

# Making the Franchise Decision Franchise Information Workbook

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*Strategic Advice and Guidance  
Based on Real World Experience*



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The following workbook contains a list of sample questions for you to consider in reviewing a franchise opportunity. If you have read a copy of Franchising for Dummies, you will find additional questions you may also want to ask.

Franchisors will provide you with a disclosure document. The brokers you may be working with likely will not. The disclosure document or UFOC will cover many of the areas discussed in this workbook and may raise additional questions you will want to explore. You should obtain a copy of the franchisors UFOC as soon as possible. Ask for one. You may be able to obtain a copy for free from the California Department of Corporations if the franchisor is registered in California. The web site is:  
<http://134.186.208.228/caleasi/pub/exsearch.htm>

Except in the registration states, the disclosure document has not been reviewed by any regulatory agencies. It is your obligation to conduct a proper due diligence prior to investing in any franchise. Included in the UFOC will be information on the franchisor, cost of starting a franchise, the obligation of the franchisor and franchisee among other important information. It will also contain the names and addresses of existing franchisees. Prior to making your decision to invest in any franchise, you should contact as many franchisees as you believe is necessary for you to make an informed decision.

### **NEVER ENTER INTO A FRANCHISE AGREEMENT WITHOUT HAVING QUALIFIED FRANCHISE LEGAL COUNSEL REVIEW THE DOCUMENTS.**

Contact the American Bar Association or Local Bar Associations or the International Franchise Association for a recommended list of franchise legal professional. The IFA can be contacted at (202) 628.8000 [www.franchise.org](http://www.franchise.org).



**SECTION I - THE FRANCHISOR**

1.	Name of franchise
2.	Address
3.	Contact Person
4.	Title
5.	Telephone
6.	Facsimile
7.	Email:
8.	Date of First Contact and Type of First Contact
9.	Date of first meeting
10.	Description of franchise
11.	Date founded
12.	Date franchising began
13.	Number of company owned locations: Current Last year
14.	Number of franchised locations: Current Last year
15.	Number of units closed during past 24 months. Where and why?
16.	Number of units reacquired during past 24 months. Where and why?
17.	Name, address and telephone number of franchisees who have left the system in the past 24 months
18.	Number of units in United States
19.	Number of units internationally
20.	Projected number of franchises to be established during next 24 months, domestically and internationally
21.	Number of full time personnel are on staff. (review background and roles)
22.	Is there a separate organization for domestic and international?
23.	Does the franchisor seem to be focused more on system expansion or more on franchisee performance?
24.	Is the organizational structure weighted toward franchisee performance or franchise sales?
25.	What service departments does the franchisor have?



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26.	Is the company using the services of a franchise broker?
27.	What is the background of senior management, field staff, trainers and support personnel? Many of these will be included in the UFOC but it is a good area to probe for expertise.
28.	What threatened, pending or current litigation is the company involved in?
29.	In addition to that disclosed in the UFOC, is there any additional litigation which was not deemed to be material?
30.	What is the bankruptcy history of the company, affiliates, management, staff and franchisees?
31.	Who owns the trademarks, service marks etc?
32.	Are they federally registered?
33.	Are there any disputes pending or threatened against the trademarks?
34.	If the trademarks are licensed to the franchisor, what are the terms of the license?
35.	Does the company have any current, pending or threatened regulatory actions from the FTC or any State Regulator?
36.	Is the company considering the sale or assignment of the franchise?
37.	Are any senior management or key personnel considering exiting the system?
38.	Broadly, what initial and ongoing services does the franchisor provide?
39.	Broadly, what are the obligations of the franchisee?
40.	Does the franchisor have a method to protect its franchisees from other poorly performing franchisees?
41.	How have they exercised these methods in the recent past?
42.	Is there a franchisee association? If yes, what is the name and telephone of its President?



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Real Estate Deposits		
Insurance		
Utility Deposits		
Other Deposits		
Working capital till break even		
Working capital - living expenses		
Other		
Other		
Other		
Other		
Other		
Other		
Total		

2. Continual Fees financial obligations to the franchisor, the base used for calculation, method of payment, and frequency of payment?			
	Rate	Base for Calculation	Frequency
Royalty rate			
National advertising			
Local Advertising			
Cooperative Advertising			
Other			
Other			
Other			
Other			
3. What reports are required from the franchisee? Does the franchisor require any of the reports to be audited?			
4. Is there an advertising/buying co-op?			
5. What is the franchisees obligations regarding advertising and buying co-ops?			
6. Are there any products or services which must be purchased from the franchisor? If yes, will the franchisor be earning income on purchases? How much does the franchisor earn? How are the products distributed and how long does it take for orders to be filled?			
7. Does the franchisor provide any income projections for existing operations? Obtain a written copy of any earning claims made. What is the basis for the earnings claims?			
8. Is financial assistance available? How much? From Whom?			
9. Do you lease or buy the location?			



10.	Can you buy or lease equipment and fixtures from someone other than the franchisor?
11.	Can you use used equipment?
12.	Are there any existing franchises available for sale?
13.	Is the layout of the location specified by the franchisor? Are architectural drawings provided? Can you change the layout?

**SECTION III - FRANCHISOR SERVICES**

<b>Site Development</b>	
1.	Does franchisor assist in site selection?
2.	What type of assistance is provided?
3.	Does franchisor assist in lease negotiations? What type of assistance is provided?
4.	Does the franchisor sign the lease and sublet the location to the franchisee?
5.	Does franchisor assist in site development/construction? What type of assistance is provided?

<b>Consumer Research and Marketing</b>	
1.	What type of consumer research has the company conducted?
2.	What were the results?
3.	What type of consumer advertising does the company recommend?
4.	What types of cooperative advertising programs are being used?
5.	What percentage of sales is recommended or required for advertising and marketing?
6.	Are there any advertising co-ops? How are they structured and what are the costs?

<b>Training and Operations Manuals</b>	
1.	What is the location, duration and additional costs of initial training?
2.	Who must attend training? What is the cost of additional staff attending training?
3.	What is the training curriculum?
4.	Who conducts the training and what are their backgrounds and other responsibilities.
5.	Who pays for transportation, room and living expenses?



6.	What topics are covered in the initial training program?
7.	How is the staff that does not go through franchisee initial training trained?
8.	Does the franchisor provide any training material for training new staff in addition to the operations manual?
9.	Does franchisor staff provide hands on assistance during the pre-opening, grand opening and initial period? Type, duration and cost?
10.	Are there any regularly scheduled continual training programs? What types of additional training is provided, who can attend, cost of training?
11.	What is covered in the operations manual?
12.	How often is the operations manual updated?

<u>Continual Services</u>	
1.	What other initial and continuing services are provided by the franchisor?
2.	Are they firm obligations or are they on request or at the option of the franchisor?
3.	Are there additional costs for continuing services?
4.	What methods does the franchisor use to communicate with the franchisees?

<u>Financial and Local Operational Issues</u>	
Note: Unless the franchisor has included an earning claim in their UFOC they may be unable to answer all of your questions on unit performance. The failure to include an earnings claim is not untypical in franchising. Economic questions that the franchisor cannot answer can be addressed to franchisees when you call them or from other sources.	
1.	How many employees and management staff are recommended to properly staff locations? Part time, Full time, Cost?
2.	Is absentee ownership allowed?
3.	Does the projected cost of staff include the franchisee as manager?
4.	What is the breakdown of cost of sales?
5.	Is the business seasonal?
6.	What are typical break-even sales?
7.	What are typical or average unit sales in the early years?
8.	What should employee costs average as a percent of sales?
9.	How much debt service can the franchise afford?
10.	What is the return on investment?
11.	What size location do I require?
12.	What is an acceptable range of real estate costs?
13.	How long before the franchise can support you?
14.	Are there any licenses or zoning requirements to be concerned with?
15.	What are the insurance requirements and costs?
16.	What is the average time from the purchase of a franchise until the location open?



<u>Territory</u>	
1.	Is there an exclusive territory? Describe. Is it well defined?
2.	Is franchisor able to open company owned units in protected territory? Describe.
3.	Are there any locations within protected territory that are excluded? (Malls, stadiums, arenas, etc.)
4.	Does the franchisor or any affiliates or other licensees distribute the product or service into the territory in an alternative distribution method, under the same or different name?
5.	Can you choose the location or the territory?
6.	Does the franchisor conduct any market studies on the territory to ensure that it can support a franchise?
7.	What population is required to support a franchised location?
8.	If there is no protected territory, what has been the company's policy on opening up new locations? How far apart?
9.	What are the demographics required to support a franchise?
10.	What is the traffic counts required to support a franchise?

<u>Marketing and Advertising</u>	
1.	How do the franchisees obtain their sales leads or customers?
2.	Who are the prospects for the franchisees products or services?
3.	What is the national/regional advertising program of the franchisor?
4.	What is the national/regional advertising budget?
5.	What portion of the national/regional contributions are spent in the contributing market?
6.	What percentage of the national/regional advertising contribution is used for administrative/corporate/agency expenses and fees?
7.	What are the primary advertising/marketing vehicles: Television _____ Radio _____ Outdoor _____ Newspaper _____ Magazine _____ Direct Mail _____ Couponing _____ Public Relations _____ Other _____ Other _____ Other _____ Other _____
8.	What is the grand opening advertising program and cost?

<u>Field Support</u>	
1.	What are the role and responsibility of the field staff?
2.	How many locations does each field person work with?
3.	What is the background of the field person who will be working with you? Can you meet them before purchasing the franchise?
4.	Name and telephone number of franchisees they have worked with.
5.	How often does the field staff visit a franchisees location?
6.	What is the additional cost of field services, if requested by the franchisee?



<u>Market</u>	
1.	Has a franchise even been awarded in the area(s) you are considering?
2.	If so, is it still in operation?
3.	Name and telephone number of existing franchisees in area.
4.	Name and telephone number of former franchisees from area of interest.
5.	What is the reason they sold, transferred, closed?
6.	Are there any existing franchises available for sale in the area of interest?
7.	How many inquires for franchises have they had in the area of interest in the past 24 months?
8.	Why were franchises not awarded if there was interest?
9.	Has the franchisor performed a competitive analysis for the area of interest?
10.	If not, who will perform the analysis?
11.	If yes, is it available for your review?
12.	What is the present population of the market? What is the anticipated growth over the next five years?
13.	Are there any new highways or construction planned that will effect your franchise?

<u>Products and Services</u>	
1.	What product or services are under consideration for addition to the franchise?
2.	When are they likely to be introduced?
3.	What is the estimated additional cost for adding the new products or services?
4.	What is the demand for the product or service? Is it a fad, staple or trend?
5.	Are there any restrictions on the distribution or sale of the product?
6.	Is there a guarantee or warranty program? How is it administered? What is the cost?
7.	What is the companies pricing policy?
8.	Is the price competitive?
9.	Are suppliers specified or can you buy from other than designated suppliers?
10.	How is the product packaged?
11.	Does the product packaging meet legal guidelines?
12.	Is there any celebrity associated with the franchise? What would be the effect if the celebrity withdrew their support?



