

Finding the Best Business Partner

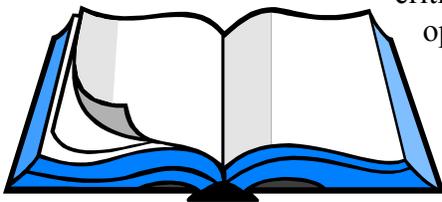
The Franchise Disclosure Document is Required Reading

Traditionally, the three Rs stand for reading, 'riting and 'rithmetic. But when it comes to partnering in business, they stand for risk, reward and responsibility. If you are going to go into business with a partner, you want someone who will *minimize* the risk, *maximize* the reward and *share* the responsibility to make the enterprise successful. Realistically, most people choose a friend, a spouse or a relative – a partner they believe is predisposed to make an equal and positive contribution to the business. At times, however, such business partnerships have ended friendships – even marriages – and close relationships were lost as the businesses failed.

While it would be unusual indeed for someone to partner with a complete stranger, what qualities would you look for in such a new relationship? You'd want a partner who is hard working, has a successful track record and good relationships with previous partners, and operates on an honest and ethical basis. You'd also want someone whose talents and abilities would complement your own – whose strengths balanced your weaknesses and vice versa. While finding such an *individual* partner might be a challenge, finding such a company is not – at least when it comes to franchises.



That's because franchises fully disclose all the information you need to know in order to determine if they are the right partner for you. In fact, the franchise industry is highly regulated in this regard and is mandated by the federal government to provide full disclosure. This is made through their FDD (Franchise Disclosure Document), a document *every* franchise is required to make available to serious candidates. The FDD contains all the critical details you need to fully evaluate the business opportunity and the company that stands behind it.



Every FDD contains 23 standard items and we've seldom seen one that's less than 100 pages. While an FDD is not exactly exciting reading, it should be viewed as *required* reading by anyone seriously considering a franchise.

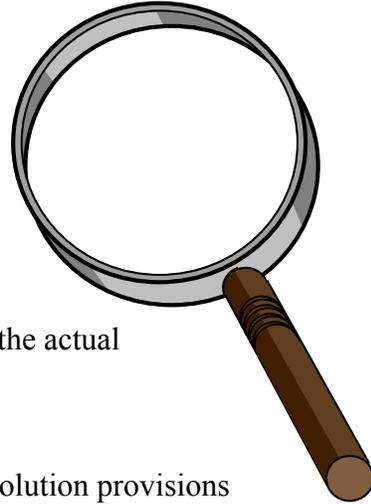
Here are the federally-mandated items every FDD contains:

- ◆ **Items 1 through 4:** The franchiser's background, the experience of key executives and the company's litigation and bankruptcy history
- ◆ **Items 5 and 6:** All the fees charged by the franchiser
- ◆ **Item 7:** An estimate of the total investment needed to establish the business

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- ◆ **Item 8:** Restrictions on the purchase of products to be used and sold in the unit
- ◆ **Item 9:** The franchisee's obligations
- ◆ **Item 10:** Financing that the franchiser makes available
- ◆ **Item 11:** A summary of the services, such as training and site selection, that the franchiser provides in relation to the franchise program
- ◆ **Item 12:** Territorial protections
- ◆ **Items 13 and 14:** The status of the trademarks, copyrights and patents associated with the program
- ◆ **Item 15:** Obligations of the franchisee to participate in the actual operation of the franchised business
- ◆ **Item 16:** Restrictions on what the franchisee can sell
- ◆ **Item 17:** Renewal, termination, transfer and dispute resolution provisions
- ◆ **Item 18:** Public figures used to promote the franchise
- ◆ **Item 19:** A description of how well the franchises perform financially
- ◆ **Item 20:** System statistics and lists of franchisees and former franchisees
- ◆ **Item 21:** Financial Statements
- ◆ **Item 22:** Contracts
- ◆ **Item 23:** Receipt



Clearly, that's a lot of information to digest, but it's critical that you take the time to do so. In fact, the Federal Trade Commission (www.ftc.gov) ensures that you have that time by enforcing a minimum waiting period of 10 business days before any money is paid and any agreement to purchase is signed.

As a legal document, the FDD can be daunting, and while some items are shorter and easier to understand by the average person, others may warrant a review by your accountant or attorney. And while no single item should be considered *unimportant*, some will be of particular interest – like Items 19 and 20.



Item 19 addresses financial performance, and may answer the question every franchisee candidate wants to ask: “How much money will I make?” It is here that the franchise may state earnings claims based on the average financial performance of existing franchisees. Two important things to keep in mind. First, most franchises do not publish earnings claims in their FDD (though for

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those that do, it should be viewed as a positive reflection of the company’s confidence and consistency).

Secondly, franchises are strictly prohibited from making any earnings claims (verbally or in writing) that are *not* included in their FDD. Important note: Telling you “Our top 3 franchisees grossed more than \$400,000 last year” is *not* an earnings claim. Saying “You can expect to gross \$400,000 per year on average” *is* an earnings claim. And if it’s not printed in the FDD, the franchise cannot and should not communicate it in any other way.

If an FDD does not explicitly state earnings claims, then **Item 20** provides the details that enable you to ascertain financial performance. It is here that the franchise lists current and former franchisees. And unlike personal or professional references one might include in a resume, the franchise is required to list *all* franchisees, not just the best ones. If you’re a serious candidate, you’ll want to contact as many of these people as possible to inquire about their individual financial success.



A few additional points to remember. First, a franchise is not required to provide their FDD to just anyone who requests it. Most will want to have at least an initial conversation with you and possibly have you submit a formal application. That’s because they qualify you as you qualify them. If you see them as a prospective business partner, they want to see you as a serious candidate as well.

Secondly, never acquire an FDD from any source *other than* the franchise itself. A franchise will never charge you for the document, but there are third-party companies that claim to provide FDDs for a fee. However, such companies may not have the most current version since franchises regularly update their FDDs – some as often as every 12 months.

There is no benefit to researching a franchise in “stealth mode”, so never hesitate to talk with the franchise directly. It is absolutely the best way to get all your questions answered, and it is the only way to secure a free copy of their *current* FDD. Also, don’t assume the company views the dialogue as a sign that you are ready to move forward. They understand that they are likely one of many opportunities you are investigating (just as you are one of many candidates they are considering).

In conclusion, while the FDD is perhaps the single most comprehensive resource in finding the best franchise business partner, it’s not the only one. There are many other factors, not the least of which is taking the opportunity to meet the franchise management face to face. Almost all franchises



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regularly schedule candidate visits to their corporate headquarters, commonly called “discovery days”, because it’s these events that allow you to talk with top level management, get real insight to training and ongoing support, and personally meet those with whom you

may be working for years to come. Meanwhile, think of the FDD as the franchise’s resume – a very large one indeed – and use it to determine if it’s time for a formal interview.

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The Frantreprenuer Mentor helps folks just like yourself, to quickly find and match you with the ideal franchise; one that fits who you are, will work well in your area, you'll enjoy operating and have the opportunity to be highly successful at. Some clients call us a "Franchise Match-Maker". In addition, as a franchise consultant and advisor, I mentor, coach and support you throughout the entire franchise process with regular coaching, communication, mentoring and advice.

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