Guide to Buying a Franchise

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Guide to Buying a Franchise

Introduction

Many people dream of being an entrepreneur. By purchasing a franchise, you often can sell goods and services that have instant name recognition and can obtain training and ongoing support to help you succeed. But be cautious. Like any investment, purchasing a franchise is not a guarantee of success.

The Benefits and Responsibilities of Franchise Ownership

To help you evaluate whether owning a franchise is right for you, the Federal Trade Commission has prepared this booklet. It will help you understand your obligations as a franchise owner, how to shop for franchise opportunities, and how to ask the right questions before you invest.

A franchise typically enables you, the investor or "franchisee," to operate a business. By paying a franchise fee, which may cost several thousand dollars, you are given a format or system developed by the company ("franchisor"), the right to use the franchisor's name for a limited time, and assistance. For example, the franchisor may help you find a location for your outlet; provide initial training and an operating manual; and advise you on management, marketing, or personnel. Some franchisors offer ongoing support such as monthly newsletters, a toll free 800 telephone number for technical assistance, and periodic workshops or seminars.

While buying a franchise may reduce your investment risk by enabling you to associate with an established company, it can be costly. You also may be required to relinquish significant control over your business, while taking on contractual obligations with the franchisor.

Below is an outline of several components of a typical franchise system. Consider each carefully.

The Cost

In exchange for obtaining the right to use the franchisor's name and its assistance, you may pay some or all of the following fees.

- *initial franchise fee and other expenses.* Your initial franchise fee, which may be non-refundable, may cost several thousand to several hundred thousand dollars. You may also incur significant costs to rent, build, and equip an outlet and to purchase initial inventory. Other costs include operating licenses and insurance. You also may be required to pay a "grand opening" fee to the franchisor to promote your new outlet.
- *continuing royalty payments.* You may have to pay the franchisor royalties based on a percentage of your weekly or monthly gross income. You often must pay royalties even if your outlet has not earned significant income during that time. In addition, royalties usually are paid for the right to use the franchisor's name. So even if the franchisor fails to provide promised support services, you still may have to pay royalties for the duration of your franchise agreement.
- *advertising fees.* You may have to pay into an advertising fund. Some portion of the advertising fees may go for national advertising or to attract new franchise owners, but not to target your particular outlet.

Controls

To ensure uniformity, franchisors typically control how franchisees conduct business. These controls may significantly restrict your ability to exercise your own business judgment. The following are typical examples of such controls.

- *site approval.* Many franchisors pre-approve sites for outlets. This may increase the likelihood that your outlet will attract customers. The franchisor, however, may not approve the site you want.
- *design or appearance standards.* Franchisors may impose design or appearance standards to ensure customers receive the same quality of goods and services in each outlet. Some franchisors require periodic renovations or seasonal design changes. Complying with these standards may increase your costs.
- *restrictions on goods and services offered for sale.* Franchisors may restrict the goods and services offered for sale. For example, as a restaurant franchise owner, you may not be able to add to your menu popular items or delete items that are unpopular. Similarly, as an automobile transmission repair franchise owner, you might not be able to perform other types of automotive work, such as brake or electrical system repairs.
- *restrictions on method of operation.* Franchisors may require you to operate in a particular manner. The franchisor might require you to operate during certain hours, use only pre-approved signs, employee uniforms, and advertisements, or abide by certain accounting or bookkeeping procedures. These restrictions may impede you from operating your outlet as you deem best. The franchisor also may require you to purchase supplies only from an approved supplier, even if you can buy similar goods elsewhere at a lower cost.
- *restrictions of sales area.* Franchisors may limit your business to a specific territory. While these territorial restrictions may ensure that other franchisees will not compete with you for the same customers, they could impede your ability to open additional outlets or move to a more profitable location.

Terminations and Renewal

You can lose the right to your franchise if you breach the franchise contract. In addition, the franchise contract is for a limited time; there is no guarantee that you will be able to renew it.

- *franchise terminations.* A franchisor can end your franchise agreement if, for example, you fail to pay royalties or abide by performance standards and sales restrictions. If your franchise is terminated, you may lose your investment.
- *renewals.* Franchise agreements typically run for 15 to 20 years. After that time, the franchisor may decline to renew your contract. Also be aware that renewals need not provide the original terms and conditions. The franchisor may raise the royalty payments, or impose new design standards and sales restrictions. Your previous territory may be reduced, possibly resulting in more competition from company-owned outlets or other franchisees.

Before Selecting a Franchise System

Before investing in a particular franchise system, carefully consider how much money you have to invest, your abilities, and your goals. The following checklist may help you make your decision.

Your Investment

- How much money do you have to invest?

- How much money can you afford to lose?
- Will you purchase the franchise by yourself or with partners?
- Will you need financing and, if so, where can you obtain it?
- Do you have a favorable credit rating?
- Do you have savings or additional income to live on while starting your franchise?

Your Abilities

- Does the franchise require technical experience or relevant education, such as auto repair, home and office decorating, or tax preparation?
- What skills do you have? Do you have computer, bookkeeping, or other technical skills?
- What specialized knowledge or talents can you bring to a business?
- Have you ever owned or managed a business?

Your Goals

- What are your goals?
- Do you require a specific level of annual income?
- Are you interested in pursuing a particular field?
- Are you interested in retail sales or performing a service?
- How many hours are you willing to work?
- Do you want to operate the business yourself or hire a manager?
- Will franchise ownership be your primary source of income or will it supplement your current income?
- Would you be happy operating the business for the next 20 years?
- Would you like to own several outlets or only one?

Selecting a Franchise

Like any other investment, purchasing a franchise is a risk. When selecting a franchise, carefully consider a number of factors, such as the demand for the products or services, likely competition, the franchisor's background, and the level of support you will receive.

Demand

Is there a demand for the franchisor's products or services in your community? Is the demand seasonal? For example, lawn and garden care or swimming pool maintenance may be profitable only in the spring or summer. Is there likely to be a continuing demand for the products or services in the future? Is the demand likely to be temporary, such as selling a fad food item? Does the product or service generate repeat business?

Competition

What is the level of competition, nationally and in your community? How many franchised and company-owned outlets does the franchisor have in your area? How many competing companies sell the same or similar products or services? Are these competing companies well established, with wide name recognition in your community? Do they offer the same goods and services at the same or lower price?

Your Ability to Operate the Business

Sometimes, franchise systems fail. Will you be able to operate your outlet even if the franchisor goes out of business? Will you need the franchisor's ongoing training, advertising, or other assistance to succeed? Will you have access to the same or other suppliers? Could you conduct the business alone if you must lay off personnel to cut costs?

Name Recognition

A primary reason for purchasing a franchise is the right to associate with the company's name. The more widely recognized the name, the more likely it will draw customers who know its products or services. Therefore, before purchasing a franchise, consider:

- The company's name and how widely recognized it is. -- If it has a registered trademark.
- How long the franchisor has been in operation.
- If the company has a reputation for quality products or services.
- If consumers have filed complaints against the franchise with the Better Business Bureau or a local consumer protection agency.

Training and Support Services

Another reason for purchasing a franchise is to obtain support from the franchisor. What training and ongoing support does the franchisor provide? How does their training compare with the training for typical workers in the industry? Could you compete with others who have more formal training? What backgrounds do the current franchise owners have? Do they have prior technical backgrounds or special training that helps them succeed? Do you have a similar background?

Franchisor's Experience

Many franchisors operate well-established companies with years of experience both in selling goods or services and in managing a franchise system. Some franchisors started by operating their own business. There is no guarantee, however, that a successful entrepreneur can successfully manage a franchise system.

Carefully consider how long the franchisor has managed a franchise system. Do you feel comfortable with the franchisor's expertise? If franchisors have little experience in managing a chain of franchises, their promises of guidance, training, and other support may be unreliable.

Growth

A growing franchise system increases the franchisor's name recognition and may enable you to attract customers. Growth alone does not ensure successful franchisees; a company that grows too quickly may not be able to support its franchisees with all the promised support services. Make sure the franchisor has sufficient financial assets and staff to support the franchisees.

Shopping at a Franchise Exposition

Attending a franchise exposition allows you to view and compare a variety of franchise possibilities. Keep in mind that exhibitors at the exposition primarily want to sell their franchise systems. Be cautious of salespersons who are interested in selling a franchise that you are not interested in.

Before you attend, research what type of franchise best suits your investment limitations, experience, and goals. When you attend, comparison shop for the opportunity that best suits your needs and ask questions.

Know How Much You Can Invest

An exhibitor may tell you how much you can afford to invest or that you can't afford to pass up this opportunity. Before beginning to explore investment options, consider the amount you feel comfortable investing and the maximum amount you can afford.

Know What Type of Business is Right for You

An exhibitor may attempt to convince you that an opportunity is perfect for you. Only you can make that determination. Consider the industry that interests you before selecting a specific franchise system. Ask yourself the following questions:

- Have you considered working in that industry before?
- Can you see yourself engaged in that line of work for the next twenty years?

Do you have the necessary background or skills?

If the industry does not appeal to you or you are not suited to work in that industry, do not allow an exhibitor to convince you otherwise. Spend your time focusing on those industries that offer a more realistic opportunity.

Comparison Shop

Visit several franchise exhibitors engaged in the type of industry that appeals to you. Listen to the exhibitors' presentations and discussions with other interested consumers. Get answers to the following questions:

- How long has the franchisor been in business?
- How many franchised outlets currently exist? Where are they located?
- How much is the initial franchise fee and any additional start-up costs? Are there any continuing royalty payments? How much?
- What management, technical, and ongoing assistance does the franchisor offer?
- What controls does the franchisor impose?

Exhibitors may offer you prizes, free samples, or free dinners if you attend a promotional meeting later that day or over the next week to discuss the franchise in greater detail. Do not feel compelled to attend. Rather, consider these meetings as one way to acquire more information and to ask additional questions. Be prepared to walk away from any promotion if the franchise does not suit your needs.

Get Substantiation for Any Earnings Representations

Some franchisors may tell you how much you can earn if you invest in their franchise system or how current franchisees in their system are performing. Be careful. The FTC requires that franchisors who make such claims provide you with written substantiation. This is explained in more detail in the section "Investigating Franchise Offers." Make sure you ask for and obtain written substantiation for any income projections, or income or profit claims. If the franchisor does not have the required substantiation, or refuses to provide it to you, consider its claims to be suspect.

Take Notes

It may be difficult to remember each franchise exhibit. Bring a pad and pen to take notes. Get promotional literature that you can review. Take the exhibitors' business cards so you can contact them later with any additional questions.

Avoid High Pressure Sales Tactics

You may be told that the franchisor's offering is limited, that there is only one territory left, or that this is a one-time reduced franchise sales price. Do not feel pressured to make any commitment. Legitimate franchisors expect you to comparison shop and to investigate their offering. A good deal today should be available tomorrow.

Study the Franchisor's Offering

Do not sign any contract or make any payment until you have the opportunity to investigate the franchisor's offering thoroughly. As will be explained further in the next section, the FTC's Franchise Rule requires the franchisor to provide you with a disclosure document containing important information about the franchise system. Study the disclosure document. Take time to speak with current and former franchisees about their experiences. Because investing in a

franchise can entail a significant investment, you should have an attorney review the disclosure document and franchise contract and have an accountant review the company's financial disclosures.

Investigating Franchise Offerings

Before investing in any franchise system, be sure to get a copy of the franchisor's disclosure document. Sometimes this document is called a Franchise Offering Circular. Under the FTC's Franchise Rule, you must receive the document at least 10 business days before you are asked to sign any contract or pay any money to the franchisor. You should read the entire disclosure document. Make sure you understand all of the provisions. The following outline will help you to understand key provisions of typical disclosure documents. It also will help you ask questions about the disclosures. Get a clarification or answer to your concerns before you invest.

Business Background

The disclosure document identifies the executives of the franchise system and describes their prior experience. Consider not only their general business background, but their experience in managing a franchise system. Also consider how long they have been with the company. Investing with an inexperienced franchisor may be riskier than investing with an experienced one.

Litigation History

The disclosure document helps you assess the background of the franchisor and its executives by requiring the disclosure of prior litigation. The disclosure document tells you if the franchisor, or any of its executive officers, has been convicted of felonies involving, for example, fraud, any violation of franchise law or unfair or deceptive practices law, or are subject to any state or federal injunctions involving similar misconduct. It also will tell you if the franchisor, or any of its executives, has been held liable or settled a civil action involving the franchise relationship. A number of claims against the franchisor may indicate that it has not performed according to its agreements, or, at the very least, that franchisees have been dissatisfied with the franchisor's performance. Be aware that some franchisors may try to conceal an executive's litigation history by removing the individual's name from their disclosure documents.

Bankruptcy

The disclosure document tells you if the franchisor or any of its executives have recently been involved in a bankruptcy. This will help you to assess the franchisor's financial stability and general business acumen and predict if the company is financially capable of delivering promised support services.

Costs

The disclosure document tells you the costs involved to start one of the company's franchises. It will describe any initial deposit or franchise fee, which may be non-refundable, and costs for initial inventory, signs, equipment, leases, or rentals. Be aware that there may be other undisclosed costs. The following checklist will help you ask about potential costs to you as a franchisee.

- Continuing royalty payments.
- Advertising payments, both to local and national advertising funds.
- Grand opening or other initial business promotions.
- Business or operating licenses.
- Product or service supply costs.
- Real estate and leasehold improvements.
- Discretionary equipment such as a computer system or business alarm system.

- Training.
- Legal fees.
- Financial and accounting advice.
- Insurance.
- Compliance with local ordinances, such as zoning, waste removal, and fire and other safety codes.
- Health insurance.
- Employee salaries and benefits.

It may take several months or longer to get your business started. Consider in your total cost estimate operating expenses for the first year and personal living expenses for up to two years. Compare your estimates with what other franchisees have paid and with competing franchise systems. Perhaps you can get a better deal with another franchisor. An accountant can help you to evaluate this information.

Restrictions

Your franchisor may restrict how you operate your outlet. The disclosure document tells you if the franchisor limits:

- The supplier of goods from whom you may purchase.
- The goods or services you may offer for sale.
- The customers to whom you can offer goods or services.
- The territory in which you can sell goods or services.

Understand that restrictions such as these may significantly limit your ability to exercise your own business judgment in operating your outlet.

Terminations

The disclosure document tells you the conditions under which the franchisor may terminate your franchise and your obligations to the franchisor after termination. It also tells you the conditions under which you can renew, sell, or assign your franchise to other parties.

Training and Other Assistance

The disclosure document will explain the franchisor's training and assistance program. Make sure you understand the level of training offered. The following checklist will help you ask the right questions.

- How many employees are eligible for training?
- Can new employees receive training and, if so, is there any additional cost?
- How long are the training sessions?
- How much time is spent on technical training, business management training, and marketing?
- Who teaches the training courses and what are their qualifications?
- What type of ongoing training does the company offer and at what cost?
- Whom can you speak to if problems arise?
- How many support personnel are assigned to your area?
- How many franchisees will the support personnel service?
- Will someone be available to come to your franchised outlet to provide more individual assistance?

The level of training you need depends on your own business experience and knowledge of the franchisor's goods and services. Keep in mind that a primary reason for investing in the franchise, as opposed to starting your own business, is training and assistance. If you have

doubts that the training might be insufficient to handle day-to-day business operations, consider another franchise opportunity more suited to your background.

Advertising

You often must contribute a percentage of your income to an advertising fund even if you disagree with how these funds are used. The disclosure document provides information on advertising costs. The following checklist will help you assess whether the franchisor's advertising will benefit you.

- How much of the advertising fund is spent on administrative costs?
- Are there other expenses paid from the advertising fund?
- Do franchisees have any control over how the advertising dollars are spent?
- What advertising promotions has the company already engaged in?
- What advertising developments are expected in the near future?
- How much of the fund is spent on national advertising?
- How much of the fund is spent on advertising in your area?
- How much of the fund is spent on selling more franchises?
- Do all franchisees contribute equally to the advertising fund?
- Do you need the franchisor's consent to conduct your own advertising?
- Are there rebates or advertising contribution discounts if you conduct your own advertising?
- Does the franchisor receive any commissions or rebates when it places advertisements? Do franchisees benefit from such commissions or rebates, or does the franchisor profit from them?

Current and Former Franchisees

The disclosure document provides important information about current and former franchisees. Determine how many franchises are currently operating. A large number of franchisees in your area may mean increased competition. Pay attention to the number of terminated franchisees. A large number of terminated, cancelled, or non-renewed franchises may indicate problems. Be aware that some companies may try to conceal the number of failed franchisees by repurchasing failed outlets and then listing them as company-owned outlets.

If you buy an existing outlet, ask the franchisor how many owners operated that outlet and over what period of time. A number of different owners over a short period of time may indicate that the location is not a profitable one, or that the franchisor has not supported that outlet with promised services.

The disclosure document gives you the names and addresses of current franchisees and franchisees who have left the system within the last year. Speaking with current and former franchisees is probably the most reliable way to verify the franchisor's claims. Visit or phone as many of the current and former franchisees as possible. Ask them about their experiences. See for yourself the volume and type of business being done.

The following checklist will help you ask current and former franchisees such questions as:

- How long has the franchisee operated the franchise?
- Where is the franchise located?
- What was their total investment?
- Were there any hidden or unexpected costs?
- How long did it take them to cover operating costs and earn a reasonable income?
- Are they satisfied with the cost, delivery, and quality of the goods or services sold?

- What were their backgrounds prior to becoming a franchisee?
- Was the franchisor's training adequate?
- What ongoing assistance does the franchisor provide?
- Are they satisfied with the franchisor's advertising program?
- Does the franchisor fulfill its contractual obligations?
- Would the franchisee invest in another outlet?
- Would the franchisee recommend the investment to someone with your goals, income requirements, and background?

Be aware that some franchisors may give you a separate reference list of selected franchisees to contact. Be careful. Those on the list may be individuals who are paid by the franchisor to give a good opinion of the company.

Earnings Potential

You may want to know how much money you can make if you invest in a particular franchise system. Be careful. Earnings projections can be misleading. Insist upon written substantiation for any earnings projections or suggestions about your potential income or sales.

Franchisors are not required to make earnings claims, but if they do, the FTC's Franchise Rule requires franchisors to have a reasonable basis for these claims and to provide you with a document that substantiates them. This substantiation includes the bases and assumptions upon which these claims are made. Make sure you get and review the earnings claims document. Consider the following in reviewing any earnings claims.

Sample Size. A franchisor may claim that franchisees in its system earned, for example, $50,000 last year. This claim may be deceptive, however, if only a few franchisees earned that income and it does not represent the typical earnings of franchisees. Ask how many franchisees were included in the number.

Average Incomes. A franchisor may claim that the franchisees in its system earn an average income of, for example, $75,000 a year. Average figures like this tell you very little about how each individual franchisee performs. Remember, a few, very successful franchisees can inflate the average. An average figure may make the overall franchise system look more successful than it actually is.

Gross Sales. Some franchisors provide figures for the gross sales revenues of their franchisees. These figures, however, do not tell you anything about the franchisees' actual costs or profits. An outlet with a high gross sales revenue on paper actually may be losing money because of high overhead, rent, and other expenses.

Net Profits. Franchisors often do not have data on net profits of their franchisees. If you do receive net profit statements, ask whether they provide information about company-owned outlets. Company-owned outlets might have lower costs because they can buy equipment, inventory, and other items in larger quantities, or may own, rather than lease their property.

Geographic Relevance. Earnings may vary in different parts of the country. An ice cream store franchise in a southern state, such as Florida, may expect to earn more income than a similar franchise in a northern state, such as Minnesota. If you hear that a franchisee earned a particular income, ask where that franchisee is located.

Franchisee's Background. Keep in mind that franchisees have varying levels of skills and educational backgrounds. Franchisees with advanced technical or business backgrounds can succeed in instances where more typical franchisees cannot. The success of some franchisees is no guarantee that you will be equally successful.

Financial History

The disclosure document provides you with important information about the company's financial status, including audited financial statements. Be aware that investing in a financially

unstable franchisor is a significant risk; the company may go out of business or into bankruptcy after you have invested your money.

Hire a lawyer or an accountant to review the franchisor's financial statements. Do not attempt to extract this important information from the disclosure document unless you have considerable background in these matters. Your lawyer or accountant can help you understand the following.

- Does the franchisor have steady growth?
- Does the franchisor have a growth plan?
- Does the franchisor make most of its income from the sale of franchises or from continuing royalties?
- Does the franchisor devote sufficient funds to support its franchise system?

Financing a Franchise or Similar Idea of Your Own

How often have you thumbed through a business opportunity magazine, noticed a franchise opportunity advertisement, and felt you'd really like to get in on that... if only you had the money? If you're like most who are seeking greater opportunity and wealth, this probably happens with you more often than you care to admit, except perhaps in strictly private conversations.

When the average person sees one of these opportunities, or comes up with a similar idea of his own, the problems of start-up capital may seem formidable. But in reality, they may not be. In fact, just about anyone with a good credit record and an "insider's sense of business" can get the capital he or she needs, whenever it’s needed. The secret is in knowing how to put together a proper proposal, and to present it to the right person. These are the "how-to" instructions we're going to give you in this report.

The first thing you're going to need is a complete business plan. This is a complete and detailed description of exactly how you intend to operate the proposed business. Your business plan should detail precisely the product or products you plan to sell; how you're going to produce or manufacture the product; your costs (inventory costs if you're purchasing them from a supplier); who is going to sell those products for you; how they're going to be sold; the attendant costs; when you expect to recoup your initial investment; your plans for growth or expansion; and the total dollar amount you're going to need to make it all work according to your plan. Your business plan must be detailed - complete with projected income and expense figures - through at least the first three years of business.

Now, assuming you have your business plan all worked out, put together and ready for presentation with your request for capital, let's talk about your capitalization proposal.

First, keep in mind that whenever you ask somebody for money whether it's for a small personal loan or a large amount of money to finance a business, you're involved in a selling situation. You have to prepare a "sales presentation" just as if you were getting ready to sell an automobile or refrigerator. Within this sales presentation you must have all the facts and figures; you must anticipate the questions and the possible objections of the prospective lender with answers or explanations; and you must "package" it as impressively as you would yourself for an audience with the president of IBM or General Motors.

The more money you ask for, the more "in-the-know" will be the people you want to borrow from, and so the more detailed and organized your proposal must be. This shouldn't cause you too much worry however, because you can hire a CPA to help you put it together properly, once you've got the facts and have a business plan he can work from.

Look at it this way: The more money you request for your business, the more your lenders or prospective investors are going to want to know about you, your planning, and your business. They want to be impressed with the fact that you've done your homework; they want to see that you've researched everything and documented your facts and figures; they want to be assured by your presentation that investing in your business will make money for them. It's just that simple at the bottom line. Unless you can instill confidence in them with your business plan and loan or investment proposal, they're just not going to give much positive thought to your request for capitalization.

So you'll need a balance sheet describing your net worth - the worth of what you own compared to the amount of money you owe. You'll also have to prove your stability and money-management talents relative to how successful you've been in paying off past obligations. If you have had credit problems in the past, get them "cleaned up", or at least explained on your file at your local credit bureau office. Under the law, credit bureaus are required to give you all the information they have about you in their files, and it's your right to correct any errors or either explanations regarding negative reports on your credit. Do this without fail because prospective lenders or investors will definitely check your credit history.

So, now you have your balance sheet prepared; your credit history organized in a light that's favorable to you your business plan (with costs and income projected over the coming three years), you're ready to start looking for lenders or investors.

Almost all franchisors offer help in setting up with one of their franchises. Most will go out of their way to assist you in getting the financing you need. Some will lend you the entire amount, with payments coming out of the income they expect you to make from their franchise operation. Many will carry this loan themselves, while others will carry part of it and find you a lender to finance the remainder.

Franchisors have two objectives in mind when they offer franchises to the public: They are trying to expand their operation, thus increasing their profit, and they are trying to raise capital for themselves. Generally speaking, if you have a good credit history, and if they feel you have the necessary business personality to achieve success with one of their operations, they'll do everything within their power to get you in a franchise outlet. Keep this in mind the next time you see an advertisement for a promising franchise opportunity requiring a substantial amount of cash outlay. You don't necessarily have to have all the money. They want you, and they'll help you!

Many people seem to be unaware that most of today's largest corporations started on a shoestring - on borrowed money. Many people seem to feel that unless they've got it all "in hand" in savings, then they'll just have to keep plugging away until they can save up enough to take the big plunge. Nothing could be farther from the truth. Just a quick bit of research will show that 999 out of every 1,000 businesses were begun on borrowed money.

Look to your family and friends for financial help. Approach them in a business-like manner; tell them about your idea or plans, and ask them for a loan. Agree to sign a formal statement to pay them back in three, five or ten years, with interest.

When you have your proposal assembled, you might even want to think of a limited partnership or even a general partnership arrangement as a way to finance your project. In any kind of partnership, each partner shares in the profits of the company, but in a limited partnership, each person's loss

liability is limited to the amount of money he initially invested. The truth is, in this kind of a situation, you'll be doing all the work and sharing your gain with your partners, but then it's a fairly sure way to obtain needed financing.

Another common method of obtaining business financing is through second mortgage loans on a home or existing piece of property. Say you purchased a home ten years ago for $35,000, and today the assessed valuation is $85,000, with a mortgage of $25,000 still outstanding. A lender may consider your home to be security or collateral for a loan up to $60,000. In many instances, this is the easiest and surest way of getting the money needed for franchise or other business investment. And, it makes sense; you've got "net worth" available that is doing nothing but sitting there. Take this equity and invest it in a worthwhile business, and you could double or triple your net worth each year for the rest of your life.

Deciding to obtain a second mortgage on your home in order to finance a business opportunity is without doubt a major decision, but if you are sure about your investment project, and are determined to succeed, you owe it to yourself to go ahead. You could incorporate yourself, borrow money from your family through a second mortgage on your home, and protect against the loss of your home through the Federal Homestead Act. The important point here is that all business opportunities involve risk and sacrifice. It's up to you to determine the feasibility of your success with your proposed venture, then decide on the best way possible to proceed.

In every instance where you run into reluctance on the part of a lender to lend you the money you need, explore the feasibilities of "two-name" or "co-signed" loans. You can have the franchisor sign with you, or one of your suppliers, a business associate or even a friend. Oftentimes you can borrow or rent collateral such as stocks, bonds, time certificates, business equipment or real estate, and in this way give greater confidence to the lender in your abilities to repay the loan. Whenever you can show a contract from someone who has agreed to purchase a certain number of your products or services over a specified period of time, you have another important piece of paper that most lenders will accept as collateral. Still another possibility might be to get a bank or a firm that has loaned you money in the past to guarantee your loan. They simply guarantee that they'll lend you money in the future if ever the nee should arise.

Going straight to your neighborhood bank, applying for a business loan and walking out with the money is just about the most unlikely of all your possibilities. Banks want to lend money, and they must lend money in order to stay in business, but most banks are notoriously conservative and extremely reluctant to lend you money unless you have a "regular income" that guarantees repayment. If and when you approach a bank for a business loan, you'll need all your papers in order - your financial statement, your business plan, credit history and all the endorsements you can get relative to your succeeding with your planned enterprise. In addition, it would be a good idea to take along your accountant just to assure the banker that your plan is verifiable. In the end, you'll find that it all boils down to whether or not the bank officer studying your application is sold on you as a good credit risk. Thus you must impress the banker - not only with your proposal, but with your appearance and personality as well. In dealing with bankers, never show an attitude of doubt or apology. Always be positive and sure of yourself. However, don't come on so strong to them that you're either demanding or overbearing. Just look good, know your stuff, and project an attitude of determination to succeed.

Your best bet, in attempting to get a business loan from a bank, is to deal with commercial banks or banks that work with the SBA and are certified or preferred by the SBA – Small Business Administration. These are the banks that specialize in investment loans for going businesses, real estate construction, and even venture programs. Look in the yellow pages of your telephone or business directories; call and ask for an appointment with the manager; and then explore with him the

possibilities of a loan for your project. One of the "nice things" about commercial banks is that even though they may not be able to approve a loan for your business ideas, they will almost always give you a list of names of business people who might be interested in looking over your proposal for investment purposes. A lot of commercial banks stage investment lectures and seminars for the general public. If you find one that does, attend. You'll meet a lot of local business people, some of whom may be able to and interested in helping you with your business plans.

When you're looking for money to move on a business deal, it does not really matter where the money comes from, or how it all comes about. It's important that you get the money, and at terms that are suitable to you. Thus, don't overlook the possibilities of an advertisement for a lender or investor in your local papers. Place your ad as well in national publications reaching people looking for investments. Other avenues to seriously consider are foundations that offer grants, local dental and medical investment groups, legal investment groups, business associations, trust companies and other groups or organizations looking for tax shelters.

Basically, it isn't a good idea to go to a finance company or other commercial lender of this type for a business loan. The most obvious reason is the high interest creates you have to pay. These companies borrow money from larger money lenders, and then turn around and lend it to you at a higher interest rate than they pay. Herein lies the means by which they make money from granting loans to you. The more it costs them to provide the money for you, the more it's going to cost you to borrow their money. The only element in your favor when borrowing from one of these agencies is that most will generally lend you money against collateral other lenders just won't accept. Insurance companies, pension funds, and commercial paper houses are not too out of sight with their interest rates, but they generally will not even consider talking to you unless you're requesting $500,000 or more. They'll also pretty much require that your business proposal be backed by the best possible plan.

Finally, the bottom line is this: You must have a well-researched and detailed business plan; you must have all your documents and projections put together in an impressive presentation; and then, you will have to be the one who does the final selling of your proposal to the investor or lender. This means your appearance, personality and attitude, because - make no mistake about it - before anyone lends you any sizeable amount of money, they're going to want to take a close look at you personally before they hand over the money.

Actually, the different ways of financing a franchise opportunity are as many and varied as your own creativity. The sources of obtaining money are virtually limitless, and available to anyone with an idea.

One word of caution before you jump into any franchise purchase agreement: The price you pay to participate in a franchise operation is not always the total cost involved in getting the business off the ground. With some franchise operations, you may find other costs such as down payments on the purchase of property, building construction costs, remodeling or site improvements, equipment, fixtures, signs, advertising, and training. Virtually all franchise deals require that in addition to the purchase price or the license fee of the franchise, you're required to give a certain percentage of your gross business income to the franchisor, plus extra payments for promotion and administrative costs. Above all else, before you get involved in a franchise, or any business venture for that matter, make sure you've conducted a complete and thorough investigation of the opportunity presented. If it's a good deal, then go with it; but if you have any doubts or feel as though you're getting in over your head, back off an look around for something not quite so ambitious, or perhaps expensive.

There are a lot of good franchise opportunities, and some not so good. It's important that you be sure of what you're investing in, and that you can make money with it. From there, preparing the proper

business plan and the necessary financing, while not always a snap, can be done. Now's the time to do it! We wish you outstanding success with your franchise business.

One last word on financing a franchise. The SBA looks favorable on franchise opportunities for their financing programs. This is do to the fact that most franchise opportunities have a proven track record and concept. If you decide to use the SBA you will want to use one of the SBA preferred lenders or certified lenders. For more information on SBA financing opportunities click here.

Additional Sources of Information

Before you invest in a franchise system, investigate the franchisor thoroughly. In addition to reading the company's disclosure document and speaking with current and former franchisees, you should speak with the following:

Lawyer and Accountant

Investing in a franchise is costly. An accountant can help you understand the company's financial statements, develop a business plan, and assess any earnings projections and the assumptions upon which they are based. An accountant can help you pick a franchise system that is best suited to your investment resources and your goals.

Franchise contracts are usually long and complex. A contract problem that arises after you have signed the contract may be impossible or very expensive to fix. A lawyer will help you to understand your obligations under the contract, so you will not be surprised later. Choose a lawyer who is experienced in franchise matters. It is best to rely upon your own lawyer or accountact, rather than those of the franchisor.

Banks and Other Financial Institutions

These organizations may provide an unbiased view of the franchise opportunity you are considering. Your banker should be able to get a Dun and Bradstreet report or similar reports on the franchisor.

Better Business Bureau

Check with the local Better Business Bureau (BBB) in the cities where the franchisor has its headquarters. Ask if any consumers have complained about the company's products, services, or personnel.

Government Departments

Several states regulate the sale of franchises. Check with your state Division of Securities or Office of Attorney General for more information about your rights as a franchise owner in your state.

FAQ’s: Franchise and Business Opportunities

Consumers Want To Know

The five most frequently asked questions about franchise and business opportunities are:

1. Where can I get a company's pre-sale disclosure document?

2. How can I find out about complaints against a company?
3. How can I file a complaint against a company?
4. How do I know what must be included in a disclosure document or offering circular?
5. How can I find a lawyer who specializes in franchising?

1. Where can I get a company's pre-sale disclosure document?

The Franchise Rule requires franchise and business opportunity sellers to provide to prospective purchasers a disclosure document or franchise offering circular. The FTC does not require filings of these documents, so we are unable to provide copies to consumers. A total of 13 states keep franchise offering circulars on file, and 26 states require business opportunity disclosure filings. Most states provide copies of these disclosures, usually by allowing visitors to their offices by appointment to review or copy the documents.

A few private companies may make franchise disclosure documents filed in one or more states available for a fee. The FTC doesn't support or endorse these companies:

FRANDATA Corporation
1665 North Fort Meyer Dr., Suite 410
Arlington, VA 22209
(703) 740-4707
http://www.frandata.com/

FranchiseHelp, Inc.
101 Executive Boulevard, 2d Floor
Elmsford, NY 10523
(800) 401-1446
http://www.franchisehelp.com/

Franchise-Insider.com
745 Campbell Way,
Herndon, Va 20170
(877) 674-6677
http://www.franchise-insider.com/

Also, consumers searching for franchise documents may wish to check an online database maintained by the California Department of Corporations, known as Cal-EASI:
www.corp.ca.gov/caleasi/caleasi.htm

2. How can I find out about complaints against a company?

No federal or state agency or private organization can tell you whether a company is legitimate or operates in good faith. The FTC or the Better Business Bureau can report on whether consumers have complained about a company. But, operators of fly-by-night franchise and business opportunity scams know this, and may change the name and location of their company every few months to avoid a record of consumer complaints.

There is no substitute for checking the track record of a franchisor or business opportunity seller by personally talking to at least 10 prior purchasers. That's why the Franchise Rule requires companies to give consumers a list of the names, addresses and telephone numbers of at least 10 prior purchasers who are geographically closest to you. Interview these prior purchasers about their experiences. Ask questions to verify that they have purchased the franchise or business opportunity

and that they are not being paid to provide a favorable review. A scheming promoter of a bogus business opportunity may line up "singers" who provide phony testimonials. Visit their business locations in person.

If you want information about consumer complaints from the FTC, request it in writing. Address your request to:

> Freedom of Information Act Request
> Federal Trade Commission
> Washington, D.C. 20580.

Please identify your letter as a "FOIA Request" and include (1) your name, address and daytime phone number, and (2) the name and address of the company you are asking about.

In most cases, the FTC does not charge the public for searching, reviewing documents, or copying. Still, it is a good idea to state the maximum you are willing to pay, so we can contact you in the unusual event that any applicable fees for these services will be higher than your limit.

You can also request information from the Better Business Bureau and look up information about the franchise or business opportunity seller online at: www.bbb.org

3. How can I file a complaint against a company?

If you are having a problem with a franchisor or business opportunity seller, consider talking with a private attorney about bringing a lawsuit, or taking other action that may help resolve the problem.

We encourage you to send your complaint to the FTC because consumer complaints help us identify companies and practices that affect a broad segment of the public, and are useful for law enforcement purposes.

Please describe your complaint in writing. Tell us what you think was misleading or deceptive in the company's promotional materials, disclosure document or offering circular. If you want your letter kept confidential, please print the words, "Privileged and Confidential," on the top of each page. Include your name, address, and a daytime telephone number where we can reach you. It will help if you can send us copies of any written claims in promotional materials or elsewhere that you believe are false. Send copies, not originals; of any documents you think we should have.

Please address your complaint to:

> **Consumer Response Center**
> Federal Trade Commission - Rm. 130
> 600 Pennsylvania Ave., NW
> Washington, D.C. 20580.

4. How do I know what must be included in a disclosure document or offering circular?

The Franchise Rule states what must be disclosed and provides its own disclosure format. It is published in the Code of Federal Regulations, Volume 16, Part 436 (16 CFR § 436), which may be found by link to the following page: http://www.ftc.gov/bcp/edu/pubs/consumer/invest/inv07.shtm. The Commission also permits the use of an alternative disclosure format, called the Uniform Franchise

Offering Circular (UFOC), issued by the North American Securities Administrators Association, for Franchise Rule compliance. Guidelines for preparing UFOC disclosures are available from:

North American Securities Administrators Association
750 First Street, Suite 710
Washington, DC 20002
(202) 737-0900
http://www.nasaa.org/industry___regulatory_resources/uniform_forms/3697.cfm

Franchisors who use the UFOC must follow these guidelines to comply with the Franchise Rule.

You can also find the current state and federal guidelines in the Business Franchise Guide, published by Commerce Clearing House, Inc., in many law libraries.

5. How can I find a lawyer who specializes in franchising?

Check with your state or county bar association. Many of them allow their members to identify their specialties; franchise or distribution law is a recognized specialty in an increasing number of states.

You also may contact the American Bar Association for referrals. More information is at http://www.abanet.org/forums/franchising/home.html.

American Bar Association Service Center
321 North Clark Street
Chicago, IL 60610
(800) 285-2221

OTHER GOVERNMENT PUBLICATIONS ON FRANCHISING

1. **Federal Trade Commission (FTC)** The FTC publishes other information that may be of interest to you regarding franchises and business opportunities.
2. **SCORE READING ROOM**
3. **SBA franchise publications**

FRANCHISE BUYING

FRANCHISESEARCH.COM:
Internet's leading resources for Franchise and Business Opportunities.

- Franchising publication

FRANCHISEDIRECT.COM:
Search franchise opportunities

FRANCHISE.ORG:
International Franchise Association your one-stop shopping experience for franchise information.
IFA-UNIVERSITY.COM

- Free course on franchising

FRANCHISEHANDBOOK.COM:
Most comprehensive and up-to-date database of franchises available

FRANCHISEONLINE.COM: Franchise Search Engine