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Knowledge Dispels Fear

I recently read Fred Steingold's article "Want to Buy a Franchise? Ten Reasons Not to Do It." I realized that Fred was addressing a key reason why many people never become entrepreneurs, business owners and franchisees – ignorance. Some or partial information is dangerous. So even though the article has some merit, it fails to ask the reader to dig deeper, ask questions and learn more. I have a cure for this ailment – knowledge dispels fear!

So, for me Fred's ~~the~~ article was annoying and really doesn't reflect the great franchise brands I've worked with over the last 14 years. Does it address a segment of the franchise world? Unfortunately, yes. Everything Fred questions and identifies reflects the general types of brands the unwary consumer will find lurking on the internet, on franchise lead portals, at the highly-published franchise expos and listed in the top franchise lists.

That does not mean, by any stretch of the imagination, that at ALL franchises are evil, of questionable profitability and/or motive. Would it be wise to lump ALL attorneys and lawyers into the same group? A few are bad, some only average and a percentage are top players. Franchises that makes it into the FranNet inventory are highly vetted, scrutinized, validated and tested. I only work with 100 brands out of the approximately 3600 franchises available. That's only .02 percent! Reputable brands routinely turn away franchisors seeking our representation for the same reasons Fred has identified.

1. **Questionable profitability**. I say **"Question the Profitability"**. Rather than naively rely on an earnings claim published in the franchisor's FDD under section #19, gather your own numbers, develop a cash flow spreadsheet and use the blank pro-forma provided by the franchisor. Call franchisees and ask the hard-financial numbers. For a sample list of money questions to ask, check out my website under the FAQ section.

2. **High start-up costs or what are the start-up costs? The franchise fee typically covers the costs it takes for a franchisor to recruit you, train you and get you established in business. They labored for years perfecting their system and the upfront franchise fee is how they recoup a small part of that investment. A word of caution, if the upfront fee is excessively high, say over $75K, or ridiculously low, such as $15K, ask questions. Nothing in my inventory would fit these parameters.**

3. **Encroachment** – Here is where one should understand the difference between an "*exclusive*" territory and a "*protected*" territory. So, the franchisor usually protects your territory. They will not allow another franchisee to do business in your defined zip codes. Great brands zealously protect the territory of their individual franchisees, even writing sections into the franchise agreement outlining the penalty for offering services in a fellow franchisee's area. However, what if the franchisor adds a new offering that is different from what you do~~.~~? Say you sell and install window treatments and the franchisor adds a brand that organizes garages and closets? Is this "encroachment?" Hardly.

4. **Legal recourse.** The FDD or Franchise Disclosure Document is mandated by the Federal Trade Commission (FTC) and ~~the~~ several states Attorney General offices. They make the rules. I suggest that you review the number and type of lawsuits listed in the FDD. How many are there and who sued who? Many franchisors have never sued nor been sued by a franchisee. The rules are there to protect your investment from rogue franchisees who don't follow the rules and harm the brand. In my experience, you'll never look at your Franchise Agreement until you're ready to sell your operation.

5. **Limited independence.** Fred wrote "When you buy a franchise, you're not just buying the right to use the franchisor's name, you're buying its business plan as well. Most franchisors impose price, appearance, and design standards, limiting the ways you can operate the franchise. While these standards can help promote uniformity, they can also stifle your creativity and ability to cater to local tastes or needs". Fred, this is why you buy a franchise, duh. If you're an innovator rather than an implementer, don't become a franchisee in the first place! This is precisely why I provide~~d~~ a detailed and exhaustive matching process before you sign on the dotted line.

6. **Royalty payments.** Most franchisees must make royalty payments to the franchisor each month based on a percentage of sales, or it may be a flat monthly fee. Fred fears that this will be, "eating into the franchisee's net profits." Yikes! My experiences with well-run and supported franchise~~s~~ businesses is that they focus on the bottom line, net profit margin. Royalty is the ongoing fee you pay for using the brand, trade mark, marketing materials and a host of other support services. Compare it to group insurance. The collective pool of money allows the group to reduce its cost of coverage. You pay in a smaller month premium. When I've compared non-franchise businesses with a franchisee in the same industry, franchisees have higher net profit margins, even with the royalty percentage, than independent businesses.

7. **Inflated pricing on supplies or collective buying power.** If buying from a vendor is stipulated in the franchise agreement, all you need to do it to find out if the costs are marked up or are they provided as a pass thru expense. Forward thinking brands do not make money on these services. Many emerging

brands allow and encourage their franchisees to bring new suppliers into the network. If a vendor or product is excluded, simply ask why during your due diligence investigation. It may be a deal breaker for you.

8. **Restrictions on post-term competition. Here is where Fred is really way off track.** Protecting any brand is a major issue and concern. Companies large and small are aggressive about protecting trade secrets, methods and proprietary technologies. If you understand this and sign the franchise agreement with a non-compete, why would you imagine you could leave with something you didn't possess before and now compete with your former brand? Here's where it's prudent to have ~~having~~ a qualified franchise attorney review your document before you enter into a franchise agreement.

9. **Advertising fees.** Many franchisees are obligated to make regular contributions to the franchisor's advertising fund. But will they use the money to advertise your franchise? Most of ~~T~~the franchisors in the FranNet inventory do have local and national advertising funds. They also have Franchise Advisory Councils or FAC's. How the funds are spent is outlined in the franchise agreement and most brands yield to the direction of the franchisees. If the franchisees sales are increasing by virtue of the advertising funds the franchisor will make more royalty. This is a win, win. The area of concern should focus on the effectiveness and relevance of the marketing efforts. Enlightened brands are now focusing on SEO, Google analytics, pay-per-click, or national call centers that get~~s~~ the franchisee's phones to ring or have customers walk in their doors.

10. **Unfair termination or material breach of the franchise agreement.** Fred, what where you smoking when you wrote this stuff? Here's Fred's quote, *"Even the slightest impropriety on your part, such as being late on a royalty payment or violating the franchise's standard operating procedure, can be cause for the franchisor to terminate your agreement. While most franchisors are not this strict, the possibility of losing your entire investment for being late on a payment is downright scary."* Unless there's a significant material breach to the franchise agreement or a local franchise is really a rogue operator terminating the agreement rarely happens. When it does, the remaining franchisees usually cheer. This is a big deal and it's required that this be disclosed in the F.D.D. So read it over, ask questions and settle in your own mind if you can live with this.

After comparing Fred's perceptive with mine, ask yourself, "Who do I identify with?" If you're in Fred's camp, then franchising is not for you. If your mindset aligns with my experience and viewpoint, then dig deeper, read, research, ask questions and allow knowledge to dispel your fears.

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