

IN DEPTH FRANCHISE RESEARCH GUIDE

FRANCHISING REPORT & GUIDE BOOK
REALIZING YOUR DREAMS

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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



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 it 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:

ONE. The costs associated with being awarded a franchise

TWO. The length of the franchise agreement (5-10 years is the average)

THREE. The issues regarding physical property, such as the location, building, equipment and supplies

FOUR. The operating practices, which protect the entire franchise system

FIVE. 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.

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 to 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 to 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.

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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 company's business experience, 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.

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



As mentioned in the 6 Steps To Finding The Right Franchise, 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 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 permitting 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.

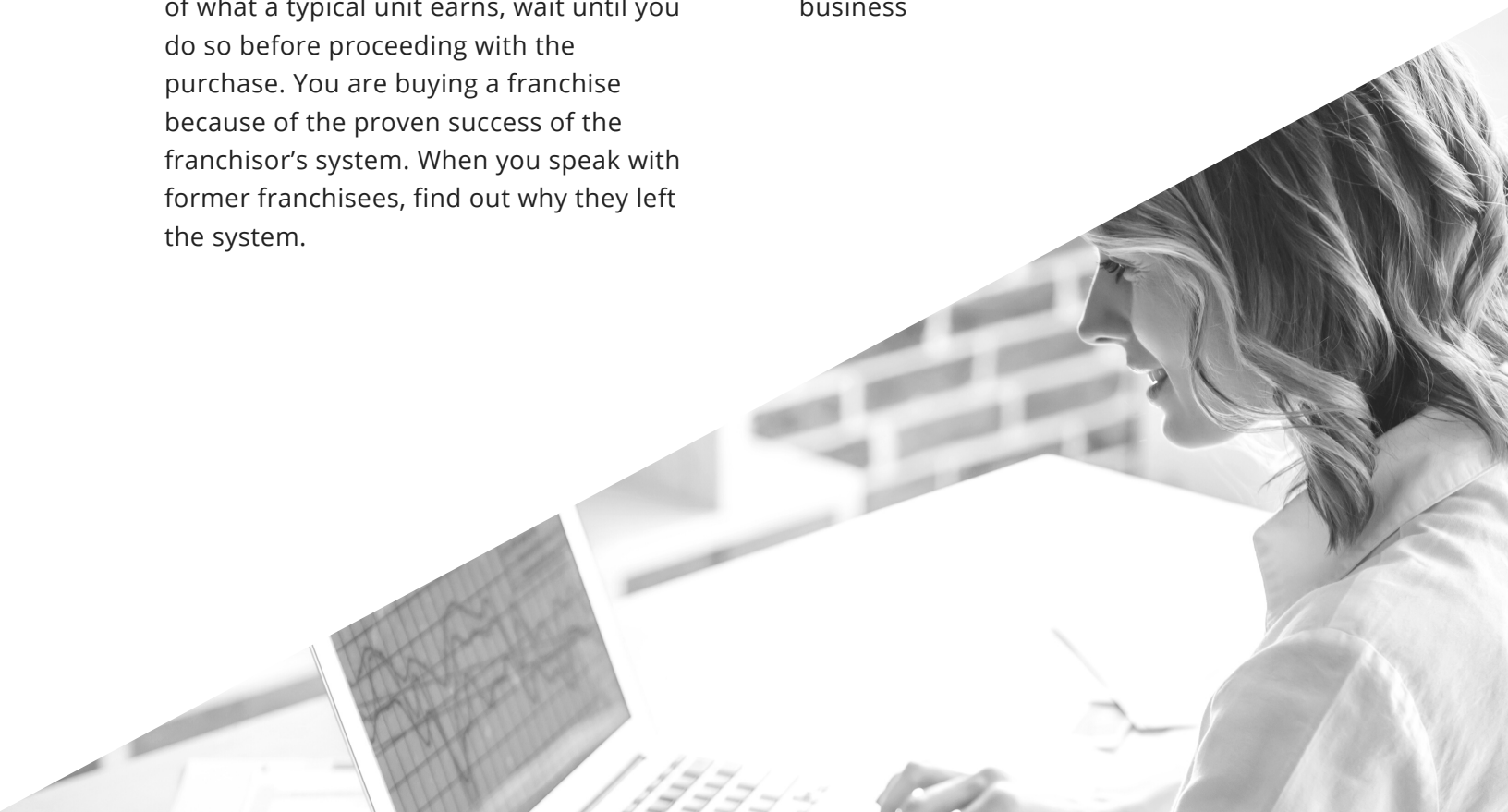
INITIAL INVESTMENT AND ALL REQUIRED FEES. After reading the franchisor's FDD, learn what the franchisee spent and what s/he'd do differently if s/he could. A great question for franchisees who operate in markets similar to yours.

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 an average number of customers, ticket or invoice amount, or a 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.

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



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 the 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.



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's appearance as 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, it's 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. The success you've achieved in corporate America is a good indication of the results you can see as a franchisee.

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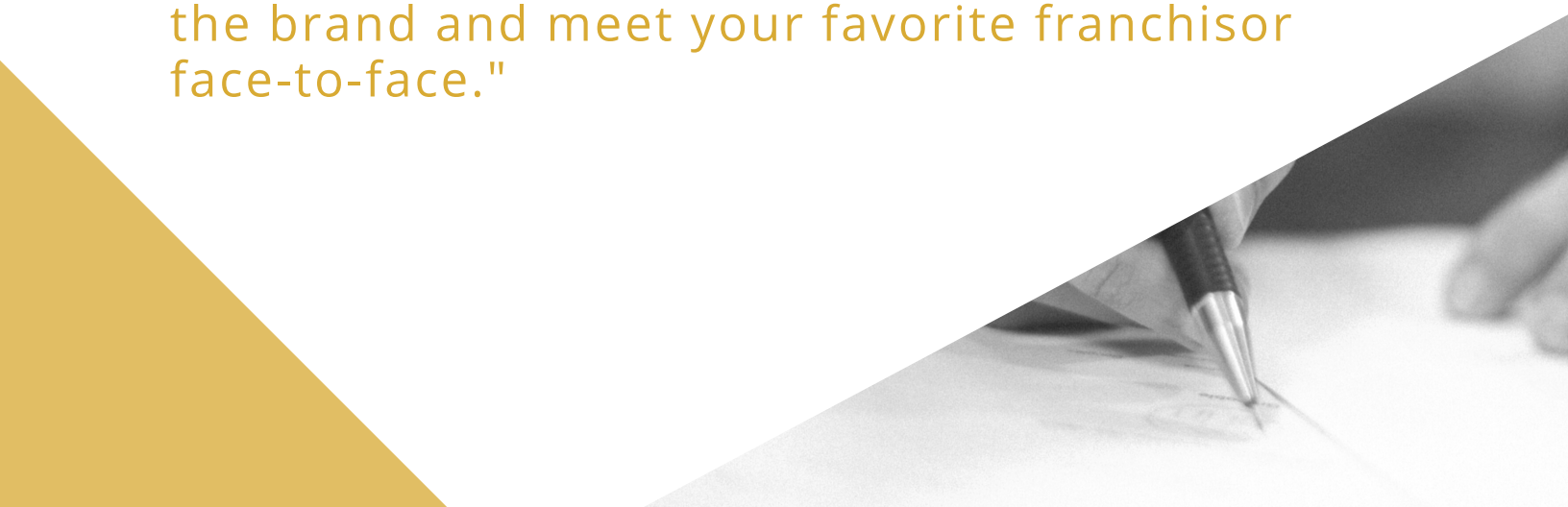
SIGNING ON THE DOTTED LINE

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.

"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."



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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