

FRANCHISING

How to profit from experience

For a different business start-up option, consider franchising. Ninety-five percent of franchised businesses are successful. Yet, business success is not guaranteed and one should never rush into franchising before completing a thorough investigation and business plan.

Franchises provide a full range of services including site selection, training, product supply, marketing plans and financing. Generally, a franchisee sells goods or services that are supplied by the franchisor or that meet the franchisor's quality standards.

As in all major business decisions, nothing substitutes for thorough investigation, planning and analysis of the options. Would the business succeed without the benefits offered by the franchisor? Is the franchised product or service new or established? Does the business require special skills? Does the franchised product meet local demand? Is there a proven market for the product or service?

If the product requires servicing, who is responsible for warranties and guarantees? The franchisee or the franchisor? If neither, are service options available? What kind of reputation does the product or service enjoy? Are supplies available in your local area?

Ask for a list of all of the firm's current franchisees. Visit at least one franchised location. When meeting with the franchisees, observe their operation, discuss expenses and ask about franchisor support. Reputation, stability and financial strength of the franchisor are critical.

Examine the franchisor's attitude toward you. Is the firm concerned about your qualifications? Are you being rushed to sign an agreement? Does the firm seem interested in a long-term relationship, or does that interest end with the initial fee?

Compare sales promises with existing historical documentation. Be certain that the sales presentation is realistic and that promises are written into the contract. Be alert for exaggerated claims and pressure tactics.

Verify earnings claims and compare them with other business opportunities. Earnings claims must (1) be in writing; (2) describe the basis and assumptions for the claim; (3) state the number and percentage of other units whose actual experience equals or exceeds the claim; (4) include an offer to show substantiating material; (5) include cautionary language.

What is the legal history of the franchisor? Have any of the executives been involved in criminal or civil actions? Is any litigation pending, particularly involving any restrictions on trade that may affect the franchise? Has the franchisor registered the company's trademark?

Will the franchise agreement require a predetermined level of starting inventory, promotional fees or the use of standardized operations manuals? What are the full initial costs? What do those costs cover? What ongoing costs are paid to the franchisor? Determine what royalty, training or cooperative advertising cost will be required.

Are you required to purchase supplies from the franchisor or a designated supplier? Are the prices competitive? What restrictions apply to competition with other franchises? Are there renewal rights? What about resale of the business?

The Federal Trade Commission requires the franchise seller to provide prospective investors with specific, complete and accurate information along with documentation of all earnings. This disclosure document must be given to prospective investors at least 10 business days before any purchase of a franchise. There are 20 key items required in the document such as: names, addresses and telephone numbers of other franchisees; seller's audited financial statements; the cost required to start and maintain the business; shared responsibilities of seller and buyer of the franchise; and any litigation involving the company or its officers.

The ideal franchisee is creative, outgoing, eager to succeed — but not so independent that he or she resents other people's advice. The entrepreneurial initiative must be balanced with a willingness to comply with the franchisor's business formulas.

Consult a franchise attorney, an accountant and/or a financial advisor to go over the disclosure document and proposed contract. Their advice can facilitate a sound decision and avoid a major loss on a bad investment.

In North Dakota a franchisor must register its Uniform Franchise Offering Circular (UFOC) and maintain a registration with the North Dakota Securities Department. For additional information call 701-328-2910 or www.ndsecurities.com

<http://www.franchiseregistry.com/>