

Franchising 101

Presented by

FRANCHISE NOW

This presentation is intended solely to inform and educate entrepreneurs about franchising -- the process, benefits, drawbacks and available resources.

Only the individual entrepreneur can determine if franchising is right for them, but a trained franchise consultant can help guide you through the process.

What is Franchising?

Franchising is a method of distributing goods or services to consumers. The franchise system owns the right to the trademark of the business. The franchisee purchases the right to use the trademark and operating system.

In some ways, owning a franchise is like a cross between business ownership and self employment.

Most people associate the word “franchise” with fast food restaurants. But, there are many more types of franchise businesses, including everything from advertising to automobile repair, printing services to party supplies and many more.

Categories of Franchises

- ◆ Accounting/Tax Services
- ◆ Advertising/Direct Mail
- ◆ Auto & Truck Rentals
- ◆ Automotive Products/Services
- ◆ Batteries-Retail & Comm.
- ◆ Beverages: Special
- ◆ Business Brokers
- ◆ Business/Mgmt Consultants
- ◆ Campgrounds
- ◆ Check Cashing/Financial Services
- ◆ Children's Services
- ◆ Clothing and Shoes
- ◆ Computer/Electronics/Internet
- ◆ Construction Materials
- ◆ Consumer Buying Services
- ◆ Convenience Stores
- ◆ Cosmetics
- ◆ Dating Services
- ◆ Drug Stores
- ◆ Educational Products/Services
- ◆ Employment Services
- ◆ Fitness
- ◆ Florist Shops
- ◆ Food/Restaurants
- ◆ Golf Products/Services
- ◆ Greeting Cards
- ◆ Hair Salons & Services
- ◆ Health Aids & Services
- ◆ Home Furnishings
- ◆ Home Inspection
- ◆ Hotels and Motels
- ◆ Insurance
- ◆ Janitorial Services
- ◆ Jewelry
- ◆ Laundry & Dry Cleaning
- ◆ Lawn/Garden/Agriculture
- ◆ Maid & Personal Services
- ◆ Maintenance
- ◆ Marine Services

- ◆ Optical Aids & Services
- ◆ Packaging/Ship/Mail
- ◆ Painting Services
- ◆ Paralegal Services
- ◆ Payroll Services
- ◆ Pest Control Services
- ◆ Pet Sales/Supplies
- ◆ Photography
- ◆ Printing/Copying
- ◆ Real Estate Services
- ◆ Recreational Services
- ◆ Rental Equipment & Supplies
- ◆ Retail Stores
- ◆ Security Systems
- ◆ Senior Care
- ◆ Sign Products & Services
- ◆ Tanning Centers
- ◆ Telecommunications
- ◆ Transportation Services
- ◆ Travel Agents
- ◆ Vitamin & Mineral Stores
- ◆ Weight Control

Too many choices?

Let us help you through your search process. We'll save you time and aggravation by avoiding the franchises that don't fit your profile.

Well-Known Franchise Names

- | | |
|--|---|
| <ul style="list-style-type: none">◆ McDonald's◆ Subway◆ Curves◆ Alphagraphics◆ 7-Eleven, Inc.◆ Baskin Robbins◆ Big O Tires◆ Blockbuster◆ Century 21 Real Estate◆ Courtyard by Marriott◆ Dairy Queen◆ Dale Carnegie◆ Dunkin' Donuts◆ Kentucky Fried Chicken◆ Fuddruckers◆ Gold's Gym◆ Great Clip's◆ H& R Block◆ IHOP – International House of Pancakes◆ Jenny Craig◆ Kwik Copy◆ MAACO◆ Molly Maid◆ New Horizon's Computer Learning◆ Once Upon A Child◆ Papa John's Pizza◆ Radio Shack◆ Seattle's Best Coffee◆ Gold's Gym◆ Great Clip's | <ul style="list-style-type: none">◆ H& R Block◆ IHOP – International House of Pancakes◆ Jenny Craig◆ Kwik Copy◆ MAACO◆ Molly Maid◆ New Horizon's Computer Learning◆ Once Upon A Child◆ Papa John's Pizza◆ Radio Shack◆ Seattle's Best Coffee◆ Taco Bell◆ Wild Bird Centers of America |
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What is a “Frantrepreneur”?

(fran*tre*pre*neur) *n.*

One possessing the desire to be a business owner -- without the desire to recreate the wheel -- by following a proven system for the benefit of personal and professional goals.

The Frantrepreneur Mentality

“I’m in business *for* myself, but not *by* myself”.

“I have the opportunity to learn from the success and failure of others.”

“Why would I take the unnecessary business risk of starting something from scratch when a proven business system—with ongoing support—is available?”

“I want a ‘bottled’ process for success that I can use in developing my own successful business.”

“Why would I work for someone else when I can work for myself and reap the rewards of my efforts?”

“Why would I spend years and the investment required to establish a successful brand when I could buy a franchise which provides immediate access to a successful business system and a brand name which others already have made successful?”

Franchise Options—things we should consider

TYPE:

- ◆ Traditional retail
- ◆ Mobile products/services
- ◆ Work from home

OWNERSHIP:

- ◆ Hands-on
- ◆ Passive
- ◆ Part-time/full-time

OWNERSHIP:

- ◆ Single unit franchise
- ◆ Multiple units
- ◆ Master franchisor
- ◆ Area developer

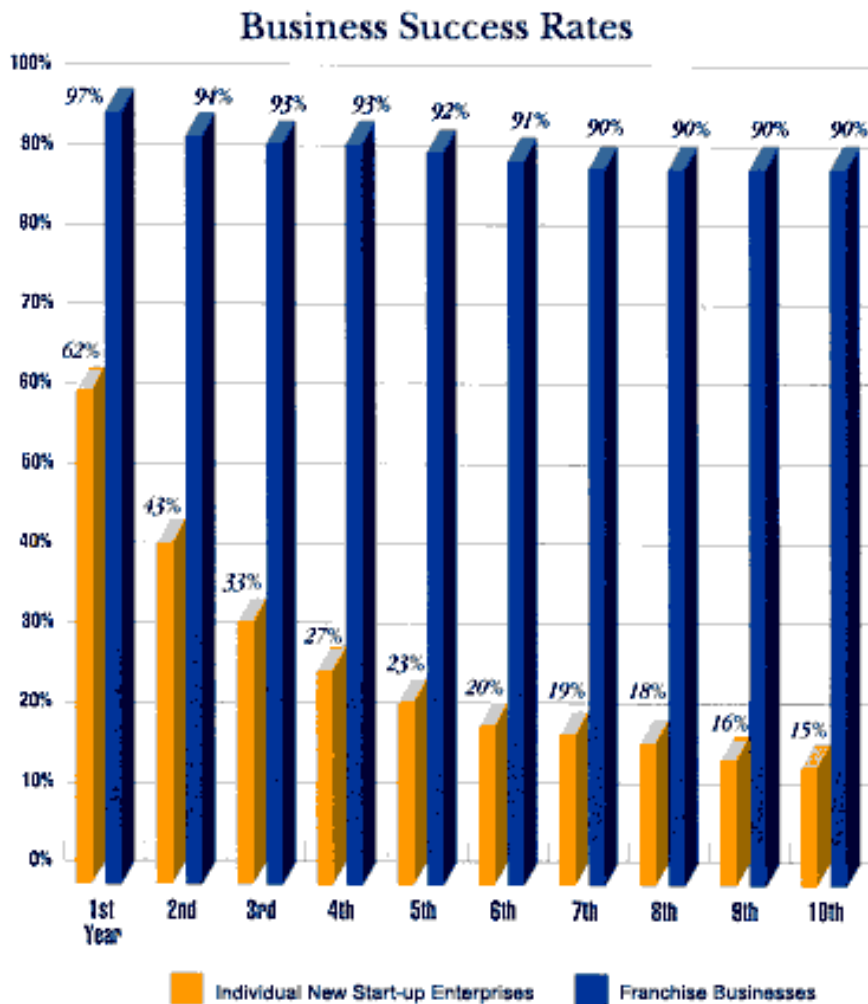
PRODUCT/SERVICE:

- ◆ 75 categories - an endless array of possibilities
- ◆ There is a franchise to match anyone's background, skills and interests

Franchise Statistics

- ◆ Franchise businesses account for about 50% of all retail sales in the United States.
- ◆ 1 out of every 12 business is a franchised business.
- ◆ A new franchised business is opened every 8 minutes of every business day.
- ◆ Franchise businesses employ more than 14 million Americans.
- ◆ There are an estimated 6,500 franchise companies operating in the U.S. doing business through more than 316,000 retail outlets.
- ◆ More than 75 industries use franchising to distribute goods and services to consumers.
- ◆ A 1999 study by The United States Chamber of Commerce found that 86% of franchises opened within the last five years were still under the same ownership and 97% of them were still open for business.
- ◆ Total sales by franchised businesses are projected to reach \$1.7 trillion, this year.
- ◆ In 2000, the median gross annual income, before taxes, of franchisees was in the \$75,000 to \$124,000 range, with over 30% of franchisees earning over \$150,000 per year.

Franchise Success Rate



Statistics compiled from the U.S. Department of Commerce/Industry and Trade Administration and Future Small Business in America

Franchises have a 96% success rate. Most people can't even predict that they can keep their jobs with a 96% certainty.

Advantages of Buying a Franchise

- ◆ Franchisor business practices are tightly regulated by the federal government
- ◆ Franchisors have a vested interest in **your** success.
- ◆ The marketplace has already been checked out by the franchisor and determined the system to be successful.
- ◆ The franchisor utilizes collective buying power and passes on the discounts to you.
- ◆ Local and national advertising for the franchise operation as a whole is supplied by the franchisor.
- ◆ Supervision, training programs and consulting are readily available from the franchisor.
- ◆ Managerial, operational and accounting systems are in place to facilitate your success.
- ◆ Ongoing research and product development is provided by the franchisor.

Disadvantages of Buying a Franchise

- ◆ You have to pay the franchisor royalties.
- ◆ The contract with the franchisor must be renewed after a certain period of time.
- ◆ There is a lack of flexibility because business methods are dictated by the franchisor.
- ◆ The franchisor's problems are also your problems.
- ◆ You may be obliged to buy products supplied by the franchisor rather than the most cost-effective product available.
- ◆ You don't get to make all of the decisions in how to run your business.

Established versus Newer Franchises

Possible Advantages of Established Franchises:

- ◆ Name recognition
- ◆ More regional and national advertising
- ◆ Experienced management
- ◆ More refined training and support
- ◆ Better purchasing power with established price discounts

Possible Advantages of Newer Franchises:

- ◆ Exciting, cutting-edge concepts
- ◆ Business may have been designed to avoid mistakes made by older franchises
- ◆ Lower cost of entry and royalties
- ◆ More opportunity to share in equity growth of the company
- ◆ More flexibility and latitude in working with franchisees

Questions to Ask Yourself

- ◆ How much capital do I have to invest?
- ◆ What is the value of my liquid assets?
- ◆ Do I require a specific level of annual income?
- ◆ Am I interested in pursuing a particular field?
- ◆ Am I interested in retail sales or performing a service?
- ◆ Do I want a part-time or fulltime opportunity?
- ◆ How many hours am I willing to work?
- ◆ Do I want to operate the business yourself or hire a manager?
- ◆ Do I want to have employees?
- ◆ Do I want to have inventories?
- ◆ Do I want to have Accounts Receivables?
- ◆ Will franchise ownership be my primary source of income or will it supplement my current income?
- ◆ Would I be happy operating the business for the next 10 years?
- ◆ Would I like to own several outlets or only one?

Questions to Ask a Franchisor

- ◆ Determine what assistance the franchisor provides. Do they assist with training, store design, location construction, site selection, and feasibility studies?
- ◆ Do they have access to any demographic studies to get an understanding of the audience within the market area?
- ◆ What types of support will the franchisor provide once your franchise has opened its doors?
- ◆ After the initial investment, will there be additional financial obligations requiring working capital?
- ◆ Does the franchisor offer any form of financing?
- ◆ Ask the franchisor how many franchises have been sold in the state you will be operating in during the last 12 months, and how many have been opened for business?
- ◆ What types of territorial restrictions and protections have been set up by the franchisor?
- ◆ Is the franchisor planning on expanding within your state? Are they focusing on any specific locations?
- ◆ What arrangements are established through the franchisor in terms of product supply?
- ◆ Ask if the franchisor has been forced to terminate any of its franchisees and detail the reasons for this decision. Have any franchisees failed or gone bankrupt?
- ◆ Are there any current lawsuits pending or past judgments against the franchisor? What steps are taken to settle disputes between the franchisor and franchisees?

Questions to Ask Franchisees

- ◆ How long have you owned your franchise?
- ◆ Is your franchise profitable?
- ◆ In which month did you reach your breakeven point?
- ◆ Have you made approximately the same profit that was forecast in the disclosure document?
- ◆ Were your opening costs consistent with the original projections in the disclosure document?
- ◆ Are you satisfied with the franchisor?
- ◆ Are you satisfied with the product or service?
- ◆ Is the operations manual, clear, up-to-date and adequate?
- ◆ Are you satisfied with the marketing and promotional assistance provided by the franchisor?
- ◆ Was the initial training and ongoing support sufficient for you to operate your business?
- ◆ What was your background prior to buying your franchise and was it beneficial to your success?
- ◆ Are deliveries of goods provided by the franchisor timely and competitively priced?
- ◆ Is the franchisor fair and amicable to work with?
- ◆ Does the franchisor listen and help you with your concerns?
- ◆ Have you or other franchisees had any disputes with the franchisor? What was their nature? Were they resolved fairly?
- ◆ Do you know of any disputes between the franchisor and the government?
- ◆ Do you know of any disputes with competitors?
- ◆ Who are the major competitors?

Common Mistakes of Prospective Franchisees

- ◆ Not reading, understanding or asking questions about the UFOC, franchise agreement and other legal documents
- ◆ Not understanding the responsibilities of the franchisee and the obligations of the franchisor
- ◆ Not seeking sound legal and financial advisors
- ◆ Not verifying oral representations of the franchisor, representatives or brokers
- ◆ Not contacting enough current franchisees
- ◆ Not contacting closed, sold or changed franchisees and confirming reasons
- ◆ Not having enough working capital
- ◆ Not recognizing the need for financing
- ◆ Not knowing how to make a proper loan request
- ◆ Not developing true and accurate budgets/forecasts and financial statements
- ◆ Not meeting the franchisor's key management and support personnel
- ◆ Not analyzing your market in advance
- ◆ Not developing your marketing strategy
- ◆ Not determining dollar amounts necessary to implement marketing strategy including advertising and promotional programs
- ◆ Not choosing the right location
- ◆ Not analyzing the competition

Should You Use a Franchise Consultant?

A Franchise Consultant should...

- ◆ never charge you for their services --(they're paid by the franchisors, but they recognize that this only happens if they provide you excellent service and present you the right opportunities)
- ◆ take the time to educate you on the franchise industry
- ◆ help you define your qualifications so that you don't waste your energies and time on franchises that are not right for you or that you are not qualified for
- ◆ be able provide you valuable insight on franchises that you won't find on your own
- ◆ help you present your qualifications to a franchise
- ◆ take an unbiased approach to helping you achieve your goals

Pre-Sale Disclosure -- UFOC (Uniform Franchise Offering Circular)

Any UFOC contains 23 standard items – this is an important -- if not the most important -- part of your validation process of the franchise company.

- ◆ Description of the franchisor and its predecessors
- ◆ Identity and business experience of officers and directors
- ◆ Litigation and bankruptcy history
- ◆ Bankruptcy history
- ◆ Initial franchise fee and additional costs and fees
- ◆ Franchisee initial investment and Other fees
- ◆ Requirements to purchase or lease from designated sources
- ◆ Requirements to purchase from approved suppliers
- ◆ Financing arrangements for franchisees
- ◆ Franchisor's obligations
- ◆ Territorial protection
- ◆ Trademarks, service marks and trade names
- ◆ Patents and copyrights
- ◆ Franchisee requirement to operate the business
- ◆ Restrictions on sale of goods and services
- ◆ Renewal, termination or transfer of the franchise
- ◆ Endorsements by public figures
- ◆ Earnings claims (optional and the franchisor chooses format)
- ◆ Names, addresses, and telephone numbers of current and former franchisees
- ◆ Financial statements
- ◆ Copies of the franchise agreement and other contracts and agreements
- ◆ Receipt of the UFOC

Common Elements of a Franchise Agreement

- ◆ Grant of Franchise
- ◆ Term of Franchise
- ◆ Name of Franchise
- ◆ Location of Franchise
- ◆ Obligations of Franchise
- ◆ Initial franchise fee
- ◆ Franchise service fees; reporting and audits
- ◆ Advertising fund
- ◆ Training assistance
- ◆ Operation of the business format
- ◆ Representations by franchisor
- ◆ Representations by the franchisee
- ◆ Relationships of the parties
- ◆ Renewal and renewal fee
- ◆ Assignment
- ◆ Termination
- ◆ Procedures after termination
- ◆ Remedies for breach and methods of enforcement of the agreement
- ◆ Attorney Fees
- ◆ Amendment
- ◆ Waiver
- ◆ Construction and venue
- ◆ Severability
- ◆ Binding to successor
- ◆ Exclusive property

*“If you don’t follow your dreams,
you’ll be working for
Someone who did.”*



**We will be in touch shortly to help you
start exploring your options in
franchising.**

Common Terms

- ◆ Acknowledgement of Receipt: The last page of an Offering Circular, signed to indicate you received the documents on a certain date.
- ◆ Advertising Fee: An annual fee paid by the franchisee to the franchisor for corporate advertising expenditures; It is often less than three percent of the franchisee's annual sales and typically paid in addition to the royalty fee.
- ◆ Capital Required: The amount of cash you are required to have available.
- ◆ Earnings Claims: Representations made by franchise companies that their franchisees have achieved specific levels of sales or profitability.
- ◆ Exclusive Territory: The "territory" granted to you by a franchise company, which restricts the franchisor from establishing any other location within your area.
- ◆ Federal Trade Commission (FTC): The federal agency in Washington, DC that regulates various trade practices including the franchise industry.
- ◆ Franchise Agreement: An official document that sets forth the expectations and requirements of the franchisor. It describes the franchisor's commitment to the franchisee, and includes information about territorial rights of the franchisee, location requirements, training schedule, fees, general obligations of the franchisee, and general obligations of the franchisor.
- ◆ Franchisee: The owner of one or more franchises.
- ◆ Franchise Fee: The initial fee you pay to a franchisor to acquire a franchise.
- ◆ Franchising: Neither an industry nor a business, but a method of doing business within a given industry. At least two parties are involved in franchising: the franchisor and the franchisee.
- ◆ Franchisor: The person or company that owns or controls the right to grant franchises for a specific "brand".

- ◆ **FTC Rule 436:** The law passed in 1979 that regulates the franchise industry. It set forth "disclosure" requirements and prohibited franchisors from making unsubstantiated earnings claims.
- ◆ **Initial Investment:** Generally, the initial cash investment required of you to buy and open a franchise. This can include the franchise fee and other initial start-up costs and expenses you may incur, but may not be reflective of your total investment.
- ◆ **Liquid Capital:** Also known as, liquid assets, quick assets, and realizable assets. Assets held in cash or in something that can be readily turned into cash.
- ◆ **Master Franchisee:** Describes an individual or company owning the exclusive rights to develop a particular territory for the franchising company.
- ◆ **Net Worth:** Total assets, once you've subtracted your total liabilities.
- ◆ **Non-Compete Clause:** Upon termination, non-renewal, or other sale or transfer, some franchise agreements prohibit you from competing in any way with the franchised company.
- ◆ **Offer:** An oral or written proposal to sell a franchise to a prospective franchisee upon understood general terms and conditions.
- ◆ **Protected Territory:** A designated area or geographic boundary granted to the franchisee by the terms of a franchise agreement. The franchisor promises not to open another franchised or company-owned business of a similar nature within the franchisee's protected territory.
- ◆ **Qualification Questionnaire:** A document prepared by the franchisor to be completed by the prospective franchisee, which provides initial information to the franchisor in order to assist in determining whether or not the prospect is capable and motivated enough to own a franchise. Often a financial statement is included in the questionnaire format.

- ◆ **Registration:** A requirement in several states that specific information be submitted and approved by state regulatory authorities before franchises may be offered in that state. It is quite extensive in the information that is required.
- ◆ **Start up Costs:** The required amount of money the franchisor will request that a new franchisee have to invest in the new franchise unit in its earliest stages of development.
- ◆ **Total Investment:** The amount of money estimated for complete set up of a franchisee's business, including the initial investment, the working capital, and any additions to inventory and equipment deemed necessary for a fully operational and profitable business.
- ◆ **UFOC - Uniform Franchise Offering Circular:** Provides background information in over 20 categories as well as a copy of the proposed franchise agreement. Also known as, the “Circular”, “Offering Circular” and “Disclosure Document”.