

SMALL BUSINESS FRANCHISE FEVER

*So, you want to own a franchise?
Join the crowd. Here's how to
make sure you're one of the
entrepreneurs left standing.*

By RICHARD GIBSON

FOR ALL THE adulation given to dare-to-be-different entrepreneurship, it's perhaps surprising that so many new businesses these days are merely copycats. They're called franchises.

It's a phenomenon familiar to anybody who has driven along a suburban thoroughfare looking for a quick lunch. Consumers want consistency and predictability—and there's no shortage of entrepreneurs promising to give



them just that.

The numbers are staggering. Franchising accounts for more than \$1 trillion of annual U.S. sales and nearly one-third of all retail transactions. More than 320,000 small businesses are franchises, employing one in every 16 workers in the country. A new franchised outlet is said to open every eight minutes. And what began with hamburgers and dry cleaning half a century ago now is a factor in more than 75 diverse lines of business. Among the latest: laser hair removal.

No Guarantee

Little wonder that so many entrepreneurs succumb to the franchising dream. But for all the possibilities of riches, owning a franchise carries no guarantees. Because no matter how well a business is designed, or how often the model has worked elsewhere, fledgling franchisees discover each year that no business—not even copycat ones—is foolproof. In the end, success usually comes down to how good the individual franchisee is at picking the right concept, finding the best location, keeping down costs and fulfilling customer needs. In other words, the same things that determine the success of *any* business.

What's more, while franchisors often boast that they leave little to chance, the reality may be very different.

"Many franchisees think they will get a lot of training, but find out it's a one-week crash course," says Marko Grunhagen, a specialist in franchising in Southern Illinois University's business school in Edwardsville. "One day it's marketing, and one day it's accounting." Another factor he says to consider: "Most franchise contracts are designed to put the franchisee in a weaker, disadvantageous position."

Adding to the problem: With 1,500 or so



Should I Hire a Lawyer?

Other questions prospective franchisees should ask before they sign

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prospective buyers a disclosure document, called an offering circular, containing specific information about the business.

But a different document, crafted by states, is more widely used and is also allowed by the FTC. That document, called a Uniform Franchise Offering Circular, or UFOC, demands a more thorough disclosure by the franchiser.

The UFOC contains important information about the franchise, along with dispute-resolution procedures, transfer rights, and names, addresses and telephone numbers of current and former franchisees. For practical purposes, since many of the chains are national, most franchisers use the UFOC.

The other main legal document franchisees receive is the franchise agreement, which is more specific about the terms of the relationship between the franchiser and franchisee.

Q: Will the FTC review the disclosure document to make sure I'm protected?

A: No. However, some states review the disclosure document for completeness and accuracy before the sale of a franchise can take place.

Q: What in particular should I look for in the disclosure document or UFOC?

A: The devil really is in the details, so read them carefully.

Be sure to contact other franchisees in the chain. Ask them about their business, profits and relationship with the franchiser. Check the disclosure docu-

ment for details, such as how much litigation the company is involved in, compared with how big it is, says Mr. Cantone, the Maryland official.

Mr. Cantone also suggests paying close attention to the number of franchises that have been terminated, not renewed or otherwise left the system, and how many have been reacquired by the

franchiser. All of this is set out in the disclosure document, along with the names and addresses of franchisees who have left.

"I've seen franchise agreements that I can't imagine anybody signing," Mr. Cantone says, referring to agreements that are so one-sided that a "franchisee is entering into the deal and the deck is

stacked against him."

Other things to be aware of include the process for resolving disputes. Most agreements require franchisees to travel to the franchiser's principal place of business to settle a dispute, which can be onerous, particularly for small franchisees. Also look to see whether a fran-

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franchisers vying for a slice of their markets, some sectors are jammed with competitors. For example, more than a half-dozen franchisers are selling Buffalo wings. Other crowded fields include motels, senior care and oil changes.

Do Your Homework

Experts caution those enamored of a franchise investment to undertake a dispassionate analysis of the opportunity. That includes studying the franchiser's Uniform Franchise Offering Circular, a document that regulators mandate—but don't review for its truthfulness. Too many would-be franchisees don't do nearly enough homework, Prof. Grunhagen says. Instead, he says, they "see that down the road there's a Hardee's that's been successful for 30 years and say, 'Hey, I can do that, too.'"

concluded that with the franchiser, "I just had a partner that helped me get to it quicker."

As franchising continues to gain popularity, some see another hidden, more cosmic, risk: In persuading a would-be entrepreneur to take the "safe" route rather than pursue a wild dream, franchising may eviscerate our venturesome spirit. After all, franchising seldom represents bold, breakthrough ideas. Instead it is a proliferation of proven concepts, to the potential exclusion of others. The marketplace of many becomes dominated by a few.

"With so much of the economy relying on franchising—not just fast foods and hotels but funeral homes and real estate—for the American consumer choice is declining," says Prof. Grunhagen. "That is a cost that may not be measurable, but clearly it's important." ■

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