

Ask Irene

Advice for the Entrepreneur



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Q. *We have made a decision to buy a franchise. How do we review a franchise?*

A. The most important document from the franchisor is the Uniform Franchise Offering Circular (UFOC), sometimes called the disclosure document, from which you will be able to review important things about the franchisor. The law requires the franchisor to write the UFOC in plain English, not legal language. It covers 23 items that are important for your decision making. A few are:

- **Fees.** A franchise fee is a one-time upfront fee that you have to pay. Most lenders will not finance the franchise fee. A royalty fee is paid as a percentage of your sales. You will be required to report all generated sales to the franchisor periodically and the royalty fee will be charged based on your total gross sales. You might have to pay a national advertising fee, also a percentage of your sales. When a franchisor charges this fee, it does not mean that it advertises the brand (franchise) nationally. Whether or not the franchisor advertises on national media, most of them collect the “national advertising fees.”

- **Litigation history.** You want to know the litigation that the franchisor has been involved in since inception and how these were resolved. Pay attention to the nature of any litigation and the settlements. Some might involve misrepresentation in their UFOC.

- **Number of transfers.** This will tell you how many franchises have been sold out and/or transferred back to the franchisor. It is important to investigate the reasons for selling and transfers.

- **Average sales per unit.** Verify the sales potential. The financial statements from the parent company should be available in the UFOC. Ask for a list of current and previous franchisees. Take the time to visit the best and worst franchises; observe their sales, strengths and weaknesses before you buy a franchise.

- **Franchise agreement.** This legal document will govern your relationship with the franchisor. Owning a franchise is not as independent as starting your own business, and yet you benefit from a proven concept and business model. Please seek professional assistance before making your final decision to buy a franchise.

Other sources of information: SBA Franchise Registry (www.sba.gov); International Franchise Association (www.Franchise.org); Federal Trade Commission, Business Publications (www.ftc.org). ①