Lesson 6

What is Franchising?

LEARNING OBJECTIVE

- **To understand the concept of Franchising in International Context**
- **To analyze what are the prerequisites of Franchising**
- **To understand the merits of Franchising**
- **To understand the demerits of Franchising in International Context**
- **To find out the difficulties firms have faced in going for Franchising**
- **To look at Franchising from practical point of view**
- **To search for various business opportunities in Franchising**
- **To understand how to evaluate a franchising Arrangement**
- **To learn from the past mistakes of corporate world**

Interaction

A company franchises because it wants to quickly and in great numbers replicate its successful company operations without significantly increasing its debt. Because it has been successful at teaching its own employees to operate the business, the company believes it can repeat the same success by teaching others to do it.

In short, franchising is a strategic alliance between groups of people who have specific relationships and responsibilities with a common goal to dominate markets, i.e., to get and keep more customers than their competitors.

CONCEPTUAL DISCUSSION
ON
What is Franchising?

You are an executive who is being displaced or who is dissatisfied with the way you are being treated by your company. Recently you have been thinking about putting your resume on the street, but more often than not you have found yourself thinking about going into business for yourself.

Whenever you think about going into business for yourself, you think about the horror stories and statistics you read in USA Today and the Wall Street Journal about the failure rate of independent businesses. Those statistics dampen your desire to own your own business.

Yet every week in those same newspapers you see ads by companies offering franchise opportunities. If you want to be self employed and are intrigued by the idea of operating a franchise and want to find out more about selecting the right one for you, read on.

What Is Franchising?

Franchising is one of three business strategies a company may use in capturing market share. The others are company owned units or a combination of company owned and franchised units.

Franchising is a business strategy for getting and keeping customers. It is a marketing system for creating an image in the minds of current and future customers about how the company's products and services can help them. It is a method for distributing products and services that satisfy customer needs.

Franchising is a network of interdependent business relationships that allows a number of people to share:

- A brand identification
- A successful method of doing business
- A proven marketing and distribution system

In short, franchising is a strategic alliance between groups of people who have specific relationships and responsibilities with a common goal to dominate markets, i.e., to get and keep more customers than their competitors.

There are many misconceptions about franchising, but probably the most widely held is that you as a franchisee are "buying a franchise." In reality you are investing your assets in a system to utilize the brand name, operating system and ongoing support. You and everyone in the system are licensed to use the brand name and operating system.

The business relationship is a joint commitment by all franchisees to get and keep customers. Legally you are bound to get and keep them using the prescribed marketing and operating systems of the franchiser.

To be successful in franchising you must understand the business and legal ramifications of your relationship with the franchiser and all the franchisees. Your focus must be on working with other franchisees and company managers to market the brand, and fully use the operating system to get and keep customers.

Throughout this article we will discuss in detail some of the benefits of conducting business as part of a larger group.

Other franchisees and company-operated units are not your competition. The opposite is true. They and you share the task of establishing the brand as the dominant brand in all markets entered and reinforcing the customers' familiarity with and trust in the brand. So in this respect you are working as a team with others in the system. Other franchisees share with you the responsibility for quality, consistency, convenience, and other factors that define your franchise and insures repeat business for everyone. Increasing the value of the brand name is a shared responsibility of the franchiser and franchisee.

An "ownership mentality" destroys the reason franchised and company-operated units are successful. Think about it. If you think you "bought" a franchise, you become an "owner" and begin to think and act like an owner. You will want to change the system because of your needs, you will wonder what you are paying the royalty for, and you will begin thinking of other franchisees as your competitors. For these and many other reasons you do not want to think of yourself as an "independent owner."

As a franchisee you own the assets of your company, which you have chosen to invest in someone else's brand and operating system and ongoing support. You own the assets of your company, but you are licensed to operate someone else's business system.

Finally, your desire to become a franchisee must be grounded in your belief that you can be more successful using someone else's brand and operating according to their systems and methods, than you could if you opened up your own independent business and competed against them. You want to look for a franchiser who is building a system of interdependent franchisees who are committed to getting and keeping customers, to growing faster than the market, to growing faster than the competitors, and to do all of that with high margins. When you discover a franchiser who understands this relationship, you have a franchisers worth your consideration.

The Strength of Franchising

Franchising is the most popular system for growing a business in the United States today. According to every government survey, franchising has experienced explosive growth since the mid-70s and is expected to be the leading method of doing business in the new century.

In the United States, there are over 2,500 franchise systems. These systems have in excess of 534,000 franchise units, which represent 3.2% of the total businesses. This 3.2% of all businesses controls over 35% of all retail and service revenue in the U.S. economy.

Franchising advantages over going into business for yourself include; opening quicker, experiencing success sooner, developing a customer base faster, having less risk and being more profitable.

Your success as a franchisee is based on the proven success of the franchiser to operate company units and upon the success of existing franchisees. [It should be able to show that the business can be successful in various markets and in different conditions.]

A company franchises because it wants to quickly and in great numbers replicate its successful company operations without significantly increasing its debt. Because it has been successful at teaching its own employees to operate the business, the company believes it can repeat the same success by teaching others to do it.

In franchising, the operating system becomes identified with the brand or trade name that you license as a franchisee. Each franchise system uses precise methods to service and satisfy the customer. By documenting

these practices, the franchiser institutionalizes the buying experience. Because customers don't like surprises this consistency in operations, unit to unit, builds customer loyalty to the brand.

Franchising is successful because we Americans are people of habit and are brand-driven when we purchase goods and services. We trust brands that we see everywhere, every day. We tend to be loyal to a product or service delivered to us the same way all the time.

Investing in a Franchise

In reality you are taking your assets, which you own, and investing them in someone else's' brand and operating system. You will always own your assets. You will always own your corporation. But you will "do business as a licensee of the franchiser.

Before You Select A Franchise . . .

Step 1: Evaluate Yourself

Your job is to make an informed business decision about whether a franchiser's business opportunity meets your needs and whether you can provide what the franchiser wants and needs in a franchisee.

You need to ask yourself basic questions:
What do you want from life at this time? What are your wants, needs, and desires? What are your goals, objectives, and dreams? What are you looking for in a business? Have you decided to leave what you are now doing–not just the job, but also the profession?

Have you made a decision to become a part of another organization? Remember that in franchising you joined someone else's business. You are going to be using their marketing system to generate customers and their operating system to satisfy them.

Do you have the kind of personality that can accept running the business according to someone else's plan without feeling that it compromises your individuality? Do you have an interest in doing this kind of work for the length of the agreement? Have you ever worked for one company for five or ten years? Do you have related skills, knowledge, abilities, and work-related experiences similar to the ones required for running the franchise you are considering? Do you have the financial resources to open and operate the business successfully? Can the business support your lifestyle needs? Which of the franchises you are reviewing meets your financial needs short and long term?

Step 2: Evaluate the Franchise Opportunity

Evaluate the legal documents from a business perspective. Determine whether the franchiser has territory policies that might make franchisees less competitive in a highly competitive environment. Many prospective franchisees erroneously believe that having a large territory is best for them. It could, in fact, be the worst thing for them. For example, if you have too few franchisees in a market and competitors have more units than you have, it could leave you at a disadvantage in terms of dominating the market for your product or service in your area.

Look for a franchiser who can communicate a strategy not just for market presence but for dominating markets; look for a franchiser interested in establishing a competitive edge and increasing market share. If a franchiser cannot talk about these issues, it is entirely possible the franchiser is using franchising as a way to generate franchise fees and royalty revenue rather than to establish a competitive position in the marketplace.

Evaluate the marketing/advertising fee. Many franchisers and prospective franchisees erroneously believe that a low marketing fee is a good thing. In fact, the marketing fee should be related to the amount of money each franchisee needs to contribute to support an advertising campaign that will generate enough new and repeat business for each of them. A 1% advertising fee may look good now, but when you need 5% from everyone to be competitive, it might not be possible to convince all franchisees to participate.

Evaluate the effectiveness of the Franchise Advisory Council. Does the franchiser incorporate the franchisees' input in the decisions that affect the future direction of the system? Does the franchiser involve franchisees' input in decisions?

Be sure you can answer the question "How will I make money in this business?" There should be a very simple answer to this question. It will not violate earnings claims restrictions for the franchiser to answer it because you are not asking "How much money will I make?" You simply want to know how money is made in the business. Spend as much time as possible speaking to existing franchisees. Ask them if they would do it again. How long did it take them to recoup their investment? How much money are they making? Does the operating system work? Are they provided with good marketing programs? Do the franchisees get along well with each other and with the franchiser? What are the major problems with the business? Do they use all of the operating system? Is the franchiser's ongoing support adequate and helpful? The answers to

these questions will help you make your decision.

Step 3: Evaluate the Franchiser's Business Plan

The franchiser should have a business plan for the system that covers at least the length of the agreement you are being asked to commit to. Ask for the plan for the market where you are going to locate the operation. Ask for their analysis of the competition. Ask how many units are being planned for your area and why that many. Why not more, why not less? Ask how much is going to be spent on marketing in your area.

Ask to look at the operations manuals or at least to see an outline of them. This is important because the operations manuals are your guideline to a successful operation. You need to feel comfortable that they are complete and clear and meet your abilities, needs, and goals.

Ask to receive a full explanation of the initial and subsequent training programs. Ask how people are trained. Is it classroom or hands-on practice? Are there case studies and discussions or is it straight lecture? Ask for a full explanation of the pre-opening assistance offered by the franchiser. Understand any help franchisers give for site selection and lease negotiation. Be clear about what ongoing support the franchiser provides to the franchisees.

In Summary…

• Franchising is a business strategy centered around a strategic alliance between groups of people who share specific relationships and responsibilities in addition to being licensed to use a franchiser's brand name and proprietary way of doing business.

• Other franchisees are not your competitors; they work in tandem with you to establish and reinforce brand-name dominance in your area.

• Keep in mind that you own the assets of your company but are licensed to operate someone else's business.

• Franchising is successful because we Americans are people of habit and are brand-driven.

Corporate Example

Bob Gappa is president of Management 2000, Houston, TX, a firm specializing in assisting companies in the use of franchising as a growth strategy. A respected leader in the field of franchise consulting, Bob's 25

years' experience includes design and implementation of systems in franchise development and operations, compensation planning, human resource management, strategic planning, and marketing strategies. Bob has an in-depth understanding of the process of connecting franchisers with franchisees and is currently offering a program for franchisers on the subject entitled "How to recruit and Select More Qualified Franchisees." Management 2000 has been responsible for innovative thinking in getting people to understand franchising as a business strategy. Management 2000 has offices in Houston, Texas Edmonton.

Making the Franchise Decision

It is a quiet Saturday morning. If you are the average American, the downturn in the economy has started you to think about how it will impact your career and the opportunities for your children as they enter the workforce. Articles about Enron and Tyco and Global Crossing and other corporate scandals abound and some of the most respected brand names internationally are talking about layoffs and bankruptcy.

Surfing the web you read stories about entrepreneurship and wealth creation by individuals who grabbed a piece of the "Great American Dream" of individual business ownership. But you don't know where to start to look for your opportunity. One-way may be to simply open up your own independent business - but even here you don't know where to begin. The simplest way may be to join a growing franchise or business opportunity network. But you don't know which one is right for you. You are not even sure of the differences between a biz-op and a franchise and you are not certain you really need to care.

The investment opportunities for business ownership that you find on the web today range from the instantly recognizable fast food and brake and muffler franchises to businesses which offer you the opportunity to place beverage vending machines in offices. While on the surface, the messages from the various sites seem similar; the legal and business relationships being offered are vastly different.

Business Opportunity

Business opportunities are a highly regulated method of business expansion where a company provides outsiders the opportunity, for a fee, to go into business. Because of the historic high rate of fraudulent schemes the federal government and many states have enacted regulations and disclosure requirements that govern these types of relationships. Unfortunately, the rules regarding business opportunities

can vary between the federal government and the states and even then they can vary from state to state.

Determining whether an opportunity is a franchise or a business opportunity can be tricky and even competent legal counsel will occasionally find it difficult. The distinction is usually most noticeable in two key areas:

The franchiser will generally insist on consistency from location to location and that includes requiring the franchisee to operate their business under their brand name. Business opportunities are frequently more entrepreneurial and less structured.

While both may provide training, the hallmark of franchising is in continual support to its franchisees -something that most biz ops lack.

There are three primary types of business opportunities.

Distributorship

The purchaser buys the rights to sell the company's product within a territory and the territory may or may not be exclusive. Generally, the local business is not known by the company's name nor does it use the company's logo in identifying the business.

License

The purchaser obtains the right for access to proprietary data, marks or technology from which products or services can then be offered to the public.

The major advantage of a business opportunity over a franchise is that it offers a buyer a greater degree of flexibility in conducting their business than does the typical franchise - and usually at a lower cost of entrance and without the need to make ongoing royalty payments. It can be a very good method for home-based, part time or second income businesses.

Its most significant drawback is that typically the business owner does not receive significant management systems, training, ongoing support and marketing which are typical of a franchise relationship. Franchising provides an infrastructure and ongoing support that business opportunities generally don't.

Depending on the business opportunity, there may be system-wide savings on the cost of products and services sold to customers - a standard also with most well developed franchise systems.

An expression frequently used in franchising is that "You are in business for yourself but not by yourself". In most biz ops your business is your own and ongoing support is generally not something you can count on. However, depending on your entrepreneurial nature and talents a biz op may be the perfect opportunity for you to start your new business.

Franchising

Franchising finds its roots before the Middle Ages. It first appeared commercially in the United States before the Civil War, likely with Robert Fulton and his licensing of his steamboats and emerged as a force to be reckoned with in the post World War II 1950's. It boomed in the 60's. It policed itself in the 70's and it matured in the 80's and 90's. Franchising has become one of the most dominant forces in the world economy today.

Franchising is considerably more structured than business opportunities. However, just as with business opportunities there are variations in the definitions used by the Federal Trade Commission (FTC) and some states and there are even variations among the states. The most common definition cited though is the one promulgated by the FTC, which makes the distinction between a simple license and a license that, has crossed the barrier and become a franchise.

1. The licensee is given the right to distribute goods and services that bear the licensor's trademark, service mark, trade name, advertising or other commercial symbols;

2. The licensor exercises significant control over, or provides the licensee with significant assistance and, the licensee's method of operations; and

3. The licensee is required to make a payment of $500.00 or more to the licensor or a person affiliated with the franchiser at any time before or within six months after the licensee commences business operations.

When these three elements are in place, the license is generally considered a franchise and the franchiser must abide by certain rules generally focused on how they offer their opportunity to the public.

Franchising describes the system of delivery, not the specific product or services associated with the delivery as in a business opportunity.

The chief differences between Business Opportunities and Franchising is in the degree of the relationship:

Franchising: The franchisee's business is identified by the franchiser's trademark and consistency from location to location is usually important to the franchiser.

Biz Ops generally are not identified by the franchiser's trademark and the trademark if used is generally incidental to the products or services being offered.

Franchising: Franchisees generally receive training, marketing and other support on a continual and ongoing basis from their franchiser.

Business Opportunity: Other than some initial training, ongoing training, marketing and other support is usually not provided and is incidental to the relationship.

Franchising: The franchisee offers products or services typically on an exclusive or semi-exclusive basis and operates their business based upon standards of performance and product line dictated by their franchiser.

Business Opportunity: Business opportunities typically allow the business owner to handle a variety of lines since consistency from location to location is generally not part of the opportunity being offered.

Franchising: The cost of entering into the franchise fee is typically significantly higher than the minimum payment of $500. The payment is made for the right to enter into the relationship and for the use the franchiser's system and trademark.

Business Opportunity: Under a business opportunity the cost of entrance usually relates to the purchase of identified products or services that will be resold and any fee to join the system can be very modest.

Franchising: The franchisee generally pays a continual royalty to the franchiser, which is often based on the gross sales from the franchisee's business. The payment allows the franchisee to continue in the relationship.

Business Opportunity: If there are any continual payments, they are usually for the identifiable products or services supplied by the company to the business owner for resale.

There is a growing perception today that franchising is a "sure fire" method of expansion for business and is always a safe investment for

franchisees. While it is true that a properly designed franchise program can be an exceptional method of expansion ñ that is not always the case. The same is true for local franchises. Business comes with risk ñ and a well-structured and managed franchise system can only reduce some of those risks. Franchising can never be a guarantee of success.

Your decision to purchase a franchise should be based upon two broad understandings:

1. An understanding of the advantages and disadvantages of franchising in general.
2. An understanding of a particular franchise and how to evaluate them.

Advantages of Franchise Ownership

The benefits of franchise ownership are only as strong as the franchise you select. Generally speaking, the benefits can be classified in several broad areas:

Overall Competitive Benefits

The public has become accustom to a certain level of quality and consistency from brand name franchised locations. Whether you believe a company's product is superior or mediocre, the secret for their success is usually that it is consistent. The consumer knows the level of quality they will receive in every location they visit. This brand identification often provides the new franchisee with an established customer base accustomed to shopping under the company's brand and that makes it easier to compete with the well-established independent operators and even against other well-established franchised competitors.

Pre-Opening Benefits

Franchisers have made mistakes. Another advantage of franchising is that they have survived their mistakes and can guide their franchisees not to make the same mistakes. Upon joining an established franchise system new franchisees generally receive comprehensive initial training in the operating of the franchise system, its product, services and methodologies. While the cost of entrance into a franchise system includes a franchise fee - often cited as a disadvantage - the franchisee benefits from a host of services including operations manuals, site selection, store design, construction programs and reduced cost of equipment to name just a few. Additionally, they have not only their franchiser as a seasoned partner to ask questions to but the network of other franchisees within the system that can be of assistance.

In essence, the major stumbling block for pre-destined failure is removed by the franchiser - lack of preparedness. Most independent businesses don't fail because their product or services were inadequate. They fail because they did not anticipate problems. Chief among these is working capital. Well-developed franchise programs ensure that before they accept a new franchisee that they have adequate capital, even after servicing their debt and taking into account seasonally adjusted cash flow. Without this guidance many independent operators fail soon after opening.

Ongoing Benefits

In exchange for paying an ongoing royalty and other payments, franchisees generally receive continual training programs and other ongoing home office and field support and assistance.

Group purchasing power is a major benefit of well-developed franchise systems. Frequently buying groups established by the franchiser allow the franchisees to benefit from a lower cost of goods, equipment, and supplies than that available to independent operators.

Leveraging off the contributions of the entire franchise system, franchisers are able to create professionally designed point of sale, advertising, grand opening programs and other marketing materials that independents could never afford. Franchise programs can also afford to continue to modernize the system through ongoing research and development and the test marketing of new products and operating programs.

Franchising is a critical mass business both with a market and system wide. The spending power of the individual dollar, combined with their fellow franchisees within their market and the rest of the system enable franchises not only to dominate local markets and established independents but also to compete effectively against the established large chains.

Disadvantages for Franchisees

One of the benefits most often cite for becoming a franchisee may also be one of its major disadvantages. It is the loss of independence that is necessary in any good franchise system. By definition, franchisees are not entrepreneurs. If they were, they would never buy a franchise. At best, franchisees are "entrepreneur lites". For the truly entrepreneurial person, franchising is the wrong choice because the structure of the

system requires them to give up considerable independence in the way they conduct their business.

This loss of independence, if taken to the excess leads to a further disadvantage of franchising - over-dependence on the system. Franchising succeeds best when franchisees are at risk and are motivated by their financial and emotional risk to succeed. Where franchisees rely totally on the system for their success their over-dependence can also cause problems. The franchisee therefore must therefore balance the system's restrictions with their personal ability to manage their own business.

Another strength that is also a weakness is the expectations of the public when they shop at a branded location. The principal reason for franchising success is the public's perception of quality and consistency throughout a franchise system. Therefore when the public receives great service at one location the assumption is that the system has great service in all its locations. This can be a major problem as well because the reverse is also true. Poorly performing fellow franchisees will damage your business even when they don't even share your market.

If the hamburger is bad in one location, the public assumes it is bad throughout the system. If one location makes the nightly news, all of the other locations under the brand are impacted by that news ñ both the good and the bad. To protect its franchisees, great franchise systems are usually the ones that impose the strongest controls necessary to ensure that standards are met in each location.

Some prospective franchisees have unrealistic expectations concerning the income they will earn from their business. If unmet these unmet expectations can cause the franchisee financial problems and make them regret the investment they made. While unmet expectations are a weakness inherent in franchising, it is also a weakness of every business whether franchised or independent. Realism is important in making investment decisions. In franchising though, if the prospect conducts an independent and thorough evaluation of the opportunity this risk can be significantly reduced.

Almost every restriction placed on a franchisee by the franchisor takes away a bit of the franchisee's independence and therefore can be considered a disadvantage. Some issues such as restrictions on product and services offered, limitations on territory, the possibility of termination for failure to follow the system, restrictions on independent marketing and advertising are a double edge sword - depending on how you perceive the relationship. However ask any franchisee whose investment has been put at risk by another franchisee's poor

performance if they benefited by the franchisors ability to terminate the other franchisee. You will likely understand the importance of selecting a franchise system that has the ability and the track record of enforcing its standards.

Making Your Franchise or Business Opportunity Selection

Most any business can be offered as a franchise or business opportunity and many appear the same on the surface. It is important that you sort out the good from the bad before making your decision.

The first step in franchise selection is a personal audit. Make certain that the industry you select is one that meets your personal needs. If you will be embarrassed to tell your friends that you own a dry-cleaning business or have a janitorial service, even if they are highly lucrative, then don't buy one. Personal happiness is important. There are at least 85 different industries using franchising spanning any number of product or service related areas. Personally examine your feelings toward each one to begin to make an industry selection.

Once you have created a short list of industries you are comfortable with, begin with an examination of the companies within those industries. Make certain that the industry has legs and is not just the next fad or worse, a fad that is already passed. Look not only at the franchised competition in the industry but the established company owned chain operations as well.

Finally, when you have selected the industry for you, begin your examinations of the companies. The obvious choice may be the well-established company with hundreds of franchisees but keep in mind that many of the newer opportunities have entered the market with innovations that may not be possible in older systems. Also, older established systems are less flexible should you want to negotiate any terms while newer systems may be willing to consider certain points as negotiable.

Here again though is a double-edged sword. Franchising strength is its consistency. Should the franchiser be willing to negotiate with the prospective franchisee on significant issues, they are likely to do so with others. Their reasons may be based upon their need to sell you a franchise to meet next week's payroll or to ensure that their franchise broker won't drop them as a client because they are not flexible enough

for the broker to earn their commission. Remember, brokers only make money when you make a purchase. Even if these are not the reasons they are willing to negotiate, another word for flexibility is inconsistency. And inconsistency is not what you or the public wants from a branded operation like a franchise.

Most franchiser's today have web pages with tons of information on their companies and their franchise opportunities. Examine each one thoroughly and contact each franchiser you are interested in for any additional information they may have available. Fancy graphics is not a good reason to select a company. You need to understand the philosophy of the company. Compare their services as well as their fees. Lower fees should be the least important reason to select a company over another. How are the fees structured? If franchise fees are high but royalty fees low can you surmise that the franchiser is more interested in selling their franchises than having continual revenue to provide you with services? If royalty fees are high, does the franchiser worth the extra percentages provide the services?

Your answers will come from two sources, personal meetings with the franchiser at their headquarters and contact with their franchisees.

Visit the headquarters of each franchiser you are seriously interested in. Do not buy a franchise without visiting the headquarters. Even large established franchisers have problems that can only be determined from personal visits. Allow the franchiser the opportunity of introducing you to the system, its services and key personnel. Make certain that you meet with those individuals who you will be having a long-term relationship with including the Operations, Training, Marketing and Field Organization. Ask questions and do not accept superficial answers. What are the continuing services provided and by whom? How long is the training program, who conducts it, where is it conducted and what topics are covered? Does the company have solid marketing? Do they own their trademarks? And - a hundred other questions you may think of. Remember, the franchiser has been through this process many times before, it is likely your first time. Come prepared with your questions written down and ask them. Be satisfied with the answers and do not be reluctant to probe for further information. Buying your franchise is likely to be one of the most important business decisions you will ever make. We have provided a workbook at the end of this article that can be used as a guide.

Issues of serious interest should include profitability and return on investment; proven product and service; operating systems; training; marketing; expansion plans (is the franchiser more interested in worldwide expansion or individual franchisee success); field services;

research and development; franchisee relations; franchise system goals and ability to support the goals; and of course the financial health of the franchiser. At the meeting with the franchiser you will receive, as mandated by the franchise laws, a copy of the franchise disclosure documents. If possible, try to obtain a copy in advance of your meeting so you can ask your questions about the document in person.

Most franchisers do not send out their disclosure documents before the meeting because they are costly to produce and franchisers want to explain many of the items in the document in person. Failure to receive a disclosure document in the mail is not a sign of franchiser deceit. It is a recognized practice in the industry not to provide a UFOC before you meet with a prospect. Some franchisers though will provide a copy of their disclosure document electronically and there are even private companies and some state agencies that will sell you a copy of the franchiser's UFOC.

The disclosure document will provide you with a wealth of information that you should have reviewed by your accountant as well as a qualified franchise attorney. Many prospective franchisees unfortunately rely upon their local lawyers for advice on franchising matters. Franchising is a complicated and somewhat unique branch of the law and requires you to work with lawyers that practice in this area. A good source for locating a qualified franchise attorney is through this web site or through the International Franchise Association at or your local bar association.

Today, in increasing frequency you may find yourself working with a franchise broker or a company that represents that they are your coach, even when the franchiser pays their fees. Since brokers are paid by the franchisers to get you to buy one of their franchises, they are the franchiser's agent and not your advisor. Care should be taken when working with any brokerage therefore since they only make money when you buy a franchise from one of their clients - and from no other franchise opportunity. If you need an advisor, hire and pay for your own counsel. This is likely to be the most important investment you will ever make ñ take care.

The UFOC contains a host of information including the experience of the franchiser and its staff in the business being franchised; the system's litigation and bankruptcy history; the cost of opening a franchise as well as the initial and continual fees; an explanation of the relationship and responsibilities of the franchiser and franchisee together with financial information on the franchiser; the number of franchises opened, closed and most importantly, a list of existing franchisees. Start with the A's and proceed toward the Z's and call enough franchisees until you are satisfied that you have adequate information to make an educated

decision. Visit as many of the franchisees as possible. This is a time consuming process, but after all, it is only you and your family's financial life. If you can find a franchisee willing to let you work in their location ñ most franchisers will support that decision because it enables you to truly understand if you are going to like becoming a franchisee.

The one piece of critical information that you may expect to find in the disclosure document may not be there - an earnings claim or any projection of franchisee profitability. For a host of supportable reasons the majority of franchisers do not include this information. It is therefore critical that you base your financial assumptions on available information, information available from articles about the company and discussions with franchisees. Ask the franchisees you speak with about their financial performance and don't forget to check public filings for any franchiser that is a public company.

Franchising or Business Opportunity - The Choice

There is a difference between a franchise and a business opportunity and each has its merits and its potential pitfalls. Keep in mind that the salesman has been selling for a long time and is experienced in their craft. Their job is to get you excited about the opportunity and have you make a decision to buy from them sooner than later. It is likely your first time making your own franchise decision.

Suppress your emotions and base your decision on the facts and what will benefit you both personally and financially. Seek out independent advice. Read articles and books on the subject. There is a tremendous amount of information on the web that you can easily access for free.

I should also point out that Franchising for Dummies, a book I wrote with Dave Thomas the founder of Wendy's is available in most bookstores and on line and may be a very worthwhile tool for you to have. (Dave and I donated our proceeds to the Dave Thomas Adoption Foundation so in addition to learning quite a bit about franchising, you will be helping a wonderful organization do great things.) Franchising for Dummies will provide you with an understanding of franchising and give you a step by step approach to selecting the right franchise for you.

Good luck in finding your own Great American Dream.

How to Select a Franchise

This is a very big subject so we will try to be as laser like as possible and give you the essence of the information you need in order to properly select a franchise.

First, you must ask yourself certain questions and be very objective. Why do you want to own a franchise? If it's to get rich or to get on easy street and not have to work, then franchising will probably not meet your expectations. If you are like many people who have the dream of owning your own business, being your own boss and having control of your life, then franchising may be for you.

The truth about franchising is that it's very rare that franchisees get rich. It's also true that as a franchisee you generally work long hours, especially the first year. A franchise business is like nearly all businesses, it's hands on, you have to be there to make it happen. You have to literally keep your hands on it. Generally, a franchise is going to involve longer hours and more stress than would a job where you just put in your time and then go home and forget about it until the next day. However, franchising gives you the chance to do something really significant, and that's to be in business for yourself, be your own boss and control your own destiny. This is the chance to realize the dream. It's been said that the truly happy people among us are those who are living their dreams.

After evaluating yourself, the next step is to begin the search. Look through the information here at the FranInfo site. The critical thing at this point is that you must be realistic and look at opportunities that are in harmony with you, how you think and what your interests are. Imagine yourself operating the franchises that look interesting. Can you see yourself happy in that environment, day after day, possibly for years.

If you are interested in any specific companies, send us an email. We will see that you are contacted. The least you will receive is a letter and a brochure and from some of the more progressive companies you will get a video. Examine these materials carefully, they are generally very revealing. After you narrow your search down to one or two franchises it's time to visit a operating unit if you haven't already. Ask the franchise sales rep where the nearest unit is located and arrange to be met there by a owner or manager who can answer your questions. Spend as much time at the unit as you possibly can, be there at different times of the day, during peak hours and during slow times. Talk to the employees,

customers and the owner or manager. If you do this thoroughly you should get a good read on the viability of the concept.

If at this point you want to continue, the next step is to visit the home office. Here you will get a guided tour of the offices, meet key people, usually including the President, and generally you will visit a flagship unit, either company owned or a franchise unit. After the tour you will sit down with a franchise sales person and be given the sales presentation, which is of course designed to sell you. You will be given a Uniform Offering Circular (UFOC) to take with you. This is a compilation of a great deal of information on the company and the opportunity. The Federal Trade Commission requires that you be given a UFOC at the first personal meeting. It will have information on the history of the company, backgrounds on the officers, financial statements on the company, a copy of the franchise agreement, a list of current franchises, franchises that have closed and litigation history. This information is critical to evaluating a franchise opportunity.

Analyzing the UFOC is tricky and professional help at this point can prove invaluable. You want to pay close attention to the history of the company, the backgrounds of the officers, the financial statements and the litigation history.

The following are the steps you should take upon returning home.

1. Analyze the UFOC (Professional help recommended) In the UFOC you want to see strong financial statements, highly experienced people in the key positions, a company that has been in business for 3 years or more, the longer the better, has a large number of units and has few closed or bought back.

2. Closely examine the franchise agreement. This is the contract between you and the company. Franchise agreements are always biased in favor of the franchiser, that's just the way it is. This can be good and bad. The company can be unfair in it's dealings with you and the franchise agreement may allow this, on the other hand you should want a strong franchiser. For example, McDonalds is so successful because it is very tough on franchisees that do not maintain McDonalds high standards of product quality, good service and cleanliness. This strict compliance is only possible through a strong franchise agreement.

3. Call as many franchisees as possible. Call at least 10. Find out how they are doing. The key question is "Would you buy this franchise again?"

4. Visit personally as many operating units as possible. At least three. Often the owner or manager will be more forthcoming in person than over the phone.

5. If everything still looks good, then contact the sales rep and get as much definitive sales information as possible. Most franchisers will not make earnings claims but they will provide information with which you may extrapolate gross sales.

6. If everything still looks good then go for it.

Future of Franchising

The growth of franchising is inevitable, because of the inescapable logic of the underlying concept. Franchising clearly offers aspiring, new business owners the best possible chance of succeeding with the least risk. Within a decade or less, franchising will comprise over 50% of the retail economy, will employ millions of people, and will enable hundreds of thousands to realize the American dream of successful business ownership.

As the U.S. and world economies grow with the ever increasing populations, and the move toward free market economies, new franchise concepts will come on the scene and the solid, well managed existing franchise companies will continue to grow.

There is a move toward better protection of franchisee rights and over time this will push more franchisers towards structuring their relationships with their franchisees in a totally win/win manner. Franchising is evolving, it's getting better conceptually and in reality. There are greater opportunities for wealth creation among both franchisees and franchisers today then ever before.

The future of franchising is as bright as the sun and if you want to take the big step and go into business for yourself or if you have an existing business that you want to optimize, then you should look closely at franchising as the vehicle to take you to where you want to be in the 21st century.

QUESTIONS FOR DISCUSSION

Q1) what are the relevant considerations you will take into account before going for a franchising arrangement?

Q2) Critically evaluate the franchising as a mode to enter International Business on basis of it's relative merits and demerits.

Q3) How will you select a franchising arrangement

Q4) What are the steps involved in a franchising arrangement

Q5) Comment on the Scope of Franchising?????????