.

Consider me your guide.

I'm Jeff Shafritz, and I help unique individuals like you realize their dream of business ownership. As a franchise consultant with decades of experience on all sides of the business, I've been where you are now, at the deciding stage. After receiving my business degree from the University of Maryland, I launched what would be an extremely rewarding career in franchising when I became a franchise sales associate with The Athlete's Foot. Several promotions later, I reached the position of Director of Franchise Development with responsibility across the Americas. During my time at The Athlete's Foot, the business opened hundreds of new stores and earned the title of "Best Franchise in America" in the prestigious Success Magazine Gold 100 franchise ranking.



TAKING THE LEAP INTO BUSINESS OWNERSHIP, FRANCHISE OR OTHERWISE, IS AN IMPORTANT, DEEPLY PERSONAL, AND SOMETIMES DIFFICULT DECISION. TO NAVIGATE IT, YOU NEED A FULL UNDERSTANDING OF THE RISKS, REWARDS AND COMMITMENT INVOLVED.



On the heels of this success, I was extended an offer to lead franchise development efforts at a publicly traded company. It was a unique challenge that I readily accepted, particularly for the opportunity to help develop a franchise system from its inception.

Today, I'm bringing all of this expertise to bear for individuals interested in pursuing a franchise business. For the last 12 years, I have been affiliated with the leading franchise consultant network; here, I work with aspiring franchisees to help them understand their objectives for business ownership and match quality franchisors to those goals. During this time, I also launched a fitness franchise. This business was one of the top-producing units in a chain of nearly 1,000 gyms and after five years I negotiated the profitable sale of the business back to the parent company. My consultancy is fueled by a genuine passion for helping individuals build meaningful and rewarding careers and revenue streams through franchising.

With my guidance, you'll make the most educated decisions about your path toward franchise business ownership. Working through a proven system built on experience and expert insights, you'll (1) evaluate your motivations and goals, (2) build a model for your franchise research, and (3) get introduced to the best pre-screened franchise companies that suit your unique needs. End result: you'll (4) save time and effort and gain the optimal tools and support to achieve your goals.

I am passionate about this process. And I'm passionate about your success. My business as [The Franchise Matcher](#) is built on it. And it's my hope that this e-book, which sets out the premises of franchise ownership, will illuminate the process and help you decide if franchise ownership is truly for you.

As you read on, jot down your questions and concerns, then [contact me](#) to discuss them.

Franchising: What it is and what the stats indicate

With the lowest risks and the highest level of support when compared to an independent business or purchasing a business opportunity, franchising allows entrepreneurs to start a new business and grow rapidly without starting from scratch and without tying up significant cash. It is a model for growing a business by selling the rights to the brand investors (franchisees) who agree to follow a set of rules and guidelines for running the business.

There's a universe of franchise businesses out there. Most associate it with fast food, but there's a range of opportunities from health & wellness to senior care, kids, pets, and automotive – business services and personal services delivered from home office, office suite, warehouse and retail spaces.

As a business model, franchising is astoundingly successful because it is proven. It is ready to be replicated. And ... it works. Take a look:

According to the International Franchise Association's 2015 Franchise Business Outlook report, between 2007 and 2015, franchise businesses created jobs faster than other businesses. By 2014, franchising in the United States had expanded to more than 3,000 franchise concepts in over 75 industry sectors. And according to forecasts, the franchise business economic outlook by business lines are expected

to remain firmly in the black, with the number of establishments, direct employment, cash output and gross domestic product all continuing to increase.

WHAT'S MORE:

- Almost 50% of all retail sales come through franchising.
- 1 in 12 businesses is a franchise.
- There are more than 750,000 (individual establishments).
- Franchised businesses in the United States generate almost \$7 TRILLION in sales each year.

Current Hot Industries

- + Services for aging baby boomers
- + Health and wellness
- + Fitness
- + Home improvement
- + Healthy food, served fast

- + Child-oriented businesses
- + Pet care
- + Business-to-business consulting services
- + Education and training
- + Tech support and training

Why people are drawn to franchising

Despite uncertainty in corporate America, in the stock market, and in the real estate market, people desire independence, balance and control in their lives.

Based on the stats we've seen on the previous page, franchising offers a way for you to hit all the marks—to have a business and a built-in risk-reduction strategy. Franchising also offers the creation of an asset, and a relatively easy resale.

But let's investigate the details. **Why do people choose franchising?**

THE FRANCHISOR HAS DONE MUCH OF THE WORK FOR YOU

Starting a franchise business means skipping the painful and expensive trial-and-error steps in the initial phases of a non-franchised start-up, including investing a substantial sum of money and significant time, effort and worry to hopefully turn your investment into a profit; and creating a brand and building operating systems for it and then testing all the advertising avenues trying to reach your audience. A start-up's first few years in business are all about experimenting—trying to find out what attracts customers, how to get the best pricing from suppliers, and how to best manage and when to add employees. Surviving until your business catches on is yet another 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 the franchisor has already done all this work—so you get to skip most of these steps and go right into running the business, knowing that before your business franchised, it already ran through its trial-and-errors process. It found what works. It then thoroughly tested everything, opened a number of units, either company-owned or franchisee-owned, and did further tests. When the units became profitable, the franchisor documented everything, hired corporate support staff and offered franchise units for sale in more areas.



Why the Grass is Green for Franchisees

FRANCHISEE ADVANTAGES:

- Franchisees gain their “own” business, along with responsibility for decisions and control over their schedules, careers and wealth-creation.
- Franchisees avoid the pitfalls of starting a business from scratch; they gain the experience, operating system, thorough training and ongoing support of the franchisor in every aspect of the business. In other words, no prior industry experience is necessary. A franchisee brings a skillset to run a business; the franchisor provides invaluable education and ongoing support from Day 1.
- Franchisees gain group buying power (hundreds of coordinated franchisees bring down prices of products, advertising and other goods and services).
- They gain already established (and hugely valuable and expensive) R&D that the franchisor establishes and tweaks, and franchisees execute on.
- They gain peer groups, important for sharing ideas on all aspects of business.
- They gain start-up, accelerated learning, including training programs, that shaves years off the learning curve of a business start-up.
- And they gain a recognizable brand name, trademarks, trusted service, and cooperative advertising.

- Franchisees gain the creation of an asset—equity—that translates to available dollars you take with you when it’s time to leave or retire from the business. Consider it owning versus renting—when it’s time to sell, the more profitable you’ve made the business, the more you may take with you in the end when you sell.
- Franchisees may also gain from the franchisor market evaluation, site selection and lease negotiation aid, and help with the design and layout of the store plus details of where to purchase components.

POSSIBLE CHALLENGES:

A franchisor invests heavily in the success of each franchisee (because every franchisee success is her/his success), and the franchisee in turn has to:

- Work within an already-established system and with the franchisor who established it. Be a team player.
- Undertake the initial risk associated with start any new endeavor.
- Pay franchise fees and royalty fees based on earnings.

As a franchisee you must understand what you’re getting for your fees. Weigh the support you receive from your franchisor with the bill attached to it. For some franchisees, a 5% royalty (or \$5,000 franchise fee) may be too high; for others, a 15% royalty (or \$50,000 franchise fee) may seem like a gift. Ongoing support and profit margins are the ultimate measure.

Determining Whether Franchising is Right For You: Part 1

Ask (and answer) the right questions to make all the right moves

Self-awareness is key to your next steps. These six questions will help you determine what those steps will be.

- 1** What is my motivation? Make a decision to become a franchisee because you feel it's the right choice, not your only choice. The most successful franchisees are those who decided to pursue business ownership as a way to better their lives—not to outrun a negative experience.
- 2** What are my goals? It's impossible to know what franchise success looks like without goals. Is financial freedom the end game? Is work-life balance the priority? Or is the most important thing that you feel passionate about your work? Chances are you may have goals in more than one of these areas but they aren't equally weighted. A franchise industry guide can help you organize your objectives and map your franchise search accordingly.
- 3** What are my strengths? Take an honest look at your skill sets. For example, if you're a natural salesperson, you may be suited for a B2B franchise. If you're not strong in operations, you may want to manage few, rather than many, employees. Acknowledging your true strengths will help tighten your focus on those franchises that play to them.

- 4** What are my financial parameters? Many business fail in the first year because this question hadn't been fully investigated. Determine not only what you can afford to invest in the purchase of a business, but also how much capital you will need for operations and to cover living expenses. Understanding the full range of funding options—from small-business loans to partnerships, investors, and more—may bring the dream of business ownership more within reach than you realize. (See franchise funding options, pp. 14-15)
- 5** What does the “ideal business” look like to me? You're going to put a lot of yourself into your business, so make sure you really like what you're doing. How many employees do you want to manage? What's your financial risk tolerance? What hours do you want to work? Is status important to you? There's a franchise opportunity out there that meets your criteria, but you have to know what those criteria are to find it.
- 6** Which franchisors can help me fulfill my goals? Armed with answers to Questions 1-5, you can now build a model that incorporates all of your requirements and values to identify great franchise matches. Now the expertise of a franchise industry guide is helpful to get you connecting with these companies.

Find a more in-depth look at these questions and next steps, see bit.ly/1Um2qXo

Determining Whether Franchising is Right For You: Part 2

Consider your own characteristics alongside your ideal business characteristics

Franchising allows you to totally change careers without years of schooling, apprenticeship or research, and certain characteristics, including the following, loan themselves to making a successful franchisee:

- Drive to achieve your goals
- Willingness to follow the franchisor's system while also making your own decisions
- An ability to manage employees and attract customers

Now consider your ideal business characteristics, which we'll investigate deeply in a moment:

- What are your top priorities when you think about owning a business?
- What are you looking for from a franchisor?
- Do you believe in the product or service?
- How important is status?
- What level of risk are you willing to assume?
- Where do you want your business to be located?

- How do you feel about sales and marketing?
- Do you want a retail, service or direct sales business?
- How many employees, and what backgrounds, would you be comfortable managing?
- What kind of hours do you want to work, and how much flexibility do you need?
- What environments would work best for you?
- How do you want to exit the business when the time comes?

OTHER CONSIDERATIONS:

- While franchises available at every almost investment level, it's recommended you have a net worth of \$100k and liquid capital of \$20k (minimum).
- You also need 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.
- You need to decide if you're comfortable with someone else's system, or are you a lone wolf.

Remember, though you want to believe in the product or service you represent, it's most important that your business meets your goals, skill sets and financial parameters.

Find a more in-depth look at these questions and next steps, see bit.ly/1TOU8r9

Six Steps to Finding the Right Franchise

Now that you've considered crucial personal and business characteristics, and financial requirements, you're ready for the next step: building your research model and working to it to find the franchise opportunity that's perfect for you.

Your model will integrate all your answers and important details from pp. 8-9 to show you the types of business that appeal to you. Whether you use my aid or that of another franchise industry guide, I suggest you use the following six-step process as your roadmap:

Step 1

MAKE SURE YOUR GOALS CAN BE MET. With more than 3,000 franchise concepts in over 75 industries, the franchise for you is out there. Write down your answers from pp. 8-9 regarding all your characteristics, goals, skill sets, financial parameters, and more. Prioritize your preferences. This list is your model. Keep it handy. Eliminate opportunities that don't fit.

Step 2

SEEK ALIGNMENT. Reach out to the franchisors who make your list and request information. Dive deep. The franchisor will immerse you in the business, setting up meetings to introduce you to key franchisee disciplines, including marketing, business development, operations, technology, training, and real estate. Be sure your questions and concerns get answered to your full satisfaction. Keep notes on your impressions. What's more: If/when you have questions

that you don't feel are being addressed properly, let her/him know in a follow-up email or phone call. If you decide that this is not the business for you, let the franchisor know you are ending your investigation.

Step 3

READ THE FINE PRINT. Every franchise in the United States is legally required to provide a Franchise Disclosure Document (FDD) no later than 14 days prior to signing a franchise agreement. Your FDD review and understanding is a significant part of the research process, because this document explains the responsibilities of the franchisee and the franchisor. What you discover in a company's FDD—including investment parameters, litigation and franchise closures—can help you weed out franchises that don't measure up.

See pp. 19-21 for detailed info on the FDD.

Step 4

GATHER INSIGHTS, ASK QUESTIONS OF CURRENT FRANCHISEES, AND RUN CASH-FLOW PROJECTIONS. Get franchisee input on the business. Between 5 and 8 franchisees is a good, representative sampling. If the majority of them are happy and profitable, that's a great sign. For those who are not, probe to find out why. Be sure you associate more with the successful, satisfied ones. Once you're satisfied, frame out a business plan, and build cash-flow projections to validate your favorite franchise(s)'s ability to meet your professional and financial goals. More on this on p. 22.

Step 5

PUT A FACE TO THE BRAND. The “deep dive” meetings will give you lots of good information, but nothing can replicate the insights you collect in a face-to-face meeting. In franchising, we call this a “Discovery Day,” and it’s the time when you physically meet with franchisor representatives in person to get a comfort level that only face-to-face interaction promotes—finalize details, work through concerns, and get a feel for the company’s culture. Is the business as excited about you as you are about it? This is a two way relationship; make sure you approach it as such.

Step 6

DECIDE! By now, you have all the information you need to make an informed decision. Remember to take into account the model you’ve created, which integrates your ideal business characteristics and financial requirements, when taking this important step. Does the franchisor match the model? If not, move on. If so, move forward!



“ A GOOD FRANCHISOR IS WATCHING YOU ON YOUR VISIT AS CLOSELY AS YOU’RE WATCHING THEM. ”

Congratulations! You're ready to be a Franchisee!

The fear factor: Navigating your (and your loved ones') last-minute anxiety

Fear is the No. 1 reason people back out of a potential franchise purchase at the last moment. In many instances, it's not even the franchise candidates' fear, but their friends', advisors' and loved ones' fears that derails the process.

Every candidate feels fear at some point and that fear manifests itself in different ways. One common way people deal with fear is to make no decision at all. By not making a decision, they avoid dealing with the fear, but they also may lose out on a chance to really make the life change they've been wanting.

In general, when candidates feel fear, they need to ask themselves what information they need to feel comfortable, then they need to ask those questions of the franchisor. If the answers are satisfactory, the candidate should accept the fear as something that will go away and move ahead with the purchase.

Five things to keep in mind to help you process your franchising fears:

1 Your people want to “keep you safe,” yet they often don't have the perspective you do. They don't know that you have spent months

researching and evaluating the businesses selected according to very focused performance criteria. In other words, you're making an informed decision, and you're following a proven, well-ordered process to get to the right facts. Sharing this with your loved ones may change their opinion.

2 Separate the valuable comments from the unfocused criticisms. When you hear, “My neighbor lost her/his shirt,” get specifics. A little digging may reveal a lack of capital or failure in following the system or outside factors like a divorce actually derailed their business. Often these well-intentioned commenters don't know why their neighbor failed—but they feel that it's their duty to pass along the bad outcome despite their lack of meaningful perspective or analysis. Take it for what is worth: Not much without more detail.

3 Consider the source. Does the commenter have business experience? Or is s/he passing along her/his own fears about ownership instead of considering what's right for you and your family?

4 The commenter may have a hidden agenda. Is the person who's providing counsel in a position to spend your money in another way? For examples: your financial advisor who stands to benefit from your investing with him instead, a friend who would prefer your 401K remain invested in her/his firm, or a spouse who has become



DON'T LET UNCHECKED FEAR AND ANXIETY STOP POSITIVE MOTION. KNOW, INSTEAD, AS STATED BY NONE OTHER THAN MARK TWAIN, 'COURAGE IS RESISTANCE TO FEAR, MASTERY OF FEAR—NOT ABSENCE OF FEAR.'



reliant on your current predictable paycheck and lives. (If you find your spouse isn't committed to purchasing the franchise, don't forge ahead until you agree on next steps, as they'll require her/his support for you to succeed with the endeavor.)

5 Have an “exit strategy” prepared. Buying a franchise is like buying any other asset—it has value, and you can sell it. You won't be “stuck” for the ten-year life of the contract if you don't want to be. Learn about your options from a qualified franchise consultant.

Input from friends and family doesn't have to compound your fears or prevent you from achieving your dream of business ownership. It can confirm your research and reaffirm your commitment to your future. Then you can feel confident that, “Yes, I have everything I need to succeed.”



Details of Buying a Franchise:

Financial Qualifications

In trying to qualify for a particular franchise, you'll need to do an evaluation of your capital.

As mentioned in the section Determining Whether Franchising Is Right For You (p. 8), most franchisors have a minimum net worth and liquid capital requirement for their franchisees. Additionally, you'll have to figure in the initial franchise fee, startup costs, time it will take your business to start making money, and living expenses you'll have during that time.

Keep realistic expectations about the total investment the business will require and the total income it can produce.

Qualifying for a franchise? Evaluate your capital

In qualifying for a franchise, you must think beyond initial costs. Make sure that the total investment figures include adequate working capital amounts. 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 year 1, 2 and 3? Thereafter? What is the most important thing a franchisee can do to influence these income figures?

Financing options

Even if you have enough cash to finance your franchise purchase, you may choose not to. To decide, weigh the “opportunity cost” of tying up your capital against the “hard cost” of another type of financing.

While there are many options for financing a franchise besides using your own cash, one of your best sources of information on financing may come from the franchisor you are interested in joining, as they should be familiar with the costs involved in the loan and the likelihood of your obtaining financing from any particular source.

A sampling of common financing sources

A LOAN FROM A FINANCIAL INSTITUTION IS CALLED DEBT FINANCING. The usual sources are banks, savings and loans or commercial finance companies, which require that you pay cash for a part of your business start-up costs—usually 25 to 35 percent.

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 learn about SBA offerings 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 are generally known as Venture Capitalists, and 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. 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.

FRANCHISOR FINANCING. Some franchisors work directly with financial companies to provide loans for new and existing franchisees, often at low interest rates.

FRIENDS AND RELATIVES. Partners, friends and relatives who have confidence in your entrepreneurial abilities may be willing to loan you money as you begin your business venture.

For a more in depth look at franchise financing options, see bit.ly/1UGw9ta.

Have you considered the full range of financing options for your franchise business?

- **Bank loan**
- **SBA guaranteed loan**
- **Business loan**
- **Equipment loan**
- **Equity financing**
- **ERSOP/401K roll-over**
- **Home equity line of credit**
- **Franchisor financing**
- **Friends and family financing**
- **Partnerships and investors**
- **Retirement accounts**
- **Cash/stock**

Determining a Franchise's Potential Return on Investment

Of course you're looking for a franchise investment that will bring good returns. However, a franchise is not like the stock market, where you expect that the more money you invest, the more you'll get back. Returns in franchising vary according to concept, industry, market and operator. In franchising, you invest a significant amount of your sweat equity and passion in the business in addition to your capital; therefore, you should therefore expect a much higher return on your investment than if you were only investing money.

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

There are two ways:

1 The earnings claim. In the world of franchising, the only way to discuss earnings is to put them in the earnings claim, contained in the FDD, which you'll get from all the franchisors you're seriously studying. Read it. This will help you get an understanding of the potential Item 19 in the FDD is where the franchisee will make a claim.

2 The FDD itself (which we'll get into on p. 19). The Franchise Disclosure Document tends toward transparency and includes a list of all current franchisees, and those that have left the system in the last 12 months and their contact information. Call them. Talk to them about the economics of each of their businesses, from financial performance to operating costs.

(See pp. 19-21 for detailed info on the FDD.)

Your thorough research should leave you completely confident that you know the high and low ends of the range. As 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.

“THE MOST SUCCESSFUL FRANCHISEES ARE THOSE WHO DECIDED TO PURSUE BUSINESS OWNERSHIP AS A WAY TO BETTER THEIR LIVES — NOT TO OUTFRAN A NEGATIVE EXPERIENCE.”

Evaluating a Franchisor's Training Program

A comprehensive training program is one of the key elements every franchisor should deliver. Because their success is your success, and vice versa. The better the training, the more consistent the brand from one location to the next. The more consistent the brand, the more cemented the branding in the mind of consumers. End result: More sales, and more revenue for the franchisee.

A comprehensive training program lets you, the franchisee, learn everything about the product or service, using and protecting the brand, setting up the business, marketing, employee management, business procedures, record keeping and reporting, and more. Hands-on training helps you get a running start in the business, and the faster the business starts, the quicker both you and the franchisor make money.

The best way to find out about the quality and scope of the training program is to ask existing franchisees. Ask what was excellent and what was lacking in the training they received. Find out how prepared they were when they opened their business. Learn what ongoing training they have been and/or are provided.

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

There'll still be a learning curve, but the training will address all of the day-to-day operational questions allowing you to work *on* the business.

Franchisee training should include everything you need to know about:

- **The product or service**
- **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**
- **Reporting requirements and processes**
- **Where to get the equipment, supplies and inventory**
- **How to get help when you have a problem**



THE BEST WAY TO FIND OUT ABOUT THE QUALITY AND SCOPE OF THE TRAINING PROGRAM IS TO ASK EXISTING FRANCHISEES. ASK WHAT WAS EXCELLENT AND WHAT WAS LACKING IN THE TRAINING THEY RECEIVED.



Evaluating Mandatory Marketing Programs

You should expect from your franchisor a strong local marketing program. If the franchisor is larger, you should expect a strong national marketing program, too.

Most franchise companies have mandatory marketing programs to which franchisees contribute financially. The pooling of resources affords more expensive advertising to build a recognizable national brand. In any case, the more consistent and professional the marketing, the better for everyone.

In your investigations, look for a good balance between promotion of the brand and customer attraction. That is, building a brand with advertising that also induces customers to purchase the product. With the combination, you can trust that your mandatory marketing contribution is helping to grow your business.

To find out how a franchisor spends the mandatory marketing fund ask existing franchisees. Some smaller franchisors will have lower fees and focus on asset creation for local franchisees. Others will have higher requirements but add national branding campaigns to the local asset creation. If the majority is satisfied with how marketing contributions are spent, you will likely be satisfied as well.



Reading the Franchise Disclosure Document

Financial Qualifications

HISTORY OF THE FDD

Prior to the '60s, there was little franchising momentum in the United States. After the success of McDonald's, however, many companies began to franchise their concepts and the franchise industry expanded rapidly. In 1979 the Federal Trade Commission's FTC Rule became effective. This rule required all franchisors submit to all potential franchisees a document called the Uniform Franchise Offering Circular (UFOC), later changed to the Franchise Disclosure Document. The purpose of the FTC Rule (manifested in the FDD)

was to provide enough information so the prospective franchisee could make an informed decision about purchasing the franchise.

The FDD protects the individual against making a decision based on information not supported by fact. The FTC Rule requires franchisors provide the FDD to a prospective franchisee at the earlier of the first personal meeting or two weeks (14 days) before the franchisee signs an agreement or pays any money. The FDD 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 at least annually.

The FDD (Franchise Disclosure Document)

Item 1	The Franchisor, Its Predecessors and Affiliates	Item 12	Territory
Item 2	Business Experience	Item 13	Trademarks
Item 3	Litigation	Item 14	Patents, Copyrights, and Proprietary Information
Item 4	Bankruptcy	Item 15	Obligation to Participate in the Actual Operation of Franchise Business
Item 5	Initial Franchise Fee	Item 16	Restrictions on What Franchise May Sell
Item 6	Other Fees	Item 17	Renewal, Termination, Transfer and Dispute Resolution
Item 7	Initial Investment	Item 18	Arrangements with Public Figures
Item 8	Restrictions on Sources of Product and Services	Item 19	Earnings Claims
Item 9	Franchisee's Obligations	Item 20	List of Outlets
Item 10	Financing	Item 21	Financial Statements
Item 11	Franchisor's Obligations	Item 22	Contracts

You can see in the TOC on the previous page that the FDD is a thorough document. Some of the most critical include the following:

- **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 you, as the franchisee will have to pay throughout the life of your 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.

YOUR RESPONSIBILITY REGARDING THE FDD

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. Make sure, then, that you study the information supplied to you, and have any and all questions answered prior to signing the franchise agreement.

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 that states what the franchisor expects from you and what is allowed. The better and stronger the company, the less likely they will be to negotiate any terms of the agreement. Franchise companies must disclose any special deals or terms they have negotiated to all other prospective franchisees. Therefore, there are typically few, if any, material changes to the document, protecting the interests of all existing and potential franchisees.

A franchise contract will cover the following items:

- 1 The costs associated with being awarded a franchise
- 2 The length of the franchise agreement (5-10 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

Go over each provision of the agreement carefully, noting 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 your assurance of getting a fair and equal chance at success.

Some details you'll find in your 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**
- **The bookkeeping, accounting and reporting requirements**

Talking with Current Franchisees

As mentioned on p. 10, the third and fourth steps toward landing your dream franchise business, is finding (in the FDD) and speaking to current franchisees of the system(s) you're considering joining to determine a perfect fit.

Interview a cross-section of these franchisees, from the brand new to those who have grown their units over time and those who've left the business. Uncover what is happening in the field day-to-day. Compare your management style to theirs to gain an idea of where you might end up if you purchase this franchise.

During your due diligence, build rapport. Ask the sensitive questions about earnings and probe into how the franchisees feel about the franchisor. Be prepared with the subjects you want to discuss. Include the following:

FRANCHISOR/FRANCHISEE RELATIONS. If the majority of franchisees feel the franchisor is helpful and invested in their success, it is a sign that the company will support you, too.

TRAINING. If franchisees indicate they weren't fully prepared to open and run the business, assume the training program needs work.

OPENING SUPPORT. Ask about any superior support and assistance made in site selection, lease negotiations, build-out and permit processes, or any other areas unique to the opening of the business.

ONGOING GENERAL SUPPORT. You should expect franchisees to give a glowing report on the overall support and innovations/changes provided by a franchisor, including problem-resolution and ongoing training.

MARKETING PROGRAMS. Considering mandatory marketing programs (p. 18), examine how franchisees feel about how their money is spent. Balance all feedback, as franchisees may consider themselves marketing experts.

INITIAL INVESTMENT AND ALL REQUIRED FEES. After reading the franchisor's FDD, learn what the franchisee spent and what s/he'd do differently if s/he could. A great question for franchisees who operate in markets similar to yours.

PURCHASING POWER. Collective buying power is another huge advantage of being part of a franchise system. If applicable, find out if the franchisor uses it to get discounted pricing on equipment and inventory.



IF YOU DON'T GET A CLEAR IDEA OF WHAT A TYPICAL UNIT EARNS, DO NOT PROCEED WITH THE PURCHASE. YOU ARE BUYING A FRANCHISE BECAUSE OF THE PROVEN AND SUCCESS OF THE FRANCHISOR'S SYSTEM.



EARNINGS. Everyone’s favorite subject, the discussion of earnings between a franchisor and a potential franchisee is strictly regulated. While earnings information may be found in Item 19 of the FDD, the franchisor is limited to discussion of what is in the document; therefore, your best source of information is from the current franchisees. Ask, “How long were you open before you showed a profit?” and for information about revenue and anticipated expenses. Ask about average number of customers, ticket or invoice amount or number of calls or visits per sale. If you don’t get a clear idea of what a typical unit earns, wait until you do so before proceeding with the purchase. You are buying a franchise because of the proven success of the franchisor’s system. When you speak with former franchisees, find out why they left the system. Compare the responses of these people to other franchisees, both successful and less so, to determine a trend: (1) Do you identify with one group or the other? (2) Is the success or failure of a franchisee 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 in part on the overall culture of the franchise system. Discover if you fit with these people who would be your peers and valuable resources to you as you build your business.



Choosing a Franchise and Preparing for Discovery Day

After you've gathered your insights from your interviews and you've run the cash-flow projections (steps 4 and 5 of your model (p. 8) it's time for you to put a face to the brand and meet your favorite franchisor face-to-face. You will be invited to an open house, most often held at the corporate headquarters. The last step in your research process, you should consider Discovery Day appearance an opportunity for you and the franchisor to discover in-person whether you are a true and mutual fit. Meet the franchisor staff in-person, get a real feel for the corporate atmosphere, ask any final questions, take notes, and pay attention to what your instincts tell you.

Expect to be thoroughly investigated during Discovery Day. Like you, franchisors have very good reasons for being selective about their business. Understanding their carefulness will help you prepare for the Discovery Day process.

And rest assured. You've done your homework and you like what you've uncovered so far. Meet the team. Confirm your decision to join!—Or decide, instead, the opportunity isn't for you and move on. In which case, better to be out a few hundred bucks in airfare than a few hundred grand on a business!

Tips for Discovery Day:

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—especially as 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, seize the opportunity on Discovery Day!

- **Be prepared.**
- **Be likable.**
- **Be professional.**

Elaborate on your background with 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.



AFTER YOU'VE GATHERED YOUR INSIGHTS FROM YOUR INTERVIEWS AND YOU'VE RUN THE CASH-FLOW PROJECTIONS, IT'S TIME FOR YOU TO PUT A FACE TO THE BRAND AND MEET YOUR FAVORITE FRANCHISOR FACE-TO-FACE.



Signing on the Dotted Line

Many franchisors will be prepared to offer you a franchise contract on Discovery Day. As mentioned, the FTC Rule requires that a franchisor provide a franchisee candidate with the contract for review a minimum of five 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.

Before you attend Discovery Day: If you need any help understanding the FDD or the franchisee contract before signing on the dotted line, you can employ a franchise attorney to help you interpret the document.

In the end, there's a lot to consider and you want to be fully confident in your decision. You may want to consult with a trusted advisor, an industry expert who will understand your motivation, help you evaluate your unique situation, provide you a model for your research, introduce you to pre-screened companies, and guide you through to your best decision.

Summary

People continue to be drawn to franchising because it works so well for so many.

If you are ready to make your dreams come true and transition to being a franchise owner, trust that you'll find lots of help and support along the way.

And no matter how turnkey or fully setup a franchise business is, there is one element of the equation that a franchisor cannot provide—the drive, talent and heart to make the business successful. That's completely up to you!

We wish you the very best in your search!

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