

## Franchise brokers work for the other guy

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Question: I am interested in buying a franchise and contacted a franchisor off of their listing on a web site. I was surprised to find out later that the person who contacted me about my interest in the franchise was a sales broker and not the franchisor. They seem very knowledgeable and said they wanted to be helpful in working with me to buy a franchise. Do most franchisors use sales brokers? Should I continue to work with the broker or should I contact the franchisor directly?

The World Wide Web has increased the opportunity for individuals to find out about franchising. Overnight franchisors have published web sites that contain details about their company's products and services, the location of their existing locations, nutritional information and information about their franchise opportunities. Many provide applications so you can begin the process of acquiring a franchise and they all include an email address for you to communicate directly with the franchisor.

You can get to these franchisor's web sites through most search engines by simply typing in the name of the company. If you don't know what franchisor you are interested in you can simply type in franchise or franchisor and hundreds of opportunities will appear. The benefit of the web is that information is available to you 24/7.

At the same time, the web has also provided opportunities for franchisors to advertise their opportunities on other company's sites. Some of these web sites provide information about franchising in general and specific information on franchisors advertising on their sites. Many sites enable you to compare different franchise opportunities and provide you with easy access to the franchisor through hot links or banners. Many even have set up chat rooms where you can get information on franchising from experts or allow you to discuss issues with other individuals that are also looking at different franchise opportunities. These are called referral sites and one of the best is the site hosted by Entrepreneur ([www.entrepreneur.com](http://www.entrepreneur.com)).

Referral sites are the modern version of newspaper and magazine advertising. Franchisors pay for the opportunity to advertise on the site with the added benefit of enabling the customer to learn more about them than they could in a print ad and at a lower cost. For franchisors there is an additional advantage of providing potential franchisees with easy access to their franchise sales personnel through their email and extranets through their web sites. Referral sites provide a wealth of information on franchising and let you explore specific franchisors at your leisure, without having to deal with any franchise salespeople, until you are ready.

However, while they may appear to be the same, not all third party franchise information sites are referral sites. Many are operated by franchise brokers and for new franchisees the difference can be critical.

The primary source of income for referral sites is the advertising revenue collected from the franchisor. However franchisors typically don't pay for listing on a broker's site since the broker makes their revenue when they sell you a franchise. That is the major difference. The primary source of revenue for broker sites is the commission they receive when they sell you a franchise. Until the broker can convince you to purchase a franchise from one of their clients, they don't earn any money.

For brokers, your signing on the dotted line of the franchise agreement can mean a sizeable fee based on a percentage of the upfront and often the continuing royalty payments you make to their franchisor clients.

It's not the same as using a broker when you buy your home. Most experienced homebuyers know that the real estate broker helping them find their perfect home, works for the home seller. The seller of the house pays a brokerage fee, typically 6% that is usually shared by the listing broker and the selling broker. The difference between selling a franchise and selling a home is that there is no multiple listing service for franchisors. In a multiple listing for houses most, if not all of the houses available in the neighborhood are listed. Except for the few houses that are not listed or are being sold privately, the home buyer gets the opportunity to learn about every house in the market that they can afford or that meets their needs. Franchise brokers only offer franchises for their clients. Therefore, while there may be thousands of franchises available and hundreds that meet your pocketbook and your interest, the broker only has a very small percentage of the market available to show you.

Only a small percentage of franchisors use a broker and most brokers represent only a very small percentage of the franchise opportunities available. Different brokers have different clients further limiting the number of franchise opportunities available, even if you use multiple brokers in your search. Limiting the number of opportunities available to you is only one of the problems of working with a broker.

In creating an atmosphere of being helpful and interested in your well being, many brokers offer psychological testing and other services that they claim will help you select the franchise that is perfect for you. While there is some scientific basis for these tests, unfortunately for the unsuspecting buyer the perfect franchise opportunity is most often found within the broker's client pool and not with other franchisors the broker does not represent.

Maybe even more insidious is that since a broker appears to be experienced in franchising, their recommendations often carry considerable weight with the unsuspecting prospective franchisee. Inexperienced franchise prospects often take the broker's recommendation as gospel and do not conduct the type of thorough due diligence on the franchise opportunity that most professionals in franchising

recommend. There are many seminars, articles and books on investing in a franchise. Two pamphlets available are *Investigate Before Investing* published by the International Franchise Association, ([www.franchsie.org](http://www.franchsie.org)) and *A Consumer Guide to Buying a Franchise* published by the Federal Trade Commission ([www.ftc.gov](http://www.ftc.gov)). For a more in-depth understanding of how to buy a franchise you might consider *Franchising for Dummies* which I wrote with Dave Thomas from Wendy's. (So this does not sound like a sales pitch for my book, rest assured that all of the sales proceeds have been donated by Dave and I to the Dave Thomas Adoption Foundation).

Finally, the major advantage of a referral site is the principal disadvantage of a broker site – pressure to buy. Recently I sat in a seminar conducted by an outside sales agent. He stressed the emotional aspect of buying a franchise and how the sales process can be manipulated to ensure that the prospective franchisee makes a speedy decision. This is not an uncommon aspect of all franchise sales, even in those conducted internally by franchisors. However, it is unnecessary for you to get into that sales cycle until you are ready and have explored all of the opportunities available to you. Many prospective franchisees, which have entered the selling process, understand the pressures to make a buy, even when they are not fully ready. Remember, the franchise salesperson has been through this process many times before and is experienced in closing the deal. This is likely to be the first and only time you will be buying a franchise. You need to come to the table armed with information.

For the sake of fairness, there are several franchise brokers who are reputable and do not pressure you to buy a franchise when you are not ready or when the franchisor you are interested in is not right for you. Determining who those companies are is difficult and unfortunately, Dave and I in *Franchising for Dummies* simply make the recommendation that you should only deal with the franchisor and not their sales agents.

How do you tell the difference between a referral site and a broker site? It's really easy - ask.

- When you are contacted about your interest in a franchise, ask the salesperson who they work for and if they are a broker.
- When you receive a copy of the franchisor's disclosure document, the UFOC, take a look at item number two. The government agencies that regulate franchising require franchisors to disclose to prospective franchisees whether the franchisor is using a broker.
- If you are asked to provide personal financial and other information on line, take a look at the company's privacy statement and determine who is going to see your information. If it's a franchisor, the likely recipient is only the franchisor. If it's a broker, they may be sharing your information with all of their clients – many of whom you may have no interest in. Be careful because many of the applications on line ask for very detailed information and you need to know who has access to your data and how they will be using it.

Unless you are in a hurry and like to take unnecessary risk with something as important as investing in a franchise, there is really no reason to work with a broker. Purchasing a franchise, while a very successful way for many individuals to go into business for themselves, has enough risk. You do not need to increase your risk of missing the opportunity that is right for you and your family simply because it is not on a broker's client list.