

MAKING THE FRANCHISE DECISION



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Making the Franchise Decision
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Making the Franchise Decision Introduction

Congratulations on making the decision to begin looking at becoming a franchisee.

This workbook is a tool for you to use in evaluating the different franchisors you will be looking at. It is not meant to give you the answer to your most important question – *Which is the best opportunity for me?* That is a wholly personal decision, since what is important to one potential franchisee may not be as important to another.

I would suggest that you begin your exploration of franchising by becoming educated on the subject. There is a lot of information available online at websites like the International Franchise Association (IFA) (www.franchise.org) which provides an online seminar about franchising. My firm also has a number of articles that you may find interesting and informative (www.msaworldwide.com). Of course, I am partial to *Franchising for Dummies*, a book I wrote with the late Dave Thomas as a primer to franchising for both franchisees and franchisors. You can purchase that book from Amazon.com or in most bookstores. All of the proceeds of the book go to charity as well.

During your exploration of franchising, the franchisors that you are interested in will at some point give you a copy of their Franchise Disclosure Document (FDD). It is lengthy, and at first glance can seem intimidating. Read it carefully and make notes of anything you do not fully understand.

The purpose of franchise disclosure is to give you a minimum level of information necessary for you to make an educated franchise investment decision. It is by no means intended to give you all of the information you might require. If I were buying a franchise, I would be interested in a whole lot more than the information contained in the disclosure documents. I can't be with you in making your franchise decision, but I can tell you what I would ask. This workbook contains some of the questions and information I would want answers to before I would be willing to join a franchise system. If the franchisor is not willing and able to fully answer each and every one of them, my advice is to keep looking for another opportunity. Becoming a franchisee and starting your own business is risky enough. You do not need to increase that risk by not knowing the whole story.

Making the Franchise Decision Introduction

Before you even begin getting the answers to the questions, there are a few things to always keep in the front of your mind when evaluating a franchise:

- This is likely the first franchise you have ever invested in. The franchise salesperson has been through this hundreds or even thousands of times before.
- The salesperson (even if they are the President of the franchise) has a process that they want to move you through in making your decision. It is designed to get you to buy their franchise and, if they are good at their job, it is designed to get you to do it quickly.
- The salesperson is almost always on commission. If you do not buy, they do not get the new boat they were looking at. How much is that commission check? If that friendly salesperson is part of a brokerage, the franchisor is going to write a check to the brokerage when you sign the franchise agreement, usually for 40 to 50% of the franchise fee or more. In a very few cases, they are also going to write a check each month for the next ten to twenty years when you send in your royalty check. The salesperson you are working with is going to get a big slice of that pie.
- The franchisor and the franchise salesperson are in the business of selling franchises. They need you. Take your time and make them work. Get the answers to all the questions in this workbook — and then ask some more just for good measure. Choose wisely.
- Write down the answers to the questions.

If you are relying on something the franchisor or its salespeople said to you that is not in the written franchise agreement, then likely they are not legally required to provide that to you later on. Make certain all their promises or information you relied upon in making your franchise decision is included in the written franchise agreement.

Make certain you have a great franchise lawyer working with you. While many of you may be working with a franchise brokerage firm that is assisting you in exploring franchise opportunities, remember, they are paid by the franchisor. They are also looking for you to invest in one of their client's franchises, so you may not be seeing all of the franchises that are right for you. You need to have your own independent franchise advisor.

Making the Franchise Decision Introduction

There are many good sources for finding a franchise lawyer to work with. On the IFA's website at www.franchise.org you will find a section highlighting the Supplier Forum, where you can find a list of franchise lawyers to choose from. Some of these lawyers may, however, specialize in franchisor work and may not work with franchisees. MSA also has a list of franchisee lawyers that we know and respect. If you email me at mseid@msaworldwide.com, I will be happy to send you the list of lawyers that we have prepared.

Good luck on your exploration of franchising. Take your time. This is an important decision for you and your family.

Best regards,



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Section I: Questions You Should Ask Yourself

The first person to ask questions of is yourself. Should you even be considering becoming a franchisee?

1. Do you always have to be right? Will you be able to follow the directions of the franchisor even when you think you know a better way? Are you prepared to accept coaching and advice from the franchisor on how you operate your location?
2. Do you have the need to experiment with your products and services? If you happen to like well-done hamburgers, will you be satisfied if the franchisor's recipe requires them to be medium-rare? If the franchisor's concept is restricted to customers coming to your location to make a purchase, do you have a burning desire to buy a truck and make deliveries to customer's homes — even if that is not part of the franchisor's concept?
3. Do you think of yourself as a great advertising genius? If the franchisor provides you with advertising material, are you going to want to change it all the time? Do you think that your market is different from everyone else's and are you going to expect the franchisor to modify their brand message just to suit your wishes?
4. Do you play well on a team? Other franchisees will rely upon you to offer to the consumer a consistent level of service, product quality, and brand message. You are going to have to work with others in the system in making decisions. All of these decisions will have some impact on your business and you will often be required to follow the majority's determinations, even when you personally do not agree. Will you be able to do this?
5. Franchisors are going to want you to share with them information about your business, and sometimes the information they request may seem very personal to you. They will want you to send them reports and even may require copies of your tax returns. Field staff will be making periodic visits to your locations and will be asking you questions and wanting to look at some of your records. Even when you understand that the reason they need the information is to help you operate your business better, are you prepared to provide them the information and listen to their advice?

Section I: Questions You Should Ask Yourself

If you can't honestly answer each of the previous questions with a "yes," then you should reconsider becoming a franchisee of a strong franchise system. You simply won't be happy in the long run with your loss of control. However, if you are still in the running to be a franchisee, here are some more questions to ask yourself.

1. Why do you want to be a franchisee?

2. How much income do you need to maintain your current standard of living?

3. How many hours a day are you comfortable working?

Section I: Questions You Should Ask Yourself

4. What skills can you bring to a business?

5. What types of business do you think you would like to operate? Retail, service, restaurants, etc.

6. What types of businesses do you think you would not want to own — no matter how much money you can make?

Section I: Questions You Should Ask Yourself

7. How much cash do you have to invest in a business? How much money can you borrow if you needed to?

8. Is your family supportive of your becoming a franchisee? Do you have a network of supportive friends and colleagues to rely on when you need emotional support?

9. Do you have a network of professional advisors to help you evaluate a franchise opportunity?

Making the Franchise Decision
Section II: The Franchisor

1. Name of the Franchise System:

2. Address:

3. Website address:

Tip: It's a good idea to take screen shots of all the franchisor's websites for future review and as part of your permanent file, in the event that a dispute ever arises.

4. Contact person at the franchisor and their title:

Making the Franchise Decision
Section II: The Franchisor

5. Contact information for your franchisor contact:

Office telephone number: _____

Cellular telephone number: _____

Other telephone number: _____

Email address: _____

Fax number: _____

6. Date of first contact with the franchisor and type of contact (in person, by telephone, at a trade show, in their offices, etc.):

7. Were you introduced to the franchisor by a broker? If so:

Name of broker: _____

Contact information for broker: _____

Date you first made contact with broker: _____

Was the first contact by telephone or in person? _____

Making the Franchise Decision
Section II: The Franchisor

8. Description of the franchise business:

9. Date the original business was founded and began to offer the products and services:

10. Date the company began offering franchises:

11. Number of company-owned locations:

Now: _____

End of last year: _____

End of previous year: _____

Making the Franchise Decision
Section II: The Franchisor

12. Number of franchised locations:

Now: _____

End of last year: _____

End of previous year: _____

13. Number of units closed during the last three (3) fiscal years:

20____: _____

20____: _____

20____: _____

Where were the closures and why did the locations close? _____

14. Number of units reacquired by the franchisor during the last three (3) fiscal years:

20____: _____

20____: _____

20____: _____

How many of these locations are still operated by the franchisor, how many were subsequently closed, and how many did they transfer to franchisees? Do you suspect that the franchisor is “churning bad locations”?

Making the Franchise Decision
Section II: The Franchisor

15. Names, addresses, and telephone numbers of franchisees who have left the system in the last three (3) fiscal years. This information should be in Item 20 of the franchisor's FDD. Ask for the names and telephone numbers of the folks that left the system since this year's FDD was created:

16. Number of units in the United States (this information should be in the franchisor's FDD):

17. Number of units internationally. You are going to want to know what resources the franchisor has available for you and your business. If they are thinly staffed and your field staff and contact people are opening units in Beijing or London, having international franchises is a liability for you. Make sure they have the resources to meet their obligations to you.

Making the Franchise Decision
Section II: The Franchisor

18. Projected number of franchises to be established during the next fiscal year, domestically and internationally. Where will they be established? Is the franchisor focused in their development strategy, or are they simply selling franchises wherever and to whoever is available? You want a franchise system that will rapidly develop your market with you so that your brand will have sufficient brand recognition for you to dominate your competition.

19. Number of full-time personnel on staff: _____ in the key support areas (training, operations, field support purchasing, marketing, and merchandising):

Name: _____

Title: _____

Duties: _____

Contact information: _____

Name: _____

Title: _____

Duties: _____

Contact information: _____

Making the Franchise Decision
Section II: The Franchisor

Name: _____

Title: _____

Duties: _____

Contact information: _____

Name: _____

Title: _____

Duties: _____

Contact information: _____

20. Is there a separate support staff in place for domestic and international franchisees? Yes _____ No _____

Making the Franchise Decision
Section II: The Franchisor

21. Does the franchisor seem focused more on system expansion, or more on franchisee performance? One way to tell is to ask them this simple question: *How's business?* If they do not immediately begin to talk about SSS — same store sales or KPIs — improvements in the key performance indicators at the local level, and instead talk non-stop about franchise sales, you will have your answer.

22. Is the percentage of headquarters staff weighted toward franchisee performance or franchise sales?

23. What service departments does the franchisor have?

Making the Franchise Decision
Section II: The Franchisor

24. Is the company using the services of franchise brokers? If yes, which ones? You are going to be relying on the broker for a lot of information. You need to know if they and their firm can be trusted. Talk to the broker about any lawsuits they and their brokerage firm have been involved in or settled in the past five years. Do the same about any involvement they might have had with the State or Federal franchise or securities regulator. Ask them about their other clients. Remember, each franchisor may be paying the broker a higher or lower commission on the sale. You need to be sure that the franchise they have introduced you to is not simply the one that pays them the most money for each franchise they sell.

25. What is the background of senior management, field staff, trainers, and support personnel? Much of this information is included in the FDD (Franchise Disclosure Document) in Items 2 and 3, but probing for answers in this area is a good idea.

Making the Franchise Decision
Section II: The Franchisor

26. In what threatened, pending, or current litigation is the company involved? While most of this information is in Item 3 of the FDD, ask about new matters that may have come up since the FDD was created. Make sure you get the actual court cites so that your lawyer can do their research on the case. This often is critical information for you to be aware of.

27. In addition to the litigation disclosed in the FDD, is there any additional litigation that was not deemed to be material and therefore not included in the FDD?

28. What is the bankruptcy history of the company, affiliates' management, staff, and franchisees?

Making the Franchise Decision
Section II: The Franchisor

29. Who owns the trademarks and service marks? Are the marks federally registered? Are any disputes pending or threatened against the trademarks? If the trademarks are licensed to the franchisor, what are the terms of the license? Are there any settlements, or other agreements or superior rights that may limit the use of a trademark by a franchisee?

30. Are there any discussions or plans to change the name or trademark or service mark of the franchise in the next five years? If so, who pays for the new signage, etc?

31. Does the company have any current, pending, or threatened regulatory actions from the Federal Trade Commission (FTC), state regulator, or other government agency?

Making the Franchise Decision
Section II: The Franchisor

32. Has their application to offer franchises in any of the registration states been denied this year? Has any state required the franchisor to defer or escrow fees? If so, which states and why did the state deny their application or require them to defer or escrow fees?

33. Franchise systems are bought and sold by other franchisors or groups of investors. Are there any talks about merging or selling the franchise company to anyone?

34. Are any of the senior management or key employees exiting the franchise system? If they are, who will be taking their place and what is that person's background?

Making the Franchise Decision
Section II: The Franchisor

- 35.** Broadly, what initial and ongoing services does the franchisor provide? Review the FDD with the franchisor. Understand which services they are obligated to give you and at what cost, if any, to you. If the agreement does not say you will get the service you are relying on, likely the franchisor will not be obligated to provide it to you if they choose to no longer offer that service to other franchisees. Make certain that all of the promises you are relying on in making your decision are written down in the franchise agreement. Look at the chart in Item 17 of the FDD to assist you.

- 36.** Broadly, what are your obligations going to be under the agreement? In your review of the entire FDD, make certain you understand Items 9 and 17. Make certain that you are not committing to something you can't live with. If the franchisor agrees that you do not have to perform some obligation or meet a standard that other franchisees will be required to meet, make certain that you have that exception in the franchise agreement. However, consider — do you really want to be part of a franchise system where the franchisor negotiates on system standards just so they can make a sale? If you can do it, how many other franchisees will have had special deals that might impact the overall performance of the brand? Be careful of franchisors that negotiate too easily — especially when you seem to be winning all of the major negotiating points.

Making the Franchise Decision
Section II: The Franchisor

37. Does the franchisor have a method to protect its franchisees from poorly performing franchisees? What are the methods they use? How has the franchisor used these methods in the recent past?

38. Is there an independent Franchisee Association (FA)? If yes, what is the president's name and telephone number? Is the FA included in Item 20 and are they recognized by the franchisor in the franchise agreements? What is the relationship between the franchisor and FA? Are there any disputes currently between the FA and the franchisor? Make certain you speak to representatives of the FA. It is also a good idea for your lawyer to call the lawyer representing the FA to discuss any pending matters or disputes.

Making the Franchise Decision
Section II: The Franchisor

39. Is there a Franchise Advisory Council? If yes, what is the president's name and telephone number? What is the role of the FAC? How often do they meet? Are the members elected or appointed? How do you become a member of the FAC, and can you attend FAC meetings?

40. Is the franchisor a public or privately owned company? (If it's a public company, what is its symbol on the stock exchange? Obtain a copy of its annual report and 10-K.) It likely has additional information not required to be included in the UFOC the franchisor will give you.

Making the Franchise Decision
Section II: The Franchisor

41. Is the franchisor a subsidiary of another company? Do the parents or affiliated companies own any other franchise systems? Do any of them compete with you? Are all of the other franchise systems in the franchisor's network financially healthy? Is there any benefit to you from having an affiliation with the other brands (i.e., real estate, purchasing, co-branding opportunities, etc.)?

42. What is the financial condition of the franchisor? (Review the financial statements contained in FDD Item 21 with your accountant.) Is the franchisor profitable? If their sources of revenue are not broken out (franchise fee, royalties, and so on), ask for this information. It's important for you to understand how and if the company is making money. Is their income coming from continuing royalties, or is the company only profitable if it continues to sell new franchises? What happens if they do not sell any new franchises and continue to grow? Will they survive?

Making the Franchise Decision
Section II: The Franchisor

43. Running a credit check on the franchisor is always a good idea. Ask your attorney to also run a Lexus Nexus check for litigation on any franchisors that make your short list.

44. Will the franchisor finance any of the costs associated with becoming a franchisee (see Item 10 of the FDD)? Do they have any relationships with third party lenders or leasing companies? Who are they?

45. What terms of the franchise agreement has the franchisor negotiated with other franchisees in the last three (3) fiscal years?

Making the Franchise Decision
Section II: The Franchisor

46. Have the key provisions of the franchise agreement been changed in the last three (3) fiscal years? What changes have been made and why? Make certain you discuss this also with the head of the FA and the FAC. Ask the franchisor for a list comparing or detailing the changes made to the Franchise Agreement.

Making the Franchise Decision
Section III: Franchise Costs

1. What is the total investment required to own a franchise?

Franchising Costs

Initial Franchise Fee	_____
Multi-Unit Development Fees	_____
Training Fees	_____
Total Fees	_____

Construction & Leasehold Improvements

Construction & Leasehold Improvements	_____
Less Landlord Contribution	_____
Impact Study	_____
Professional Fees: Architect, Engineer	_____
Total Construction	_____

Equipment, Furniture & Fixtures

Equipment	_____
Smallwares & Other Tools	_____
Furniture	_____
Fixtures	_____
Interior Signage	_____
Exterior Signage	_____
Security System	_____
Total Equipment and Furniture & Fixtures	_____

Making the Franchise Decision
Section III: Franchise Costs

Vehicles

Vehicle	_____
Vehicle Painting & Signage	_____
Shelving	_____
Total Vehicles	_____

Computers & Telecommunications

Computers & Point-of-Sale	_____
Connectivity	_____
Point-of-Sale & Other Software	_____
Fax Machine	_____
Printers	_____
Telephones	_____
Mobile Phones	_____
Website	_____
Total Computers & Telecommunications	_____

Training

Training Fees per Person	_____
Total Training Fees	_____
Pre-Opening Salaries Before or After Training	_____
Pre-Opening Labor (Training)	_____
Travel & Costs During Training	_____
Total Training	_____

Making the Franchise Decision
Section III: Franchise Costs

Working Capital

Working Capital required for the business until you break even and are able to live off of the proceeds of the business. This is usually more than the franchisor is required to include in Item 7 of the FDD.

Working Capital you will need to feed and clothe your family and go on vacation and pay tuition until the business can pay your bills:

Total Working Capital

Other Expenses & Prepayments

Accountant

Legal

Licenses

Opening Inventory

Opening Supplies

Insurance

Market Introduction: Opening Advertising

Market Introduction: Opening Printing

Initial Printing & Stationery

Rent Deposits

Utility Deposits

Other Deposits & Prepayments

Miscellaneous & Contingency

Total Prepayments

Making the Franchise Decision
Section III: Franchise Costs

Total Initial Investment	_____
Cash Portion of Investment	_____
Amount of Debt Required	_____
Interest Rate & Terms Available	_____

2. How soon will you be expected to make any significant new investment into your business (i.e., new equipment, upgrades or remodeling, etc)?

Making the Franchise Decision
Section III: Franchise Costs

3. What are your initial and ongoing financial obligations to the franchisor or required third parties, the base used for their calculation, method of payment, and frequency of payment?

Type of Fee	Rate or Amount	Base for Calculation	Frequency
Initial Franchise Fee			
Multi-Unit Development Fee			
Renewal or Successor Fee			
Transfer Fee			
Testing and Evaluation of New Products			
Interest on Late Payments			
Post Termination and/or Post Expiration Expenses			
Audit Costs and Penalties			
Public Offering Fees			
Relocation Fees			
Costs and Attorney Fees			
Insurance			
Indemnification			

Making the Franchise Decision
Section III: Franchise Costs

Type of Fee	Rate or Amount	Base for Calculation	Frequency
Market Introduction Costs (Grand Opening Marketing)			
Brand or Advertising Fund Contribution			
Cooperative Fund Contribution			
Local Advertising Requirement			
Initial Training			
Continuing or Advanced Training			
Software Licensing Fees			
Credit Card Processing Fees			
Convention Registration Fees			
Insurance Costs			
Franchise Advisory and/or Franchisee Association Fees			
Other			

Making the Franchise Decision
Section III: Franchise Costs

4. What are the names and contact information for the company's suppliers/3rd party vendors you will be required to do business with as a franchisee? Review this information in Item 8 of the FDD. Does the franchisor own an interest in any of the suppliers? What is their revenue from the supplies based on your required purchases?

5. Is there any type of multi-unit development agreement available? What are the terms?

6. What reports are you required to provide the franchisor, and how frequently?

Making the Franchise Decision
Section III: Franchise Costs

7. Does the franchisor require any of the reports to be audited?

8. Is there an advertising cooperative? Is there a purchasing cooperative? What role do the franchisees play in managing the advertising and/or the purchasing cooperative? What are the franchisee's obligations regarding advertising and purchasing co-ops?

9. Are there any products or services that the franchisee must purchase only from the franchisor? If yes, will the franchisor earn income on purchases? How much does the franchisor earn? How are the products distributed, and how long does it take for orders to be filled? What happens in case of a shortage of system products? How are they distributed?

Making the Franchise Decision
Section III: Franchise Costs

10. Does the franchisor provide income projections for existing operations (Item 19 of FDD)? Obtain a written copy of any Financial Performance Representations made. What is the basis for the franchisor making the Financial Performance Representations? Do they include information provided by franchisees, or is it mainly prepared from company-owned operations? Discuss with the franchisor and your advisors how relevant information prepared on company-owned operations will be for your franchise. Any information on potential sales and income claims by the franchisor **MUST** be included in writing in Item 19 of the FDD. Any other information could be an improper Financial Performance Representation. Discuss this with your lawyer if it occurs.

11. Is financial assistance available? How much? From whom?

12. Do you lease or buy the location? Consider the length of the lease in conjunction with the term of the franchise agreement.

Making the Franchise Decision
Section III: Franchise Costs

13. Can you buy or lease equipment and fixtures from someone other than those recommended by the franchisor? Can you use used equipment? Does franchisor take a security interest in those fixtures?

14. Are any existing franchises available for sale? Where are they located? Who are the franchisees and what is their contact information? If you buy an existing franchisee's business, do you get a new franchise agreement for a new term, or does the franchisee transfer the existing agreement to you for the remainder of their term? What will your transfer fees and other costs be? Why are the franchisees selling their businesses?

15. Is the layout or build-out of the location specified by the franchisor? Are architectural drawings provided? Can you change the layout?

Making the Franchise Decision
Section III: Franchise Costs

16. Does the franchisor offer any special support (training, field support, lowered fees, etc.) for women, minorities, veterans, or other categories of franchisee?

Site Development

1. Does the franchisor assist in site selection? What type of assistance does the franchisor provide? What do the site selection services provided cost you?

2. Does the franchisor assist in lease negotiations? What type of assistance does the franchisor provide? What does it cost you? Must the franchisor approve the lease prior to signing?

3. Does the franchisor require that each lease contain any specific language in the lease about the franchisor's rights during and after you become a franchisee? What language needs to be included in your lease?

Making the Franchise Decision
Section IV: Franchisor Services

4. Does the franchisor sign the lease and sublet the location to the franchisee? How much does the franchisor charge over and above the rent and other costs they are paying? Is this upcharge negotiable? Can you have a right of first refusal if they own the property your franchise will be in and they decide later on to sell the property?

5. Does the franchisor assist in site development and construction? What type of assistance does the franchisor provide? Do they have authorized or required contractors in each market? Do they sell you any type of opening package to build out and/or equip your location? Does the franchisor have to approve your build-out plans before construction starts?

Making the Franchise Decision
Section IV: Franchisor Services

6. What licenses or permits will you need? Are there any licenses or permits that are unique to the business (i.e., liquor license)?

7. How difficult is it for you to relocate your business (in or out of your current trading area) if your original site does not work out? Are there any relocation fees or requirements for relocation?

Consumer Research & Marketing

1. What type of consumer research has the company conducted?

2. What were the results?

3. What type of consumer advertising and marketing does the company recommend? Who pays for this?

Making the Franchise Decision
Section IV: Franchisor Services

4. What types of cooperative advertising programs are being used? What percent of the franchisees participate? Do the company-owned locations contribute?

5. What percentage of sales is recommended or required for you to spend on advertising and marketing? Local? Regional?

6. Are there any national or local advertising co-ops? How are they structured and what are the costs? What is the required contribution?

Making the Franchise Decision
Section IV: Franchisor Services

7. Is the franchisor using the Internet for any type of e-commerce? Do you share in any of the Internet sales made by the franchisor or franchisees made to customers in your market? How much, and how do you keep track of what is owed to you? Does the franchisor maintain a website for franchisees? Can you make changes to your page on the website? Are you allowed to develop your own website?

8. Who are the major direct and indirect competitors of the business? (In general, and in your local area.)

9. What are the major trends in this business sector? Has the business been growing or shrinking recently?

Making the Franchise Decision
Section IV: Franchisor Services

10. Is the business vulnerable to technological changes?

11. Are there any potential regulations that may impact the business?

Training & Operations Manuals

1. What are the location, duration, and additional costs of initial training?

2. Who must attend training? How many people can you send to training?
What is the cost of additional staff attending training?

3. What is the training curriculum? Can you review samples of the material used in training?

Making the Franchise Decision
Section IV: Franchisor Services

4. Who conducts the training, and what are their backgrounds and other responsibilities?

5. Who pays for transportation, room, and living expenses for the people attending training? Who pays their salaries?

6. What topics does the initial training program cover?

Making the Franchise Decision
Section IV: Franchisor Services

7. How does the franchisor help you train the members of your staff who do not go through initial training with you? How do your replacement managers get trained and at what cost? Are there any certifications that the franchisor gives out upon successful completion of training?

8. Does the franchisor provide training materials for training new staff in addition to the operations manual?

9. Does the franchisor staff provide hands-on assistance during the pre-opening, grand opening, and initial period? What type of training do they provide, what is the duration, where does the training take place, and what is the cost for them to train your personnel and management?

Making the Franchise Decision
Section IV: Franchisor Services

10. Are there any regularly scheduled, continual training programs? What types of additional training are provided? Who can attend? What is the cost of training? Are there annual conventions? Who can/must attend? What is the cost?

11. Have you been given the opportunity to review the operations manual? If not, why not? What does the operations manual cover?

12. How often is the operations manual updated?

Making the Franchise Decision
Section IV: Franchisor Services

13. What role does the franchisee advisory board or individual franchisees play in updating the operations manuals?

14. Will the franchisor allow you to work in a company-owned or franchisee-owned location for a few days, as a test drive, to see if you like it?

Continual Services

1. What other initial and continuing services or obligations does the franchisor provide?

2. Are these firm obligations, or are they on request of franchisee or at the franchisor's option?

3. Are there additional costs for continuing services?

Making the Franchise Decision
Section IV: Franchisor Services

4. What methods does the franchisor use to communicate with the franchisees?

5. Typical Franchisor Services:

BEFORE YOU OPEN			
Type	Provided Yes/No	Additional Cost	Notes
Provide site specifications			
Visit location to approve site			
Prepare or assist in site development plan			
Approve lease			
Identify or provide a list of designated or approved suppliers for equipment, fixtures, furnishings, signs, products, materials and supplies required for the operation of the franchised business			
Provide a copy of operations manual			

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Section IV: Franchisor Services

BEFORE YOU OPEN			
Type	Provided Yes/No	Additional Cost	Notes
Provide you and your management and staff with training			
Provide information on conducting a grand opening for your business			
Provide assistance in coordinating pre-opening and opening activities			

AFTER YOU OPEN			
Type	Provided Yes/No	Additional Cost	Notes
Frequently update the operations manual			
Provide advanced training for staff and management			
Provide training to replacement management and staff			
Provide advertising and promotional materials			
Local web page for franchisee			
Intranet site for communication and information (i.e., e-mail, company information, online training, chat rooms, operations manuals, vendor information and product ordering, etc.)			

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AFTER YOU OPEN			
Type	Provided Yes/No	Additional Cost	Notes
Management of the system brand or advertising fund			
Research and development of new products (services, location design, etc.)			
Assistance in local advertising and promotion			
Assistance in recruiting new staff as needed			
Field support and business consulting services			
Conventions and meetings			
Internal magazine or other publications			
Back of house services (i.e., accounting, bookkeeping)			

6. Are there regional or system-wide conventions or other meetings? How often do they take place? Is there a fee to attend? Who may/must attend?

Financial & Local Operational Issues

Note: Unless the franchisor has included a Financial Performance Representation in its FDD, it may be unable to answer all your questions on unit performance. The failure to include a Financial Performance Representation is not atypical in franchising. You can address economic questions that the franchisor cannot answer to franchisees when you call them, or you can obtain the answers from other sources.

1. How many employees and management staff are recommended to staff your business properly? Are they part-time or full-time employees? What is the cost you should expect to pay to your personnel, in each position?

Position	Full-Time (FT) or Part-Time (PT)	Hours per week	Cost per week before bonus, benefits & taxes
General Manager			
Managers			
Assistant Managers			
Front-of-House Manager			
Back-of-House Manager			
Openers/Closers			
Staff Trainers			
Associates/Staff			

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2. Is absentee ownership allowed? Or, are you required to personally supervise the day-to-day operations of your franchise business?

3. Does Item 7, Estimated Initial Investment, include an assumption that the franchisee is an unpaid manager, or is there a manager's salary and compensation included?

4. What is the breakdown of cost of sales?

5. Is the business seasonal?

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6. What are typical break-even sales? What are the square foot sales that you should expect in the each of the first five years you are in business?

7. What are typical or average unit sales in the early years? How many franchisees achieved or surpassed the average Financial Performance Representations?

8. What should employee costs average as a percentage of sales during each of the first five years?

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Section IV: Franchisor Services

9. How much debt service can you afford based upon the expected investment and sales?

10. What should you expect as your return on investment?

11. What size location do you require? What type of location should you be looking for? What types of locations do best?

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12. What is an acceptable range of real estate costs? What is the average price per square foot for a lease?

13. How long will it take before the franchise business can support you and your family?

14. What are the typical licensing or zoning requirements for this type of business? Do you need to be concerned with any of these requirements?

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Section IV: Franchisor Services

15. What are the insurance requirements and anticipated premiums?

16. What is the average time from the purchase of a franchise to the location's opening? What are the typical types of delays? How can they be avoided? What happens to you as a franchisee if there are delays? (Default/Term or Extension Fee)

17. Are there any businesses that have a similar trade name or format that might confuse the customer and unfairly compete with you? Does the franchisor have any plans in place to deal with the confusion?

Territory

1. Is there an exclusive or protected territory? Describe it. Is it well defined?

2. Are there any conditions under which you can lose or have your exclusive territory changed? What are they?

3. Are there any performance criteria tied to keeping your territorial protection?

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4. Is the franchisor able to open company-owned units in your protected territory? Describe.

5. What about servicing “national accounts”? Do you have a right of first refusal? If franchisor services others in your territory, do you get a percentage?

6. Are there any types of locations within your protected territory that are excluded (malls, stadiums, arenas, and so on)? Do you have a right of first refusal on these types of locations?

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Section IV: Franchisor Services

7. Does the franchisor or any affiliates or other licensees distribute the franchise system's product or service into your territory in any alternative distribution method, under the same or a different name?

8. Can you choose the location or the territory? If not, how are they chosen?

9. Does the franchisor conduct any market studies on the territory to ensure that it can support a franchise? Who pays for the study?

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Section IV: Franchisor Services

10. What population is required to support a franchised location? How does the franchisor know it is an adequate population to support your business?

11. If there is no protected territory, what has been the company's policy on opening new locations near existing locations? How far apart are locations generally kept?

12. Does the franchise system have an impact policy or other mechanism to project the effect on your business if the franchisor chooses to open another location nearby? Is the franchisor's policy published? How does it work? Was it developed with the assistance of the Franchisee Advisory Board? Is it a policy that the franchisor can withdraw at any time?

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13. What are the demographics required to support a franchise?

14. What are the traffic counts required to support a franchise?

15. What is the company's policy regarding e-commerce and Internet sales?
Does the company use any other alternative channels of distribution?

16. Do the franchisees share in the sales made by the franchisor through e-commerce, in their market area?

Marketing & Advertising

1. How do franchisees obtain their sales leads or customers?

2. Who are the prospects for the franchisee's products or services?

3. What is the franchisor's national/regional advertising program?

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4. What is the national/regional advertising budget? How is the money spent each year?

5. Do company-owned businesses contribute to the brand fund? Do they contribute on the same basis as the franchisees?

6. What portion of the national/regional contributions is spent in the contributing market?

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7. What percentage of the national/regional advertising contribution is used for administrative/corporate/agency expenses and fees?

8. What are the primary advertising and marketing vehicles?

Television	Magazine
Radio	Direct Mail
Outdoor Advertising	Coupons
Newspaper	Public Relations
Four Walls Marketing	Internet
Other	Other

9. Describe the franchise system's grand opening advertising program. Does the franchisor or its agency work with you on developing a grand opening advertising plan? What is the average cost of the program?

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10. What role do franchisees have in the decision on where to spend the money in the advertising fund?

11. Can the franchisor spend any of the advertising fund money on company overhead? What percent of the fund went to company overhead in the last three (3) fiscal years?

12. Is the franchise system's website charged to the advertising or brand fund?

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13. Are there local cooperatives? How are they managed? What do they cost? Are you required to contribute and at what percentage?

Field Support

1. What are the roles and responsibilities of the field staff?

2. How many locations does each franchise consultant work with at any given time?

3. What is the background of the franchise consultant who will be working with you? Can you meet that person before purchasing the franchise?

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4. What are the names and telephone numbers of franchisees the field consultants have worked with?

5. How often does the field staff visit a franchisee's location?

6. What is the additional cost of field services if you request it or if the franchisor requires it?

7. Do the field consultants also do inspections (policing)?

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8. What do they do when they come to your location? Do they provide training? Do they help you keep your costs under control?

9. Are you guaranteed to receive a certain amount of help from the field consultants? If you request help, is the franchisor obligated to provide it?

Your Market or Area

1. Has a franchise even been awarded in the area(s) you are considering?

2. If so, is it still in operation?

3. Names and telephone numbers of the existing franchisees in the area:

4. What are the names and telephone numbers of former franchisees from the area you are interested in?

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5. What are the reasons they sold, transferred, or closed?

6. Are any existing franchises available for sale in the area you are interested in? What are the names and phone numbers for the franchisees looking to sell their businesses?

7. How many inquiries for franchises have they had in your area of interest in the three (3) fiscal years?

8. Why were franchises not awarded, if there was interest?

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9. Has the franchisor performed a competitive analysis for the area of interest?

10. If not, who will perform the analysis and at what cost?

11. If yes, is it available for your review?

12. What is the present population of the market? What is the anticipated growth over the next five years?

13. Are there any new highways or construction planned that will affect your franchise?

Products & Services

1. What new products or services are under consideration for addition to the franchise?

2. When are they likely to be tested and introduced?

3. What is the estimated additional cost for adding the new products or services (i.e., marketing, equipment, etc.)?

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4. What is the demand for the system's product or service? Is it a fad, staple, or trend? Are there any technological changes that will impact the demand for your products or services?

5. Are there any restrictions on the distribution or sale of the product?

6. Is there a guarantee or warranty program? How is it administered, and what is the cost?

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7. What is the company's pricing policy?

8. How does the company determine its pricing policy? Is the pricing policy competitive? Can you set your own prices?

9. Does the franchisor set maximum pricing on any of the items or services you sell? Have they done so in the past? Will they guarantee not to do so in the future?

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10. Does the franchisor receive consideration – fees, rebates, and favorable terms for its own locations – based on the purchases made by the franchisees?

11. Are suppliers specified, or can you buy approved products or products meeting system standards from independent competitive suppliers who do not pay fees or rebates to the franchisor?

12. In practice, how often are new suppliers proposed by franchisees? How long does it typically take for the franchisor to approve or disapprove a new supplier? Who pays the cost for evaluating the new supplier – the franchisor, the supplier, or the franchisee who requested the new supplier's approval?

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13. How is the product packaged?

14. Does the product packaging meet legal guidelines?

15. Is there any celebrity associated with the franchise? What would the effect be if the celebrity withdrew his or her support? What does the celebrity do for the brand?

Franchise Ownership

1. Are all the locations owned by franchisees?

2. If some of the locations are company-owned or owned by management or related parties, did they start out that way or were they repurchased from franchisees? How many have been acquired during the last three (3) fiscal years? List the date and location of the most recent acquisition. What is the name and telephone number of the former franchisee?

3. How are new development opportunities assigned to the company, existing franchisees, or prospective franchisees?

Other Questions

1. Is the franchisor a member of the International Franchise Association?

2. Does the franchisor ascribe to the International Franchise Association's Code of Ethics?

3. Does the franchisor agree to resolve disputes through the National Franchise Mediation program?

4. Do you have the right to assign the franchise? If you do, can you transfer the existing franchise agreement, or does the franchisor require the buyer of your business to sign the then-current form of agreement? How long a term of franchise will you be able to transfer to the new franchisee?

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5. What restrictions do you have on transfer to new ownership, including heirs, in case of death? What are the fees, if any?

6. How can you terminate the franchise?

7. If your location just does not work out, how can you close the business and get out of your franchise obligations?

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Section IV: Franchisor Services

8. How can you be terminated by the franchisor? What time, if any, is allowed to cure any defaults?

9. How are disputes settled? Does the franchisor use arbitration or mediation in settling disputes? Where are disputes adjudicated?

10. What are the restrictions on other businesses or investments you and/or your family have during your ownership of the franchise? What about after you are no longer a franchisee?

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11. What are the franchisee's post-termination restrictions and obligations?

12. What is the initial term of the franchise? Can it be renewed or extended? If yes, what are the conditions and what is the cost?

13. Is there an independent Franchisee Association? If yes, what role does the Franchisee Association play in:

Facility design and maintenance standards
Operational requirements
Products and services used in the business
Products or services offered to customers
Training, inspection and support
System meetings
Changes to future franchise agreements

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14. Is the independent Franchisee Association recognized in the franchise agreements?

15. Best question to ask an existing franchisee – If you knew then what you know now, would you invest in this franchise opportunity again?

Making the Franchise Decision

Section V: Buying an Existing Franchise

There are some significant differences and potentially some advantages to buying an existing franchise instead of starting from scratch:

- **It exists:** Instead of starting out by looking for a location, building out the site, purchasing all of the necessary furniture, equipment and signage, finding vendors and buying inventory, looking for employees to hire and train, etc. etc. etc. — the business already exists.
- **There's history:** Since the business already exists, it has a reputation in the community and existing customers. You can see how much volume the business has done historically, how much income it has earned, better determine your working capital requirements, and understand the location's seasonality and operating trends.
- **You know its cost:** When buying an existing operation, the buyer purchases the business based upon a negotiated price that may be based upon its asset base, its cash flow, or some other agreed-upon terms or conditions. The information provided by the franchisor in their FDD can only provide you, at best, an estimate of your costs to develop your new business.
- **Return on investment:** With a new location, even with an experienced franchisor providing you with guidance and even with all of the research available — it's still speculative. With a new location there is no history to rely upon.
- **Easier to finance:** Banks like the fact that they can base their lending decisions not only on the reputation of the franchise system and your background, but also on the performance of an operating location.

You still have to do your homework when purchasing an existing franchise. Even if the historic information looks solid, you need to dig for more information. The following questions will help you obtain the information you need.

Making the Franchise Decision

Section V: Buying an Existing Franchise

1. Why is the franchisee leaving the business?

2. Will the staff and existing management be staying? What are their backgrounds? Are there any contracts or promises you should be aware of? What are their current salaries, and when was their last increase in pay?

3. What are the trends for the business? Are they still as strong as the past history? Is the market drying up? Has the neighborhood started changing? Are there new competitors coming into the market that could affect future performance?

Section V: Buying an Existing Franchise

4. What is the location and the center your business is in like? Is there new road construction that will impact your location? Will there be any changes in the anchor tenants in your retail center? Is the center's management changing? If it is, what is the reputation of your new landlord?

5. Why do you think you can do as well or better than the existing franchisee? After all, if the business has been on a decline for the past several months or years, there's no guarantee you'll be able to turn it around. Don't make the mistake of assuming that just because you think you'll work harder or smarter than the prior owner that you'll have better performance.

Section V: Buying an Existing Franchise

6. As a new franchisee, you might expect to receive from the franchisor a copy of the disclosure document they give to other new franchisees. This may not be the case when you purchase an existing franchise and you are assuming an existing agreement without any modification. Since the agreement you will be signing is simply a transfer of the seller's agreement, the franchisor may not be required to provide you with a pre-sale disclosure. However, if the franchise agreement the franchisor is offering you is different than the franchise agreement of the existing franchisee, you should expect to receive a copy of the franchisor's disclosure document. Read the new agreement and disclosure information carefully, because it may contain fees and terms very different from the agreement signed by the seller of the business, and these changes could have a major impact on how much the business is really worth. Is it a good idea to have business appraised by a qualified business appraiser in your area?

7. What are the economic trends for the business? Have sales been going up, or have they been going down for some time? Get copies of the financial statements for the business for the past five years. Is there anything left out or added which needs to be adjusted?

Section V: Buying an Existing Franchise

8. How long do you have on the existing lease? Is the lease assignable to you? Talk to the landlord; will they be offering you a renewal when the current lease is up? What will be the cost/terms of the new lease?

9. What is the condition of the building, the equipment, and vehicles? Are there any leases that you will have to assume? Are they assignable? What about any guarantees or warranties? Can they be assigned to you?

10. What are the terms of the new agreement?

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Section V: Buying an Existing Franchise

11. How will the new terms impact the value of the business?

12. Are there any fees due to the franchisor if you buy the business and if so, how much and who pays – you or the seller?

13. Do you get a protected territory for the business?

14. How many years will you have on the current franchise agreement? How many renewal periods?

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Section V: Buying an Existing Franchise

15. Will you be required to make any improvements or modifications to the business? If yes, how long do you have to make the changes and what are they going to cost?

16. Are there any licenses required to operate the business?

17. Will you be trained by the franchisor or the franchisee? If you are going to be trained by the franchisee, how much will the training cost? Who can you bring to training?

Making the Franchise Decision Summary

Buying an existing franchise can be a great opportunity, but remember, you still have to do your homework before you make your investment.

You now have a good starting place to evaluate each franchise system you are looking at. Remember, you should be making your decision based upon whether or not the franchise is right for you and not on the emotions of making a purchase. Take your time and, most importantly, get good franchise legal advice. You should never make an investment in a franchise without having a lawyer who works for you and who understands franchising at your side.

Good luck.



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