

JONES COUNTY JUNIOR COLLEGE
SMALL BUSINESS DEVELOPMENT CENTER
A MEMBER OF THE MISSISSIPPI SMALL BUSINESS
DEVELOPMENT CENTER (MSBDC) NETWORK.
MSBDC has assisted Mississippi businesses since 1981

NEWSLETTER

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Special Edition on: Buying a Franchise
April 2004 Issue
Director: Greg Butler
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1. Welcome From The Director
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Just like buying an existing business, franchising has some very special considerations. All proven franchises come with prepared business programs that have been tested and have been successful in the past. Someone has tried them, and they work. This months Newsletter will address the things that a person should consider in purchasing an existing business. Your SBDC Counselor can help you look at the franchise to see if it is something in which you should get involved.

Also, please check our Workshop Schedule for upcoming workshops. On May 18 we have scheduled "Show Me the Money: Profit-focused Small Business Management". At this workshop we will discuss ways to improve the financial management in your business. Call us at 601-477-4235 to register.

---Greg Butler

NOTE:

Our subscriber list is NOT made available to other companies or individuals. We value every subscriber and respect your privacy. If at any time you wish to cancel your subscription, simply send me an e-mail with the message: "Remove from newsletter."

Please feel free to forward this newsletter to friends or business associates that may be interested.

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2. Buying a Franchise Business
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Entrepreneurs may elect to purchase a franchise for the following reasons:

- A proven operational method is part of the package.
- Much of the needed business research is provided.
- Training is often provided for the entrepreneur.
- The name may be well known and accepted by the public.
- Risks are minimized.

In determining which franchise is right for you, use many of the same techniques that you would use starting a new business. Then evaluate which franchises are available and right for you. There are sources available to help you in this process.

*****Analyzing the Franchise*****

Once you have selected a franchise, the next step is to analyze it thoroughly to determine whether it is really worth buying. Much of the information that you will need to gather in order to analyze a franchise will be acquired through the following:

- Interviews with the franchisor
- Interviews with existing franchisees
- Examination of the Uniform Franchise Offering Circular (UFOC)
- Examination of the franchise agreement
- Examination of the audited financial statements
- Trade area surveys
- Organizational chart
- List of current franchisees
- Newspaper or magazine articles about the franchise
- A list of current assets and liabilities

Through this research, you want to answer the following questions:

****Are the franchisor and the current franchisees profitable?***

If the franchisor is not making a profit and franchisees are merely struggling to survive, the business may not be as vital as you thought. Look at other businesses in the same industry to gauge the prospects for success. Hesitate to enter an industry where eight out of every 10 startups fail. Although franchises have a considerably low failure rate, they're not immune to bankruptcy.

****Is the franchise well organized?***

You don't have to know anything specific about a franchise to know whether or not it is well organized. If you go into a franchise outlet or the franchisor's company stores and see that they aren't well organized and don't seem to know what they're doing, then that's not a business worth buying. Most franchisors have developed monitoring systems that allow the franchisees to diagnose problems, measure their progress and help them deal with problems more effectively.

****Does it have regional or national adaptability?***

You want a franchise that will grow regionally or, better still, nationally so that it will increase your business locally.

****Does it enjoy a growing public acceptance?***

While it's good to have a certain amount of uniqueness, you don't want to be a business that's so radical you're going to risk your entire life savings on whether or not people are going to accept that idea or concept. Many times, you can feel that you are on the crest of a wave of a new concept, and you see that it's taking hold everywhere. But if the concept is not tried and proven, be very cautious.

****What's its point of difference or unique selling proposition?***

You won't have much success if you try to open just another version of many existing businesses. There has to be something different about the franchise. A franchisor that has some point of difference over other businesses is a much better buy, because that point will differentiate your business from other businesses.

****How good are the financial controls of the business?***

You want the franchise to be backed by a franchisor with strong financial management ability so you can determine the financial health of the franchise at both the corporate and unit level.

****Is the franchise credible?***

The franchise should have a good track record. That doesn't mean it has to have been in business for 10 years, but there should be enough of an operating history to show that this is a viable concept. This includes a good credit rating. If the franchise is in financial trouble, it will show in the credit rating.

****What kind of exposure has the franchise managed to attain?***

Determine if the business has had any articles in newspapers and magazines, and determine what the public's opinion of it is. You can find this out in trade journals.

****Are the cash requirements reasonable?***

If you're getting into a business that promises a return of \$20,000 per year to you as the owner/operator, it shouldn't have a \$200,000 investment requirement. The investment should be proportionate to the kind of return that you will get as the owner/operator.

****Does the franchisor have integrity?***

This is very important. If the franchisor is willing to take your money without checking you out, that's a sign of trouble. The more particular a franchisor is, the more confident you can feel that the other people in the system are going to be good people as well.

****Does the franchisor have a monitoring system?***

This will allow you to know what your problems are so you can deal with them more effectively.

****Which goods are proprietary?***

Proprietary goods are goods that must be purchased from the franchisor. Keep in mind that the franchisor generates profit

through the sale of proprietary stock marked up from the wholesale or manufactured cost. Determine which items are proprietary and must be purchased through the franchisor, and which can be acquired through outside vendors at a reduced cost.

****What are you getting for the fees that you must pay?***

With most franchises you must pay an up-front fee plus periodic payments to the franchisor. Determine if you are getting sufficient benefit for your business in return.

Do not be shy about asking for the required materials from the franchisor. After all, they will be checking you out just as completely. If they are not, that should sound a warning bell inside you. Another warning sign is if the franchisor asks you to sign a disclaimer stating that you have not relied on any representations not contained in the written agreement. Such a requirement could indicate the franchisor does not want to be held responsible for claims made by its sales representatives.

Also, the franchisor could be in serious financial trouble and sell a franchise to anyone who comes along in order to produce a better cash flow. Or the company may not be very well managed, and this could lead to problems in the future. Either way, a complete analysis should reveal any problems.

****The Uniform Franchise Offering Circular***

After you have contacted the franchisor and completed all of its personal and financial questionnaires to determine if you fit the profile of "their kind" of franchisee, you should receive two documents in the mail. One will be the Uniform Franchise Offering Circular (UFOC) and the other will be the franchise agreement. State and federal laws require that the franchisor give you these documents at least 10 days before taking your deposit and signing you on as a franchisor.

This UFOC contains twenty-three items of information that disclose information regarding the franchise. Keep in mind, however, that the UFOC is a starting point. In order to protect yourself, thoroughly investigate the information in the UFOC. Before ever sitting down with the franchisor or any current franchisees, you should examine the information in these documents carefully, preferably with legal as well as financial counseling. Don't allow yourself a false sense of comfort because the documents appear to comply with the Federal Trade

Commission rules and/or various state filing requirements. Most of those regulations only require the franchisor to make complete and full disclosure of specific types of information in the document. As long as the disclosure is made in the proper manner, the franchisor can draft the terms and conditions of its franchise and its obligations to you as a franchisee in almost any manner it wishes. Read the UFOC and franchise agreements carefully, then check and double check these disclosures. Your SBDC counselor can help you evaluate different franchises.

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3. Workshop Schedule
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SO YOU WANT TO START YOUR OWN BUSINESS

- Greg Butler, Presenter

(JCJC Campus, Forestry and Life Science Building, Room 206)

Monday, 1:30 - 4:30 p.m.

4/19

5/17

6/21

Tuesday, 6:00 p.m. - 9:00 p.m.

6/8

Wednesday, 9:00 - 11:30 a.m.

5/5

6/2

SERVSAFE CERTIFICATION TRAINING

(JCJC Campus, Community Services Building)

-Kathy St. Amant, Presenter

May 18 - 20

9:00 a.m. – 4:30 p.m.

SHOW ME THE MONEY: PROFIT-FOCUSED SMALL BUSINESS MANAGEMENT

-Greg Butler, Presenter

May 18

6:00 p.m. – 9:00 p.m.

Cost: \$10.00

To register for any of these workshops, please call us at (601) 477-4235 or e-mail us at sbdc@jcc.edu.

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4. Subscription Management
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You will continue to receive the Small Business Development Center Newsletter automatically. You may unsubscribe at any time by simply sending a reply with the message: "Remove from newsletter." Or if you received this newsletter from a friend or associate and want to sign up, simply send a reply with the message: "Please sign me up for your newsletter."

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5. Contact Information
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A member of the Mississippi Small Business Development Center Network

Helping to Develop the Pinebelt One Business at a Time!

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