

## How to Avoid Chasing Windmills – and Business Scams

Unfortunately, they exist. We wish they didn't.

So how do YOU ensure you don't get caught up in an improper business venture?



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*You've always wanted to own your own business. One day, while in a "dreaming mood," you find this neat little franchise business online and decide to click for information. A representative calls you, and spends some time speaking with you on the phone. It's a business that provides a product for restaurants – and not only does it sound like a product that would be in REALLY high demand, the company sounds like "good people" with which you feel you could get along well. You worked in a restaurant years ago in college and not only do you know the product is needed and would "sell itself" – it's an industry you understand and enjoy. You're excited about the possibilities! This just might be your chance to get away from that dismal job that's slowly stealing your soul.*

*After several meetings with the franchise representative where they have seemingly covered all of the information about the company that you could ever imagine, you have a chat with your accountant and family, and you decide you're going to buy the franchise. Upon hearing this, the representative sends you their Franchise Agreement, along with a copy of their Franchise Disclosure Document (FDD) – and expects to hear back from you within the week.*

*Hm-m-m-m. You take a look at the FDD for the first time. It seems to you that this business has a VERY high failure rate among its owners, and this raises your eyebrows. You decide to do a little local homework, so you pop by a couple of restaurants in your neighborhood, and ask to speak to the owner/manager.*

*"Oh yes," the owner/manager says. "I'm familiar with that company. In fact, when I first heard about it, I was very excited as well – because there is a HUGE need for it. Problem is... IT DOESN'T WORK. In my last company, we had a contract with them – and tried it over and over again, because we WANTED it to work. But it just doesn't deliver. Once our contract was up, we, of course, didn't renew."*

*You go to the second restaurant. Same story. Oh-oh, a pattern is emerging...*

### **SO, was that a "windmill" or a "scam?" And what's the difference?**

A "windmill" is a franchise (or business opportunity) that sounds awfully good on paper, that follows all the legal requirements, yet comes up wanting – largely because *it just isn't capable of living up to its hype*. This doesn't mean it's a BAD business – but chances are, it's not the business you thought, or hoped, it was.

A "scam" is a franchise (or business opportunity) that is pure "smoke and mirrors" – providing the illusion of offering opportunity and being legal – *but isn't*. This one is tougher to identify and needs to be avoided at all costs.

Our little restaurant product franchise example was a "windmill." Here is a product for which there is pent-up demand – so much so that "selling it" is easy. Only problem is, the product doesn't live up to expectations. It will work, somewhat, in certain conditions or circumstances – but it doesn't solve the universal problem that everyone immediately thought it was designed to solve. Furthermore, while the franchise company is "following the rules" with regard to the laws about franchising sales, but they are certainly concealing their "dirty little secret" about the product performance. This was best demonstrated by the fact that they didn't provide the FDD to their candidate *until he expressed interest in purchasing*. By that point, they probably hoped that his exuberance would outweigh his due diligence, and that he wouldn't notice the "problems."

Nevertheless, this experience "spooked" the prospective buyer. Not only did he decide not to purchase this franchise, he decided against franchising altogether. This was a real shame, because there are many things about the franchising model that could have been just right for him and his family's needs.

**What could he have done differently – without him giving up on his dream to own his own business?**

### **Start With Acknowledging You Could Use Some Assistance**

Franchising is new to most people. And there are certain things about it that can be different from your corporate world (or other) experience, that you simply can't anticipate right away.

This is why there are franchise consultants. People like those at *The YOU Network*, whose sole purpose is to help you "navigate the new waters" and make informed choices – *and avoid surprises*.

Those of us that have been affiliated with franchising for a number of years know that there are certain elements that make a franchise "tick," and we look for these elements when we pre-screen franchises for our private clients group. We call them "pulse points" – and they are usually indicators of a business' health – beyond just "the numbers."

**The first "pulse points" concern the soundness of the franchise business proposition, and whether it meets the following criteria:**

1. Regardless if the business idea is unique or not, the company has found a new and unique way to "serve it up." This is commonly called the business *positioning*. An example would be a maid service that has "gone green," using only environmentally-safe cleaning products. Or *Burger King's* grilled hamburgers. Instead of being a copycat to others in the segment, they have created an entity that will help their franchise truly stand out among the crowd. Ideally, this positioning should be easily defensible, and not quickly copied.
2. The business concept is "do-able," tested and proven, (preferably in more than a single unit) and offers a reasonable payout to the franchisee investor (1-3 years, and the sooner the better.) In fact, the better franchises have 95% or better success rates among owners.
3. There is a proven demand for the product or service -- not just "fluff" or hyperbole, but numbers. And the more numbers, the better.
4. The franchise offering has a clearly defined "up-front training and development" component, it has an ongoing maintenance and support offering, and it doesn't "nickel and dime" its franchisees for every pen, piece of equipment, or even piece of paper published on their behalf. And the management of the system acknowledges that no business is static, and works hard to keep abreast of market conditions and changes that require updates and reforms to the system. In other words, the franchisor is not just in the business of selling franchises, but of *primarily managing a franchise system for growth*. He is diligently working with his franchise owner to maximize their profitability.

**The second group of "pulse points" are most apparent in the selling process ...**

5. Where good franchisors sell only to candidates that exhibit either skills or prior experience where needed by that franchise proposition -- instead of to anyone with a checkbook, or to those who simply have an affinity or desire for doing "something new." Where the wrong people are turned away.
6. Where good franchisors would no sooner make earnings claims (unless exactly as stated in their FDD) or mislead candidates in any way -- because there is nothing gained in their doing this over the long term. In other words, no good franchisor wants a failure on their books or posted in their FDD.

7. Where there is obvious transparency in communications between franchisor and real or potential franchisee...in terms of creation of territories, Advisory Boards, prior failures, ability to speak with current owners, etc. – and in the “process” they use to sell their franchise to potential buyers.

**The final group of "pulse points" are inherent in the company's management philosophies:**

8. "Going the extra mile" is the credo...not just "doing only what is expected, or what is claimed in the FDD." Most good companies recognize that their success is dependent upon that of their franchisees and are certain to make this happen. Similarly, most good franchisees recognize this is necessary when dealing with their customers.

9. There is visible "balance" between divisions in the company -- no one group "rules." Any company that is culturally driven by only one group, be it sales, or operations, or finance -- is bound to eventually lose.

10. "Flexibility lives" within the consistency that is part and parcel of franchising. And the company knows WHAT can be flexible and what CANNOT -- without risking the franchise.

As you probably know by now, *The YOU Network* pre-screens EVERY franchise against these “pulse points” – and only those that satisfy them are able to enter our private clients group. We do this in order to save you time and mistakes – but also *to save you from windmills and scams*. We direct you ONLY to the better franchise companies.

That being said, we also know that no one would be comfortable wholly accepting our word -- without doing some homework on their own as well. Therefore we provide every interested party with a franchise evaluation process that is designed to introduce you to many, many aspects of the franchise (as well as re-validating these pulse points) – so that you get the information you need and want to make the right decision. We provide educational resources for you to read, and we even prepare you for every meeting with franchise representatives, so that you learn what you should be learning.

When you have completed a comprehensive evaluation process, you want to feel totally confident that you:

- 1) understand how the business works
- 2) understand what role and obligations YOU, as an owner, specifically have in making your franchise successful
- 3) understand what the franchisor’s obligations are in helping you – both in the day-to-day and in the long term
- 4) understand in general what kind of performance you might expect from your franchise (from both earnings claims, if made in the FDD, and from conversations with existing owners.)

There are over 3500 franchise companies in the U.S. – most of whom are solid, well-managed companies. Franchising has its handful of less reputable companies – like any other industry out there. So don’t let the bad apples get in your way. Let *The YOU Network* steer you into the right direction.