



Finding Your “Silver Bullet”: YOUR Franchise Evaluation Process

Buying your own franchise can be very rewarding. Yet, we’ve learned over the years that it can often involve a somewhat uncomfortable mix of emotions (*you want to feel excited about your decision and be comfortable that your choice fits with your values*) and rational thinking (*you HAVE to be able to make money at whatever you do and properly support your loved ones.*) Those of us in the industry even refer, tongue-in-cheek, to the process of evaluating franchises as “*finding your silver bullet.*”

But in all seriousness, that’s *exactly* what you have to do. You *must* address both your rational and emotional needs – so that you can purchase what’s right for you and hit your performance target with uncanny accuracy. It’s pinpointing “the heart of the mind” with “the mind of the heart.” Our unique 360 degree evaluation process is designed to help you do *exactly* that.





BEFORE YOU START, we want to alert you to a few things. Just like buying a home, you will eventually need to *financially* qualify for a franchise, so you need to avoid doing the following things – right now – to ensure you’re in the best possible shape to purchase your franchise:

1. Avoid making major purchases – such as automobiles, jewelry, home improvements, new memberships – or doing *anything* that could impact your credit rating – such as applying for new credit cards, or delaying or missing payments to creditors, or even changing banks. Discuss with your consultant whether you even want to have conversations with bankers or financial experts now – so that your approval process would not be delayed if and when you decide to purchase, particularly if you are on a specific timeline to “open.”
2. Avoid franchise “clicking” – soliciting information from multiple franchise companies, or even “franchise matching” companies, on the internet. Each of these seemingly harmless requests will not only result in your being deluged with phone calls, emails, and requests for your attention, but you will lose focus in the process by doing so. If you have questions or doubts about your consultant – bring them out right now and get your questions answered. We need your confidence, and we need you to be a willing participant in order to do the very best job for you.
3. Avoid negative comments from well-meaning outsiders with whom you have shared that you’re beginning this process. They are not going through the process, YOU are. While their comments are often well-intended, they are more frequently misdirected as they lack the information you have. In other words, don’t let them “harpoon” your efforts before you even get started. Surround yourself with a support network, not ill-informed nay-sayers. It also makes sense to bring a spouse into the process in the very beginning, so they hear and experience information at the same time as you – and you’re not faced with the daunting task of “bringing them up to speed” at a later date.
4. Avoid having irrational anxiety. You haven’t signed anything, spent anything, or made any choices yet. You have simply agreed to participate in a process – a FREE process, by the way, that is going to help you learn so that you can make an informed choice, when the time is right for you. You’re just “shopping” and learning right now. So take a deep breath.

OK. Let’s get started.



A 360 Degree Evaluation Process

There are some people in our industry that refer to the process of evaluating franchises as a “mutual due diligence” process. What they mean by this is that your franchise company is evaluating you – and your qualifications for operating one of their franchises – while you are simultaneously evaluating whether you want to purchase from them.

This nomenclature is “okay” – but it doesn’t tell the whole story. Yes, the process is mutual as you are both evaluating each other. Yet, from our experience, the term “due diligence” implies that your franchise evaluation objective is to “find something wrong.” It’s a term most commonly used in the financial sector – to suggest in-depth analysis necessary prior to a business transaction in order to uncover “hidden problems.” As *The YOU Network* has already pre-screened franchises to find only those with strong performance records that are most likely to survive our current economic issues, and the FDD regulates financial performance claims which a franchise can or cannot make, this process needs to be more about finding out what YOU and your particular set of skills and needs bring to the table – and how that might work for YOU in the “better franchise” world. There’s nothing negative about that – in fact, for many individuals it is a process of discovery that helps them “break out of the box” that we can all find ourselves in at various times of our lives.

And so it is. The first thing your consultant will ask you to do is to spend 30-40 minutes, filling out the Confidential Personal Profile form, as it begins to give us background information about you that will help us to the very best job for you.

Your consultant will then arrange for a two-hour consultation session with you (again, over the phone.) They will review your answers on the CPP – to better understand them. They will help you visualize a “day in the life” of certain franchise possibilities. They will probe for deeper answers from you – because, remember, the better they know you, the better they can discover your “silver bullet.” And, by the way, there is rarely just “one thing” that will define the kind of franchise you need – we will instead probe for a host of things that will be relevant to this process.

When this consultation session is over, your consultant will absorb all of your input, and spend a week or so talking about you (you will be unidentified at this point) with various franchise companies in *The YOU Network's* private client group – the purpose of which is to make their final “choices” of companies they believe are best suited for you.





It's important to realize that while your consultant is learning about YOU, and your possible fit with certain franchise systems, they will not discuss income or profits from any particular franchise system – unless the franchise company has published them in their disclosure documents, and even then, they will tell you EXACTLY what is stated in the disclosure document. There are two reasons for this: one, your consultant is not here to “sell” you. Only a franchise company can do that, by law. So your assigned franchise consultant does NOT cross this line. The second reason is that you REALLY need to understand, at this point in the process, that most franchise companies have invested very large amounts of money into their systems and are seeking to learn far more about you than whether or not you can afford to purchase their system. So, be patient and realize there will be time to ask all the questions you will want to ask.

Learning Which Franchises Fit Your Unique Needs and Profile

Once your consultant has absorbed your profile information, and done their homework in talking with potential franchise companies – they will schedule a phone meeting with you to discuss 3-6 companies they feel are “a good fit” for you.

In that meeting, they will review the franchise company in general terms – because, again, their purpose isn't to “sell you” on the franchise, but to help you understand why each particular franchise might make sense for you. You will be directed to each company's website where you can spend more time becoming familiar with them, and can then decide which 3 companies you want to evaluate first. (We say “first” because you can always go back and evaluate more if you like.) Once you discuss these choices with your consultant, he or she will contact these companies on your behalf, and introduce you to them – explaining, of course, why they believe you would make a strong candidate for that particular franchise system. This introduction might seem a small thing, but if you have ever tried to contact a franchise company directly, you would learn it's easy to be placed at “the bottom of the pile” – or ignored altogether. Most of these companies are only willing to speak to you because of your relationship with *The YOU Network*.



Meeting Your Franchise Company Representatives

Once you have been introduced to a franchise company, one of their sales representatives will get in touch with you, usually by both phone and email, within 24-48 hours. If they reach you by phone, they will probably just have a casual chat with you – and then schedule a follow-up meeting for more in-depth discussion.

Not every company you will work with will follow this evaluation process *in the exact same way*. Most of them will – but they will probably spell out to you how they intend to spend the next 4-6 weeks with you, usually in once-a-week meetings, where each meeting helps you learn increasingly more about their particular franchise system – and they get to know you as well.

Even though *The YOU Network* shares your background information with each company, many of them have policies that require your filling out additional forms. It's important you cooperate with any of their requests of you, because one of the things they are also trying to gauge in speaking with you is “your ability to follow directions.” Many a franchise system has had its issues with owners that failed to follow the system – and failed as owners as a result. So, right from the beginning, you need to remember they will be evaluating you as well.

Most franchise companies will immediately overnight to you their marketing materials, and have you fill out their initial paperwork. If your initial discussion with them proves to be positive – and both parties want to “move to the next step” they will likely then send you their Franchise Disclosure Document, or FDD. Again, this is the “very important” legal document that spells out what this franchise will provide for each owner in their system – and what they would expect in return.

Your next meeting with each franchise company, should you get to this step with all of them, would have you reviewing the FDD, or at minimum, you would ask them questions you might have about the document. And, by the way, you're not doing this in a vacuum – your franchise consultant is also meeting with you each week and preparing you for these meetings – by arming you with questions to ask the franchisors so you have an optimum learning experience.



The FDD

The Franchise Disclosure Document is the document that a franchise company is required by law to give to a prospective franchise buyer before the franchise can be purchased, and includes a wealth of information about the franchise, including:

1. The history of the franchise and its officers and directors.
2. A complete description of the business to be franchised.
3. All costs and fees that you will be subject to under the agreement.
4. All obligations of either party to the other during the term of the agreement and thereafter.
5. Any relevant litigation history of the company or its officers.
6. Any business failures, ownership transfers, franchise agreement terminations or other potentially adverse information relating to the success rate of the existing units in the system.
7. Audited financial statements for the previous three years for the franchise company.
8. A list of the existing franchisees.
9. A complete copy of the actual franchise agreement document.

As you read the FDD, we urge you to read it as if you were already a franchise owner within that system. The reason we say this is simple: first, the *FDD* is to franchising what a *Homeowner's Association Rules* are to a neighborhood community. While at first glance, some of the requirements set forth seem a bit harsh – you have to understand that they are there **to protect your investment**. As a homeowner, would you want someone parking their vehicles on the front lawn, so they can “work on them?” Of course not. Similarly, in franchising, if an owner of a franchise restaurant is keeping a “dirty kitchen” wouldn't you want them to have to clean it up ASAP or face severe penalty – before its reputation hurts your restaurant? (Think about *Taco Bell's* “rat fiasco” in NYC – not only did it cause *Taco Bell's* stock to drop, but they eventually closed that location altogether, at the urging of their other owners.) Secondly, it helps you begin to understand what “ownership” in that particular franchise might be like. If you can't visualize what it might be like being an owner, instead of just an employee, you will have more difficulty eventually making a final decision about a franchise.

When you go through the FDD, we suggest you get a pad of *Post-It* notes and mark any page on which you might have questions. You'll find that some of your questions get answered as you read through the document, but even if they aren't, this approach helps you organize your questions better for later review with your franchisor – or your consultant. And MOST IMPORTANTLY, read the document more than once. This is an extremely important step in the purchase of a franchise. Know this document – inside and out. We can't tell you how many times



someone has purchased a franchise – and later learned something that confused or upset them – when it was covered in detail in the FDD all along. Usually it’s something as simple as “you can’t paint the building walls red” or “buy supplies from Joe’s Garage.” But it can also be that you didn’t understand what process you needed to go through when it came time to sell your franchise – or something further down your immediate timeline. These are the details that are easy to miss – and it’s important you cover all of the bases. The FDD copy you receive from your franchise representative is yours to do with as you desire. Mark it up – make notes in the margin. Spill food on it. Whatever works for you – as long as you become familiar with it.

NOTE: Some of the franchise companies will include in their FDD what is called an “earnings claim.” Speak to your consultant about earnings claims – and what they mean to you. EVEN if a company offers an earnings claim, you should not make final judgments about potential performance of a system until you have completed your validation calls with other owners of the system (details to follow.)

Covering All Of The Bases

Not only does this process cover 360 degrees of YOU – it allows you the same 360-degree scope in your evaluation of your franchise options. Your consultant will have explained to you, in their initial conversation with you, how you will gain information at multiple levels: from your consultant, from your franchise company(s) representative (and other headquarters staff), and from other franchise owners in a particular franchise system. Once your consultant introduces you to your franchise representative (s), they will also arrange to have ongoing (weekly or more frequent) meetings with you. Each of these are intended to help you prepare for your next meetings with franchisors, as well as to help you assimilate or synthesize the information you receive in each meeting with franchise companies. There will be A LOT of information – and, at times, you will feel as if you are on “information overload.” That’s okay – don’t let it overwhelm you. Your consultant is trained to help you digest this information in “bites” – so that you eventually feel comfortable about all things you need to know.



You need to know that once you have been introduced to your franchisor representative (s), the franchisor becomes the party to which you want to direct your very specific questions about the franchise – NOT your consultant. At this point in time in the process, your consultant’s role is part “information synthesizer” – helping you understand all you hear and read -- and part “organizer” – helping you keep focused and thorough in covering all of the bases of the process. Your consultant will “arm” you with questions to ask – questions about initial and ongoing training support provided; about marketing and “how it’s done;” about financial performance; about relationships between owners and the franchisor; and so on.

There will also be times when even your franchisor representative can’t answer your question – and not because they don’t know the answer, but because they cannot LEGALLY answer your question. This generally occurs in the area of financial performance questions. You need to understand that a franchisor representative cannot make any reference to a system’s financial performance that is not mentioned clearly in the FDD. And even that has to be articulated EXACTLY as it is stated in the FDD. In other words, if a representative says, “I can’t tell you that” they aren’t hiding anything from you – they are saying that they cannot legally tell you anything outside of the earnings claim stated in the FDD.

This is why “validation calls” are a step in our evaluation process. You, of course, want to be able to estimate how much money you might be able to make from a particular franchise. Since federal law limits how financial claims can be made (and frankly, this is most fair – as no two systems operated by different individuals perform identically), this process arranges for you to have a series of phone calls with actual owners, so that you can get an idea of the “range” of performance being realized in the current marketplace – and then make your judgments from there.

There are other reasons, however, that you want to speak with franchise owners. You want to get a sense if they are happy with their decision to purchase this franchise. You want to ask those “in the trenches” what they believed is required for success, so you can have confidence in your own capabilities. You want to “feel out” what the Year One or Year Two challenges might have been to these people – as these “ramp up” challenges are what’s making YOU most unsettled. The point is -- no two sets of questions with owners are the same. Your consultant will provide you with some basic objectives and questions – and then also work with you to tailor questions to YOUR



specific needs in the process. Some candidates feel a need to spend a day “in the field” with an owner, so they can experience what is required first hand. Others want to understand how marketing works during ramp-up. And so on. All of these things are possible and need be discussed with your consultant – who would then make arrangements on your behalf with your franchisor representatives.

You will get the names and phone numbers of all owners from a list that is included in the FDD, plus your representative will likely provide you the names of some particular owners that have common interests with you -- or that may help you address particular questions you have raised.

When you are speaking with owners, you will find that not all responses are favorable. In fact, you will probably get a range of responses – and you need to sort out your feelings about “what you have heard.” The key is to ask owners “WHY?” they responded the way they did. Are they experiencing problems because they “strayed” from directions? How closely did they follow “the system?” Did they have snowstorms the first three weeks that prevented people from doing business in a normal fashion? Did they have hiring issues?” ALL issues have reasons – and you have to determine which might affect you -- and whether this is problematic or not to you. Keep in mind when you are doing validation calls that **many people are also performing well** – or the franchise wouldn’t have been selected for *The YOU Network’s* client portfolio to begin with. So make sure you talk to a reasonable number of strong performers and “learn what is working for them.” We have witnessed altogether too many potential buyers who take this stage of the process so seriously that they fail to listen for “the positives.” Granted, if all is said and done, and the “perceived negatives outweigh the positives” for a particular franchise, then it’s probably not the right franchise for you. But keep an open mind going in! Learn and have fun in the process!

When you speak with owners, you have an option to speak with “past owners’ – people who are no longer operating a franchise but did in the past. Do not assume that all of these people “failed” in operating their franchise. Many things occur in people’s lives – their spouses are transferred to another city, making it impossible to continue with their franchise. Sometimes they have health problems that force them to quit. Sometimes they complete their 10-year agreement and choose not to renew. And some fail. Yes, even the biggest and most successful franchises like McDonald’s® has an occasional failure among its owners. No franchise is able to



guarantee success to its owners – because there is a human element involved – the owner! If the owner fails to live up to their end of the bargain, they may not be successful. It’s as simple as that.

The “rule of thumb” in doing validation calls is to take copious notes and save your judgment until you discuss your notes with your consultant and/or your franchise representative. They can help you separate the circumstantial from the real. If then you still feel something isn’t right for you, then it probably isn’t. Trust your judgment. That’s what this process is all about – helping YOU make decisions that are right for YOU.

The Face-to-Face Meeting

Okay. You’ve learned all there is to learn about a particular franchise or two – and you’re feeling pretty strongly that one of them is “right for you.” And, they have expressed continued interest in you as well. At this point, they will likely invite you to something the industry calls “Discovery Day.” This is where a franchise will invite you to fly to their company headquarters and meet their executives, and their support staff. No one, including you, would want to make this kind of decision without having had an opportunity for a “face-to-face” with the key people with whom you would have a working relationship. You want to feel comfortable with your relationships with as many people as possible in the franchise.

If we were naming this meeting, we would call it “Validation Day” – because you should have pretty much “discovered” all there is to know about the franchise *prior to attending* – and should use this meeting to “validate” your feelings one way or the other about the franchise. And your franchise representatives would be doing the same thing – making final decisions with regard to you. Usually, within 24-48 hours of attending a Discovery Day, your franchise representative would let you know if you are to be awarded an opportunity to purchase their franchise.

If there is one thing you will “discover” at this meeting, it is the franchise company’s documents – their systems, operations and marketing programs. They are not allowed to provide copies of these to you until you have purchased a system with them, but will likely show you outlines, or let you glance at these documents when you are at Discovery Day. This will give you an idea of what you would receive – and the strength of their support to you.



Decision Time

Some candidates go away for the weekend with their spouses to ponder their decisions. Some sit the family down for a family meeting and make their decision together. Others go through their information and notes, and call their consultant with their decision. There is no “right or wrong” way to make your decision – it’s all about what works for YOU -- but just make sure you have been thorough.

A few thoughts here...do you believe all of your questions were answered thoroughly? Do you feel you have realistically “run your numbers” and projected your earnings and ROI? Have you discussed your decision with a franchise attorney or your personal accountant – so as to best anticipate the legal and tax implications of owning your own business – versus being an employee? Is your family behind you – and are they going to give you the support you need? Your consultant can go through a “checklist” with you to help you gain the confidence you need regarding your decision.

If you have decided to purchase “the franchise” and have informed your representative of your decision, then they will begin the process of preparing you for your “closing.” They will check your credit, your financial capability – and if all “looks good” they will give you a preliminary “go-ahead” to begin putting your financing in place. Some franchises provide financing for you. Most do not, however, they can provide recommendations to you for financing resources – and your consultant can provide this to you as well.

Once your financing is in place, and you have signed your franchise agreement(s) – you are an owner! Congratulations! We wish you nothing but the best!

Now you’re in your first month of ownership – and you have a question. It’s not a question about the franchise itself – you have a customer service representative (or plenty of other people) that can answer that for you within your franchise. Perhaps it’s of a more personal nature – or you have an idea for the franchise entity itself – or you’re just feeling like you could use a sounding board. Call your consultant. Use them as that sounding board. They can’t tell you how to run your business but they are “there for you” when you need a special ear.

By the way, after all of this, have you figured out what your “silver bullet” might be? Think about it...