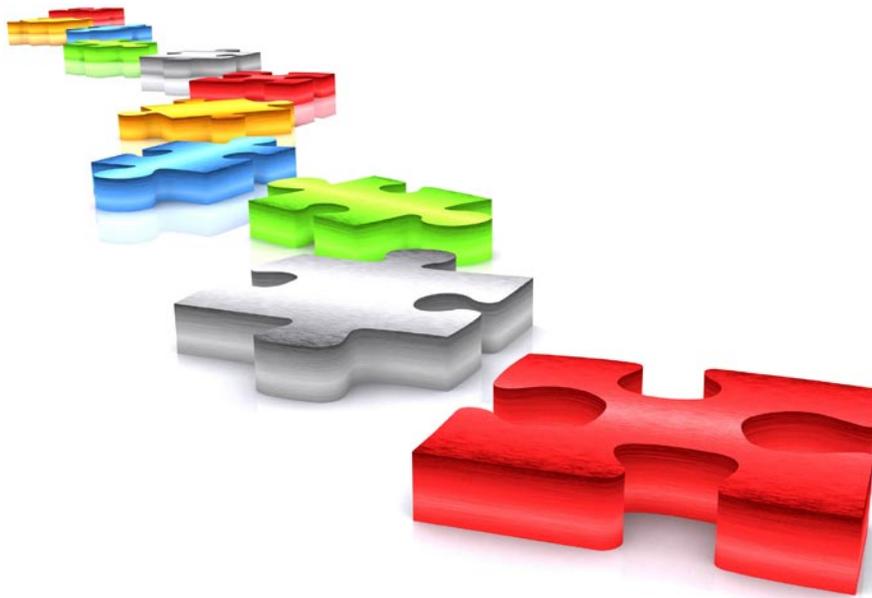


Franchising Fundamentals: Getting Started

Overheard from prospective buyer: *“All this information about franchising! It’s like a giant jigsaw puzzle! What’s relevant, and what isn’t? And where do I even start?”*



Franchising Fundamentals: Getting Started

One of the great things about the internet is that it allows us so much information at our fingertips. One of the not-so-great things about the internet is that you can be overwhelmed with “too much information” – and you have NO IDEA which information is valid, and which *isn't*.

At *The YOU Network*, one of our primary roles is that of “information synthesizer”-- to condense and consolidate a wealth of valid information into “small, chewable bites” for you so that you can learn about franchising without taking a month of Sundays off to do so.

So, let's get started. Consider this a “primer” on the field of franchising. There will be more information to “digest” later.

What exactly IS Franchising? Is it the same as a “business opportunity?”

Franchising is a popular form of business – both in the U.S. and globally – and it basically involves this:

If a business owner has what they believe to be a successful concept, and wants to expand, they can attempt to raise capital (not always easy without substantial collateral); or they can expand by “franchising” their idea, trademark, business plan and proven operating “system” to investors, who, in turn, operate the franchised business within parameters defined at the time of sale through the Franchise Disclosure Document (and Franchise Agreement.) The Franchising Agreement is generally for a period of 10 years, and can be renewed upon completion of the time period, if both parties agree to do so.

Franchising is NOT the same as a “business opportunity.” Franchising is governed by federal law (and by certain states) and provides its owners with significant legal protection. Business opportunities, on the other hand, are governed by a much less protective series of laws at both the federal and state levels -- therefore offer their purchasers little or no protection. There are many perfectly “legal” business opportunities available – but “biz opp” purchasers need to be aware of the legal structure of their business and its severe limitations.

In addition, business opportunities tend to be much lower priced than franchises (under \$50,000), and far less “comprehensive” in their total service offering to a buyer. Whereas most franchises offer a trademark, a proven operating system, training, and ongoing support – many “biz opps” simply provide a self-training book and a product or service – and you're “on your own.” Some may provide classroom training, and a few more amenities with the “sale” – but overall, you are not getting a proven “system” or any form of ongoing support – you're just purchasing a concept you may market.

Why would you want to buy a franchise?

Anyone who has operated their own (non-franchised) business will tell you “you have to wear MANY hats.” One moment you're the company accountant, the next moment, the customer service representative, and the next – the marketing director, and so on. It can be overwhelming. AND, because you have so many learning curves to conquer, your chance of failure is quite high. In fact, a recent *U.S. Small Business Administration* survey above found that 6 out of 10 new (non-franchise) businesses failed after 6 years of operation. This compares to a reported 3% failure rate among franchises, according to a study conducted by the *U.S. Chamber of Commerce*.

The point isn't the “failure rate” numbers – it's that franchising takes many of these “hats” away from your plate so that you can concentrate on making your business, and your unique skills, work for YOU – thus increasing your likelihood for success. In addition, the franchise company has already experienced the learning curves for each required function – and has worked out a solution for each one. So, when you purchase their proven system for operating that business, you also get:

- Comprehensive training that gives you all you need to get started – including operations manuals and *in most instances*, back-room instruction, software, and support
- Professional support staff providing day-to-day (or 24/7) advice and help
- Easy-to-implement marketing and advertising programs THAT WORK
- A network of other owners who have “been there, done that” who can help you accelerate your learning curve
- Personal control and flexibility of time management
- Federal legislation (and some state legislation) that monitors and regulates significant aspects of franchising – so that your investment is better protected versus other similar business purchase alternatives, like “business opportunities”

The bottom line of the franchising model is that it offers you a business with less risk – as *so much* has already been done for you. Think about the popular *Verizon* TV commercial – where “The Network” is behind you. In effect, this kind of “backup support” is what a franchise provides you, i.e., you are never “alone” or having to make decisions in a vacuum.

What Is An FDD?

The Franchise Disclosure Document is the document that a franchise company is required by federal 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.

The FDD’s primary purpose is to provide any prospective franchise buyer *with uniform information* with which they can make a decision about the purchase of one franchise over another. It is *the most important and valuable document* in your “learning process” about a franchise.

The YOU Network consultant assigned to you will spend a great deal of time with you, helping you understand the purpose, the content and the value of the FDD. This, again, is one of the reasons why you benefit from having a franchise consultant. They will ensure you fully understand this document, before you make any decision about a franchise.

How does a person BUY a franchise?

First of all, you need to understand that unlike buying a refrigerator – you are not necessarily “*the consumer in control*” when you are purchasing a franchise. The better franchise companies have high qualifying standards (your skills, your finances, etc., must meet their defined criteria,) and they expect you to demonstrate that you meet those standards before they will even consider you for their franchise opportunity. As a result, buying a franchise is a lot more like job interviewing. And, just like a job search, the companies

don't necessarily solicit "cold calling" – as they find they have to spend WAY too much time educating people about franchising and their franchise offering – only to learn you weren't right for their business anyway. In certain instances, if you even try to call the company directly, you will find you can only leave a phone message – and you may not ever hear back from the company.

This is why most of the better companies prefer to work with franchise consultants like *The YOU Network*. They KNOW that our consultants will have already spent a great deal of time educating you about franchising, and learning about you and your needs in a franchise – before they ever meet you. They KNOW that you are "pre-qualified" and far more likely to be someone that is right for their particular opportunity.

Using a consultant makes far more sense for you as well – it saves you from combing through a plethora of information AND it helps you avoid making expensive mistakes. We have already pre-screened the franchise companies in our private clients group against strict performance standards – and know why certain franchises are better than others for you. And our highly experienced consultants will make sure you "cover all of the bases" as you learn about opportunities as well – including making sure you are always prepared to represent yourself to franchise companies in the very best possible light.

And the best news – it *costs you exactly the same*, whether you use a consulting service like *The YOU Network*, or go directly to a franchise company. So you might as well take advantage of the valuable service provided.

How do franchise consultants provide their services free-of-charge?

Franchise consulting services are complimentary to YOU. However, consultants most certainly are paid. At *The YOU Network*, we are paid by our group of franchisor companies because they value the education and pre-qualifying service we provide them. And because the law dictates that franchise companies cannot surcharge you when you use a consultant – or offer you a discount when you don't – the price of the franchise to you is exactly the same whether you choose to use *The YOU Network*, or not.

You should also know that the better franchise companies prefer to work with consultants like those with *The YOU Network*. They know from experience they will be speaking with a candidate that has been pre-educated, that is most likely a good fit for their business – and, as a result, they will be anxious to spend time with you. You might say our introductions "move you to the top of their list."

In other words, *not all franchise consultants are the same*. If you are speaking with any franchise consultant outside of *The YOU Network*, we strongly recommend you check credentials. Most importantly, find out:

- the length of time your consultant has been in the franchise industry
- the number of companies they represent (anything less than 75 companies may limit your choices) and whether or not these companies have been pre-screened for performance (*The YOU Network* offers only companies with very high owner success rates)
- whether or not they offer integrity (flat fee) pricing, where ALL of their franchisor clients pay the exact same fee, and as a result, there is absolutely NO CHANCE you will be led or "matched" to a company simply because they provide your consultant a greater referral fee
- whether their "matching" software or "free test" has been market-validated or built specifically for franchising

- what services they offer beyond just “franchise matching” – and, in particular, the support they will provide you once they introduce you to your “franchise matches”

How might anyone know if they have “what it takes” for franchising?

Obviously, the real proof is “in the pudding.” NO ONE can absolutely predict or promise a person’s success in franchising. EACH INDIVIDUAL OWNER has to make it work, having been given the tools to get started. That being said, there is *a great deal* an owner can do to better ensure that he or she purchases a franchise that is more closely aligned with their unique skills and needs – and that they will receive the support they need and want. And, of course, this is the consulting service *The YOU Network* provides people who are seeking a franchise.

If we do not believe we have a franchise that meets your needs, we would let you know quickly so as to not waste your time – or our franchise companies’ time.

How much does a franchise cost? How do you know what you can afford to buy?

Franchise opportunities range in price from as low as \$50,000 – to into the millions of dollars. In order to assess “affordability” you need to look at the amount of liquidity, or cash, you have available – *so that you can cover your personal needs until your business begins to show a profit* – and the total cost of the franchise.

As a guideline, the minimum requirement to qualify for most lower- priced franchise opportunities tends to be \$40,000 liquid and \$200,000 net worth – plus “cash to live on.” As most franchises are financed beyond a cash down-payment, you will likely need to understand how financing works. Your *TYN* consultant can help you understand what you can most likely afford, and what your financial options might be.

How does a potential franchise owner obtain financing?

Even in today’s market, financing IS obtainable. However, if your credit is poor, you probably should wait until you improve upon your rating before you consider purchasing a franchise -- or credit might be hard to find.

Each financing option comes with its own set of requirements – so in order to understand which might be most appropriate for you, we recommend you discuss your financing options with your consultant – who will then introduce you to experts who can guide you as needed.