



Friday, April 16, 2010

## FRANCHISE BUSINESS OFFERS SOME RISKS WITH REWARDS

Charlotte Business Journal  
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If you have some cash and time on your hands, it may seem appealing to pay a franchise fee for a presumably successful business template. However, in most cases, success comes only if you thoroughly understand the franchising process and conduct a solid investigation of a

franchised business.

Investing in a franchise takes time and money. Potential franchisees must realize they will play by more rules than most small-business owners.

In a typical offering, those rules are contained in a franchise disclosure document. This is usually a three-ring binder organized into 23 required topics. The franchise agreement form presents all you wanted to know about the franchise system — or at least what the federal and some state governments think you should know. The disclosure document is essentially the franchise world's version of an equity-investment prospectus.

While most franchisors are reluctant to make changes to their standardized franchise agreement, the better ones will attentively listen to your concerns and may make changes that don't have a material impact on maintaining consistency in their franchise system. However, keep in mind established and well-tested franchise systems have had their tires kicked a few times, and all franchise systems want to be able to offer substantially the same products and services throughout their network.

You also should review the management team's experience and education — they're as much a key to success as the concept. The document will list current and former franchisees. You should contact them. You may be surprised what you find out, good and bad. Site visits can give you a good idea of what it will be like for you.

Many franchisors offer a "discovery day" — a chance to go to the home base, gather information firsthand and ask the questions that keep you up at night.

So why would a company package its way of providing goods and services for sale to you? By creating multiple sources of income (such as initial franchise fees, incremental product and service fees, and continuing royalties), the franchisor can spread out its capital costs. Franchisees are typically required to invest part of their gross income into funds for advertising, training, administrative and other services provided by the franchisor to its system. By tapping locally owned operators, many franchisors grow geographically and expand brand awareness and their trademarks, the cornerstone of a franchise system.

Expanding via franchising also allows a franchisor to maintain quality control and to achieve a higher economy of scale in purchasing power to pass along to franchisees.

What makes franchising appealing to you? Could it be the fact that even though you have rules to follow, you are your own operational boss? It could be the appeal of being on the ground floor of a new system. Perhaps it's the appeal of lowered barriers to entry into the marketplace created by a proven system and economies of scale. In some cases, the vision of establishing a business, running it for a few years and then executing an exit strategy is the driving force.

Regardless of your reasons for considering a franchise, you will be wise to seek advice during your review of franchise opportunities. An attorney knowledgeable in franchising will be able to help you immensely. If you're not a numbers person, you may want an accountant or consultant to help you with understanding the financial aspects of a new venture. If you're required to lease property, a commercial real estate adviser can help you find a suitable location.

There are many pieces to this puzzle, but with a little homework and some help, you can find a franchise that's right for you and your bank account.

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