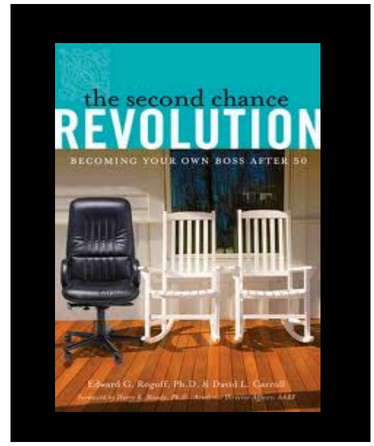
SHOULD I BE A FRANCHISEE?

At the present time, there are approximately 1,500 companies in the United States that sell franchises and 750,00 chain businesses that operate them. This number is growing every year.

This section presents the presents the pros and cons of being a franchisee a sample checklist for demand, locations and a list of resources to buy a franchise.



WHAT ARE THE MAJOR UP SIDES AND WHAT ARE THE MAJOR DOWN SIDES OF BUYING INTO A FRANCHISE?

This is a central issue and one that has special resonance for members of the fifty-plus generation. The following pros and cons, with corresponding variations, are common to most of the franchises you are likely to consider.

FRANCHISES: PROS +

PROS:

Established Operation

A printing service, a gas station, an automobile dealership, a UPS store, a Quiznos sandwich shop, a house cleaning service—it doesn't much matter. By definition, the franchise you are acquiring has an established track record, effective marketing methods, and at least some degree of name recognition.

Even if the franchise is small and little known, if your research shows it's been operating for a while, posts good sales figures, and maintains genial franchisor-franchisee relationships, you can be relatively sure their system works.

Good franchisors have honed their management and selling techniques down to a science. They have done all the hard work for you in advance.

Result? The franchisee instantly inherits selling tools that many businesses struggle for years to develop. These tools are proven to work; they sell product. Thus, the big three benefits—consistent profits over time, effective business strategies, and recognized brand name—are the main attractions you are paying for in your initial investment.

PROS:

Turnkey Operation

When you buy a franchise, you are purchasing a system as much as a business. This is especially true for the bigger and better franchises that provide field-proven instructions to hold your hand through every step of the startup process.

Most big franchisors, for example, choose the specific location for the franchisee's business. They build the outlet, furnish and equip it, staff it, provide the franchisee with the training needed to run the whole thing, and help advertise; they provide everything, soup to nuts.

Smaller franchisors offer fewer services. Any solid small company, however, will still provide a reasonable amount of training, advice, marketing help, and promotional aids. Older, experienced businesspersons who are strong in work skills but weak in organizational ability usually find the ready-made style franchise especially attractive.

Even if you choose a franchise that puts your longtime skills to work, there are always new things to learn about a business before you hang out a shingle. One advantage of a franchise is that the franchisor teaches them to you.

PROS:

GUIDANCE AND TRAINING

Training depends to a large extent on the type of business you're interested in buying. Learning the ropes of, let's say, an inexpensive vending-machine franchise requires only a few days of instruction. Running a Burger King, on the other hand, requires months of instruction and in-the-field practice before a full range of skills is mastered.

As a rule, smaller franchisors provide a short regimen of training that may include training manuals and videos, computer programs, perhaps a day or two of on-site training, and ongoing telephone counseling/support. The larger enterprises offer longer and more comprehensive training sessions. Some even send new recruits to special training facilities. Holiday Inn, for example, maintains a training site known as Holiday Inn University where new franchisees "go back to school" for weeks of intensive instruction.

Once up and running, this help then continues. Ongoing education, refresher courses, new research information, advice hotlines, promotional events, point-of-sale marketing aids, advertising materials, bulk buying from suppliers at competitive or even discount rates—there are many benefits that a franchisor can provide. Many of these aids would normally be unavailable—or unaffordable—to an independent business.

PROS:

Financial help

If aspiring franchisees meet the qualifications, financial assistance may be available from a franchisor's personal or private business funds. While this is not the case with every franchisor, it's common practice with many of them, especially when the buy-in price is substantial.

In such cases, franchisors will

negotiate a reasonable down payment for the initial investment, and then make arrangements for you to pay off the remainder over an agreed-upon length of time. Or, if you are applying for a bank loan to finance your new business, a franchisor may act as a go-between and a guarantor.

When large sums of money are passing hands the franchisor may also help franchisees work out a payment schedule that does not break their bank, and that is pegged to the franchise's yearly profits. Or again, franchisors may cut their franchisees some financial slack by allowing them to make extended payments for supplies, services, and goods.

Finally, if you're interested in a particular small franchise, check to see if it's listed with the government's Small Business Administration ("small business" meaning that a company has a net worth of less than 7 million dollars).

You can access the Small Business Administration (SBA) online at www.sba.gov. Their website is a goldmine of information and hands-on advice for franchisees. Help is provided by the SBA on obtaining surety bonds and equity capital; receiving online training, counseling, and assistance; and finding information on how to file for a loan. Fill out the application box on this site to obtain their *Finance Primer: Guide to SBA's Loan Guarantee Programs.*

If the franchise company is listed in the SBA's registry, this means, first, that the SBA has scrutinized the company and deems it legit and fair to its franchisees. That's a big plus. Second, if the business is listed in the SBA's registry, you may qualify for the SBA's 7(a) Loan Program that provides seventy-five percent guaranties on low-interest loans of up to 2 million dollars. These loans are designed to serve small businesses that don't qualify for loans through conventional lending channels. Once received from the SBA, this money can be applied to any sector of your business plan that you prefer: construction, equipment, inventory, and/or marketing. Obviously, this is another huge bonus.

Finally, remember that any on-the-ball franchisor will be cheering for you to succeed because when you succeed, they succeed. If they like your stats and style, and if they want you in their stable, one way or another they'll make sure you get the investment capital you need.

PROS:

Marketing/Promotional help

This is part of the turnkey deal. When you buy a franchise, you automatically acquire the right to use the franchisor's brand name, trademark, signage, advertising, tested operating systems, and other identifiable features such as a logo or a branded style of architecture (think of the McDonald's arches or the slanting orange roofs on the old Howard Johnson's).

Needless to say, product identification is a benefit exclusive to large, high-recognition companies. By way of compensation, many small and mid-sized franchisors provide advertising aids, marketing tools, site selection resources, and promotional ideas. When looking into the purchase of a franchise, be sure to ask about the selling aids that the franchise offers.

Those are some of the major pros. Now for the major cons—as in "contraindications," not as in "con men."

FRANCHISES: CONS –

CONS:

STARTUP COSTS

Perhaps it's unfair to label this as a "con." Paying one's dues might be a better term.

There are, of course, extremely inexpensive franchises for sale in the marketplace, and you could get lucky. By and large though, you get what you pay for. Realistically speaking, $30,000 to $50,000 is the minimum price for a franchise that provides some brand name clout plus a time-proven operating system.

But be prepared; the initial outlay doesn't end here. Other startup expenses can include legal fees, construction costs, decor, equipment, inventory, supplies, transportation, labor, promotion, a two–five percent advertising fee if the company promotes its product nationally, not to speak of endless incidentals. Franchise experts will advise you to stock a six- or eight-month liquid reserve fund to cover all unanticipated costs, personal expenses, and emergencies.

CONS:

LOSS OF INDEPENDENCE

It's not much of a reach to say that, from a business point of view, the franchisor owns the franchisee lock, stock, and barrel. This, at least, is true for large established franchisors that apply ironclad managerial, promotional, design, and financial formulas to their chain franchises.

We've already seen these large franchisors in action. They tell you where your business should be located, whom you should hire, how much money to charge, what to put in your windows, when to take your vacations, yada, yada, yada.

Whether you're cool with this degree of control or not is a matter of personality.

For fifty-plus entrepreneurs accustomed to making their own command line decisions and running their own show, a highly regulated franchise can possibly be an unwise choice. Those who work well under close management and who are comfortable leaving the big decisions to higher ups will find this con to be more like a pro.

CONS:

PAYING A PERCENT OF EARNINGS

Besides the price of admission, franchisors expect you to pay them monthly royalties. This rendering unto Caesar can get old pretty quick. You've already sunk a lot of money into buying the franchise. Now they want more—forever.

In this regard, watch out for franchisors that continually pressure franchisees to increase their profits and hence pay larger monthly percentage fees. All the franchisor is interested in is volume, volume, and volume. This push-me, pull-you impasse can get sticky for both parties, and sometimes make for bad blood.

Thus, when researching the franchise, be sure to ask other franchisees if they've run into problems of this sort. If the franchisor won't let you talk to its other franchisees, consider this a very bad sign, perhaps even a deal breaker.

CONS:

YOU ARE LEGALLY BOUND

The moment you sign your name to the contract, you are legally obliged to abide by the franchisor's rules and regulations. This means that if your business does not show a profit quickly enough, or if it simply turns out to be a lemon, you may be chained to the terms of your agreement with no way out.

In such cases, people find themselves slaves to the machine, working at a job they dislike, in a business that doesn't work, and, adding insult to injury, that scarcely pays a living wage. We know of one case wherein a middle-aged woman left her job as a stenographer and bought a credit repair franchise. She soon discovered that the company was unresponsive and disreputable, but she was tied up in an exploitive contract that she had not taken the time to read carefully (and had not shown to a lawyer) and from which she was unable to legally extricate herself. She ended up laboring at her franchise business during the day to break even and working a second job at night to pay for the groceries.

Avoid such traps at the beginning by reading the contract carefully and by seeking the advice of professionals who know the franchise ropes. Even for fifty-plus workers who've been part of the business world for years caution is advised; franchises are different animals from other types of businesses. They have their own ground rules and their own legal twists and turns. They should always be approached with eyes wide open.

CONS:

SUCCESS TIED TO THE FRANCHISOR

Do the math. If one or more of the outlets in your franchise performs badly, this affects the reputation and, consequently, the profits of all the other outlets—including yours. The truth is, for better or for worse, you are joined at the hip to your brother and sister franchises. Or, consider another scenario: The franchisor mismanages its business into the ground. You and the other chains are left holding the bag. Everyone loses.

These are calculated risks, of course, as in any business. But they are risks unique to the franchise world. A franchisor is like a boat, and its franchises are its passengers. If the boat springs a leak, all the passengers get wet. If the boat sinks, more often than not, the passengers all go down with it.

Of course, if things fall apart financially, and you're young and resilient, there's always tomorrow. But if you are older, and if you have put your hard-earned savings into a franchise that fails, the options for recovery are more limited.

Lesson?

Go with a franchisor that has been around for a while, that is a proven success with the public, that's known for its fair practices, and that has an attractive financial track record. Going this route will cost you more, most likely. But look at the extra expense as insurance on your investment. In the long run, paying more for a known winner will substantially improve your odds of success.

HOW TO CHOSE A FRANCHISE THAT'S RIGHT FOR YOU

What basic things should you do and not do when choosing a franchise? The following pieces of advice will get you started.

FOCUS ONLY ON THE TYPES OF BUSINESSES YOU ARE INTERESTED IN.

If automobiles are your passion, look for car- or truck-related businesses. If you've always dreamed of running a restaurant, consider a food-related franchise. If

RESEARCH COUNTS:

A FRANCHISEE CASE STUDY

At age 54 Gene Wayne had built, by anyone's standards, a terrific career. After earning an MBA in Finance from George Washington University, he started working at the George Washington University Hospital as a business manager. He then took several positions at various health institutions, eventually becoming Vice President of an 18-hospital chain where he was responsible for financial and informational technology. Before he was fifty he was CEO of the Eugenia Hospital System with its four locations and 70,000 patients.

In his mid-fifty, Gene started to grow restless. He began craving a more entrepreneurial type of career, one that involved physical work and hands-on creativity. Being a gourmet cook, he thought about the restaurant business, but rejected it because it was too labor intensive, and because he wanted to spend more time with his family. Poring over the Opportunity section of the newspaper one day, he saw a two-line advertisement for a handyman business, Handyman Matters. Gene had always been an amateur house restorer, owning several old houses and fixing them up for sale. He called the number in the ad and reached the owner of the local franchise, a business that focused on small to medium sized house restoration and repair jobs.

The current owner was struggling with the business, Gene learned. So to insure that he didn't make a fatal mistake, he decided to perform his own due diligence.

He began by reviewing all client records and every expense the business had incurred. He studied the types of jobs the franchise was taking on at the time and analyzed how much it received in fees from each commission.

He also studied the area demographics. How many people lived in his perspective franchise area? What was the general income and educational level? What types of houses were most popular? What was the average age of local houses, and what were they worth on the market?

you have accounting skills, a tax-preparation franchise may well suit your needs. The main thing is to avoid wasting time investigating franchises that don't capture your fancy.

Best advice: Go with your established interests, skills, and satisfactions, then narrow down the choices and zero in on the two or three franchises in these areas that have the greatest appeal.

Then learn all you can about them.

A sample checklist for franchises includes:

✔ Does the franchisor offer startup loans, or will it help you acquire a loan? Will it provide further loans and assistance if your new franchise founders?

✔ If you plan to build your franchise location from scratch, does the franchisor provide help with choice of building site, architectural blueprints, construction, labor, exterior design, interior décor, landscaping, and other get-started aids? How much of these construction costs are covered in the franchise price? How much, if any, must come out of your own pocket?

✔ How strong is the demand for the franchisor's product or services in your neighborhood? Is the product or service offered location-specific, or can it be sold and promoted anywhere? You would not, we assume, want to open a ribs and chops restaurant on a block populated entirely by vegans.

✔ Is there any chance that the services offered by the franchisor will become outdated or irrelevant within the next five to ten years? This happens most commonly in the electronics field where new advances are constantly obsolescing yesterday's highly touted widget. Think, for instance, of the people who invested in fast 35mm film development franchises. Digital cameras came along and wiped them out. Buyer beware.

✔ How close is the nearest competitor franchise to your new location? If you plan to purchase a Fat Boy Burger House, you certainly don't want another Fat Boy two blocks—or a two-minute drive—up the street from you. Be sure to ask the franchisor what their policy is concerning minimum distance between franchises.

✔ What type of training does the franchisor provide? How many days or weeks does the training period last? Is the training ongoing, with periodic sessions that provide new information and refresher courses? Does the company include training in marketing, advertising, staff management, safety, and technical operations?

✔ Does the franchisor offer advice and sources for purchasing equipment, inventory, and supplies? Will it arrange for you to purchase these items at a bulk discount?

✔ What type of marketing tools and advice does the franchisor offer?

If necessary, does the franchisor provide periodic updates to your décor to help you stay current?

✔ How computerized is the franchise operation? Does the franchisor offer proprietary software of any kind? If needed, how much computer training is provided? Is tech assistance available from the franchisor? Does the franchisor have a website? Will it add you to its site and/or help you construct your own?

✔ What type of local or national advertising does the franchisor provide, if any? What must you pay to use these services? Are the company's advertising promotions ongoing or time-limited? *Must* you use (and pay for) the franchisor's advertising? Or can you do advertising and promotion on your own?

SOURCES FOR FUNDING YOUR FRANCHISE

A number of franchise funding sources are available. Check them out.

1. American Association of Franchisees and Dealers (AAFD), PO Box 81887, San Diego. CA 92138, 800-733-9858) (trade organization dedicated to helping both franchisors and franchisees)
2. American Marketing Association, 250 S. Wacker Drive, Suite 200, Chicago, IL 60606, 312-648-0536 (a solid franchise marketing resource)
3. www.franchisetimes.com (a subscription service that offers a hefty amount of valuable franchising information)
4. FranNet, www.frannet.com (a franchise broker that helps assess and select franchises for franchisees???)
5. International Franchise Association (IFA), 1350 New York Avenue, NW, Suite 900, Washington, D.C. 20005, 202-662-0763 (the largest trade organization dedicated to franchising in the USA)
6. U.S. Franchise News, www.usfranchisenews.com (extensive web-based source for franchise information)

As we've learned, many franchisors offer franchisees financial assistance. That's one prime source.

Another is the federal government.

The Small Business Administration's 7(a) loans are especially popular for financing small franchise purchases, as well as for gaining working capital and acquiring new (or better) equipment. Lowdoc loans (standing for "low documentation," which means just what you think it does) are fast, under-$100,000 financing aids that can be obtained from mortgage brokers. The CDC/504 loan program is a long-term financing tool especially designed to help small businesses. It is used for acquiring fixed assets such as land or the construction of a new facility. The CDC/504 loan works through the SBA. In many states, local government agencies will finance small franchise loans. Check with your nearest Chamber of

Commerce for details. For a good overview of small business loans, check out www.proposalwriter.com/govtloans.html.

Other funding sources include commercial banks, credit unions, and savings and loan associations. Don't forget home equity loans, too. Money may also be available from large private lenders like G.E. Financial, The Money Store, and AT&T Small Business Lending Corporation. Finally, there's the personal route: friends, business associations, and family members.

It's a pretty wide selection, and somewhere in the mix you're likely to find the money you need. Just cover all the bases—and be persistent.

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