

Q: I am looking at buying a franchise and the franchisor has painted a very rosy picture. What is the other side of the story?

Tom

A: First let me say that as a general rule, I like franchising as a business concept (and write for the Franchise Handbook.) The pros of buying a franchise are self-evident:

- **There should be less risk** – ideally, the business model has been vetted and there is a successful system in place that you can follow.
- **There is support** – a great franchisor will help you all along the way. As Ray Kroc, the founder of McDonalds and inventor of franchising said, “*in business for yourself but not by yourself.*”
- **There is a plan** – entrepreneurs who start from scratch have to figure everything out for themselves; franchisees do not.

That said, not all franchises are created equal. You simply must do your due diligence to make sure that you are buying into a system and franchise that has a high likelihood of success and profitability.

Here then are the 3 most important things any potential franchisees needs to check out:

1. What do current franchisees say? When you meet with the franchisor, they will indeed paint a rosy picture, and that is understandable: It is their business, they believe in it, and want you to buy into it.

You will learn plenty more by speaking with current and past franchisees. These folks will give you the lowdown:

- What is the franchisor like to work with?
- How much money can you expect to make?
- What sorts of hours can you expect to put in?
- What should you be on the lookout for?

It is current franchisees (and any former ones if you can find some) who can best impart this invaluable type of info.

2. How much will it cost and how much will you make? When you meet with the franchisor you will receive their Uniform Franchise Offering Circular (UFOC.) This legally-mandated document will relate such important things as expected startup costs, the company’s litigation history, ongoing fees, and so on.

What it probably will not tell you is how much you can expect to make. The reason is because they don’t want to open themselves up to potential litigation if you don’t make as much. So again, this is where doing your homework is essential.

Many people get bit by the franchising bug and cannot wait to jump in, so sure are they that they will make a bundle. Beware of this false euphoria.

Yes, you may make a bundle, and plenty of people have, but remember – you are going into business so act like a businessperson. Crunch some numbers. Do your research. Rely on facts, not emotion.

3. What is in the fine print? Things you may never think are important can turn out to be incredibly so:

- **What about exclusivity?** You probably want to make sure that you are given the right to own the only franchise of this type in your area. You sure do not want another one of the same ice cream shops as yours opening up down the street!
- **Who will be your supplier?** Some franchisors mandate that you buy your supplies directly from them. If so, make sure the prices are reasonable.
- **What sort of ongoing fees will you be required to pay?** Whether it is a monthly royalty payment or regular advertising fees, you *will* be making ongoing monthly payments to the franchisor. How much are they?

The bottom line is that you have to find a franchise that realistically affords you the chance to make a profit and have some fun. Be savvy, make an informed decision, and you will probably be very happy.

Today's Tip: Here is a SCORE Tip for potential franchisees:

“You will probably want to have an attorney review the UFOC, but it is crucial that you understand every statement in each of the 23 parts:

- Items 1 through 4 – describe the franchisor, his background, business ethics and possible bankruptcy history.
- Items 5 through 10 – deal with the fees, royalties, advertising fees and all financial arrangements including restrictions as to sources of products and services.
- Items 11 through 19 – detail the franchisee's obligations and provisions in the agreement. These are very important as they define what restrictions there are on products that can be sold, transfer assignments, terminations, dispute resolutions and the like.
- Items 20 through 23 – provide a list of existing franchisees, both active and those who have left the system. They also provide financial statements of the franchisor and copies of contracts used in connection with the franchise offering, including the Franchise Agreement.”