

# How to Analyze a Franchise

## FRANCHISOR ANALYSIS FORM

Make yourself a copy of this form for as many franchisors as you are investigating. Ask all of these questions of each Franchisor. **Part One** will give you a guideline as to what to expect from the franchisors that you are considering. Their answers will give you a great deal of insight into how their operations are run.

In **Part Two** you will ask yourself questions as to how you interacted with the Franchisor and its representatives. **Part Three** is where you actually interview, either in person or via telephone, current Franchisees of the Franchisor for their input.

### PART I

NAME OF FRANCHISOR: \_\_\_\_\_  
ADDRESS: \_\_\_\_\_  
CITY, STATE, ZIP: \_\_\_\_\_  
CONTACT NAME & PHONE: \_\_\_\_\_  
FAX: \_\_\_\_\_

#### Business Background:

Request reports from the Better Business Bureau, local and national Chambers of Commerce, Dun and Bradstreet, bankers. Also request a credit rating. List reports available here: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

1. The start date of Franchisor's business and the date the first franchise was sold: \_\_\_\_\_  
\_\_\_\_\_

2. Franchisor's affiliates and business experience. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. The number of people on the corporate staff of Franchisor and their functions. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Business experience of each of Franchisor's officers, directors and management personnel responsible for franchise services, training and other aspects of the franchise program \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. Experience of Franchisor's support staff. How many Franchisees is one individual assigned to? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Legal Action:**

6. A description of lawsuits in which the Franchisor and/or its officers, directors and management personnel have been involved. \_\_\_\_\_

7. Information about any previous bankruptcies in which Franchisor and/or its officers, directors and management personnel have been involved. \_\_\_\_\_

8. Has Franchisor ever been sued by a Franchisee, what is the issue, has it been resolved, what has been done to correct the situation? \_\_\_\_\_

10. Is there any pending legal action against Franchisor? If so, what is the legal action and what is the result? \_\_\_\_\_

**Franchise Agreement and Fees:**

11. Has Franchisor provided a copy of the Franchise Agreement and other contracts or agreements which the Franchisee must sign? \_\_\_\_\_

12. Has Franchisor provided the information about the initial franchise fee and other initial payments that are required to obtain the Franchisor's franchise? \_\_\_\_\_

13. What is the amount of the initial franchise fee? Is the franchise fee reasonable on comparison with other franchises? \_\_\_\_\_

14. What will the Franchisee need to spend for land, facilities, equipment, materials and supplies, merchandise, staffing, advertising and marketing, etc.? How do the royalty and advertising fees compare with other franchisors in competitive businesses? \_\_\_\_\_

15. What is the length of the Franchise Agreement, renewal period, terms under which the Franchise Agreement can be cancelled, terminated or renewed by Franchisor or Franchisee? What is the renewal fee? \_\_\_\_\_

Is it possible for the Franchisee to be able to terminate the agreement if they are not happy or if there is some serious economic or financial reason for such termination? \_\_\_\_\_

16. A description of the recurring or isolated fees for payments Franchisees are required to make after the franchise opens. \_\_\_\_\_

17. Is there an ongoing royalty fee? If so, how much? When and how is it paid? And what is it based upon (gross sales, etc)? \_\_\_\_\_

**Start-Up Costs:**

18. What services are provided by the Franchisor to help the Franchisee get started (site location, lease or purchase negotiation, facility layout and design, grand opening plans, service or maintenance contracts, etc.)? Is there a charge for any of these services? \_\_\_\_\_

19. A description and itemization of the Franchisee's initial investment, including an accounting of all expenditures that the Franchisee is required to make in setting up the franchise. \_\_\_\_\_

20. How much working capital will the Franchisee need for operating expenses and staff until the business reaches a cash flow breakeven point? \_\_\_\_\_

21. Does Franchisor finance any of the initial cost? If so, for how many years and at what interest rate? \_\_\_\_\_

22. If the Franchisee is required to buy goods or products from the franchisor, what type of terms does the Franchisor offer? Is credit competitive in today's market, is it better than competitive or somewhat over the prime rate? \_\_\_\_\_

23. Does the franchisor have an indirect means to help you raise capital? Do they provide a hard-copy business plan? A business plan on software? \_\_\_\_\_

24. From the time the Franchise Agreement is signed, how long will it take to start the business (from the date the agreement is signed until the date that Franchisee commences business with the general public)? \_\_\_\_\_

**Franchisee Goods/Restrictions:**

25. Has Franchisor provided information about any restrictions requiring purchase or lease of goods and services used in the Franchisor's business from Franchisor, its affiliates or other designated sources? \_\_\_\_\_

26. Has Franchisor provided information about any restrictions on the quality of goods and services used in the franchise, including any requirements that the Franchisee purchase such goods and services, in accordance with specifications provided by the Franchisor or from designated sources? \_\_\_\_\_

27. A description of any restriction on the kind of goods and services the Franchisee may sell and whether the Franchisee is restricted as to the customers to whom s/he may sell goods and services. \_\_\_\_\_

**Financial Assistance:**

28. A description of any assistance available from any Franchisor or its affiliates in financing the purchase of the franchise. \_\_\_\_\_

29. Does Franchisor offer customer accounts receivable financing? What is the cost? \_\_\_\_\_

**Training/Staffing:**

30. A description of all supervision, assistance and other services which Franchisor will provide to the Franchisee, including any training programs provided to Franchisee and any assistance in selecting a site. \_\_\_\_\_

31. What kind of initial training program does Franchisor offer? How long does it last? Who pays? Is the training for the Franchisee only? Is training available for managers and employees also? What subjects are covered? Is there a training syllabus available? \_\_\_\_\_

32. Is there ongoing training? Who is included? How often? What subjects are covered? Who pays? What is the level of ongoing assistance that the Franchisor will provide? Try to quantify the level of assistance provided the Franchisee. \_\_\_\_\_

33. What are the backgrounds of the Franchisor's field representatives or roving supervisors? Have you talked to at least two field representatives of the Franchisor? \_\_\_\_\_

34. How many employees will the Franchisee need to staff the franchise? Full-time or part-time? What is the salary structure? \_\_\_\_\_

**Territory/Site Selection:**

35. Is the Franchisor's franchise exclusive or non-exclusive? Does the Franchisee get a specific protected territory? Is there a development agreement available at the time of initial franchise signing to provide for additional territories in the future? \_\_\_\_\_

36. A description of any territorial protection that will be granted to the Franchisee. \_\_\_\_\_

37. Does the Franchisee purchase the land or the building or lease either from the Franchisor? How long is the lease? Is the lease term for the same amount of time as the Franchise Agreement? \_\_\_\_\_

38. Who is responsible for finding the franchise location? Does the location have to meet the Franchisor's site specifications? Who is responsible for the actual lease or sale negotiations? \_\_\_\_\_

**Copyrights/Patents/Trademarks:**

39. A description of the trademarks, service marks, trade names, logo types and other commercial symbols owned by the Franchisor that will be licensed for use by the Franchisee. \_\_\_\_\_

40. A description of any patents or copyrights owned by the Franchisor, whether the Franchisee may use them and the terms and conditions under which the Franchisee may use them. \_\_\_\_\_

41. Are there requirements on what the Franchisee must sell? Are there restrictions on what you can sell? \_\_\_\_\_

**Franchisee Participation:**

42. Is the Franchisee required to manage the business? \_\_\_\_\_

43. A description to the extent on what the Franchisee must sell. Are there restrictions on what you can sell? \_\_\_\_\_

**Product or Service:**

44. Does the franchise offer a product that has been around a while? Does it offer a service that has been around for some time? \_\_\_\_\_

45. Is this product or service of the type where the Franchisee may sell to the same customer many times? Is this a one-shot sale only? \_\_\_\_\_

46. Is the product or service seasonal by nature? \_\_\_\_\_

47. Is this product or service likely to exist for a long time or is it a fad? \_\_\_\_\_

48. Does this product or service sell like mad in other markets? \_\_\_\_\_

49. Is this a product or service that I would purchase? \_\_\_\_\_

50. Is there a long-term prediction of a greater demand for this product or service? \_\_\_\_\_

51. How does the Franchisor help in controlling your inventory? \_\_\_\_\_

52. Product qualities checklist:

_____ Attractive packaging.	_____ Good, lasting quality.
_____ Easy and safe to use.	_____ Exclusive source of supply?
_____ Known to comply with federal, state and local laws?	

**Franchise Renewal/Repurchase/Termination:**

53. A description of the conditions under which the Franchisee may repurchase, renew or transfer ownership of the Franchise, as well as conditions under which the agreement may be terminated or modified by either the Franchisee or the Franchisor. \_\_\_\_\_

54. Statistical information about the present number of franchises: the number of franchises protected for the future, the number of franchises terminated, the number of franchises the Franchisor has decided not to renew and the number repurchased in the past. \_\_\_\_\_

55. Indicate with a checkmark a complete list of all franchises. \_\_\_\_\_

56. How many Franchisees have failed in the last three years? What were the primary reasons? How many Franchisees sold their businesses to someone else in the last three years? What were the primary reasons? \_\_\_\_\_

57. How many Franchisees have left the franchise system, either voluntarily or involuntarily? (Ask for complete list of all Franchisees who have left the system within the past two to five years.) \_\_\_\_\_

58. What is the arrangement if the Franchisee sells the business? Does the Franchisor have the right of first refusal? Does the Franchisor have the right to approve the buyer? \_\_\_\_\_

59. Has the Franchisor ever franchised any other types of business? If so, what is the track record of that business? \_\_\_\_\_

60. Is it possible for the Franchisor to sell the franchise or the entire franchise system? \_\_\_\_\_

61. What are the restrictions placed on the Franchisee's ability to sell the unit? Are there additional fees to transfer the unit to another party? \_\_\_\_\_

62. Can the Franchisor buy back the unit? Does the Franchisor have to pay for goodwill? \_\_\_\_\_

### **Promotion/Advertising:**

63. Does the Franchisor provide advertising, public relations or marketing support (newspaper and magazine ads, telephone book ads, brochures, catalogues, television and radio commercials, national media coverage, point of purchase displays, press release packets, etc.)? Who pays? Is there a co-op plan where the Franchisor shares the cost? \_\_\_\_\_

64. Is there an ongoing royalty fee? If so, how much is it? How is it paid? \_\_\_\_\_

65. What is the Franchisor's national advertising budget? \_\_\_\_\_

66. A description of the involvement of any celebrities or public figures in the Franchisor's business. \_\_\_\_\_

### **Financial/Statistical Information:**

67. Total sales for the Franchisor's operations for the last year, the year before and what is projected for the next year. \_\_\_\_\_

68. The average gross revenue per franchise, average net revenue (gross profit) per franchise and average net profit per franchise. \_\_\_\_\_

69. Indicate receipt of financial statements of the Franchisor for the prior 3-5 years. \_\_\_\_\_

70. What is the reasonable profit potential for a Franchisee? \_\_\_\_\_

71. A complete statement of the basis for any earnings claims made to the Franchisee, including the percentage of existing Franchisees that have actually achieved the results that are claimed. \_\_\_\_\_

### **Corporate Strategy:**

72. Franchisor's long-term and short-term goals for its franchise operations. \_\_\_\_\_

73. Franchisor's strategy for dealing with the competition. \_\_\_\_\_

### **Research and Development:**

74. How much does the Franchisor spend in research and development annually and as a percentage of revenue? \_\_\_\_\_

### **Designing Store Layout and Displays:**

75. Does the franchisor provide this particular service? Do they dictate or require a certain "look?" Could this result in an additional ongoing cost? Can they require changes in the future "look" of the store which the Franchisee will have to finance? \_\_\_\_\_

### **Corporate Assistance/Information Services/Requirements:**

76. What kind of administrative or managerial support is provided (headquarters or regional resources; toll-free hotline; regular on-site visits; policy management procedure and customer service manuals; business or accounting forms; accounting, inventory, personnel and computerized billing systems; computerized operations information; etc)? \_\_\_\_\_

77. What kind of ongoing information does the Franchisor provide (company newsletter or magazine, product or service updates, industry or market updates, etc.)? \_\_\_\_\_

78. Does the Franchisor analyze the Franchisee's monthly (or weekly) reports for their purposes only, or is management assistance provided to Franchisees based on this information? \_\_\_\_\_

79. Is there a centralized purchasing system? Is the Franchisee required to use it? Are the prices competitive? \_\_\_\_\_

80. Is there a company sponsored insurance program? If yes, what does it cover (general liability, property, auto, life, major medical, dental, disability, workers compensation)? Who is the carrier? What kind of reputation does the carrier have for settling claims? \_\_\_\_\_

81. Does the Franchisor sponsor recognition or award programs for its franchisees? \_\_\_\_\_

82. Are there regular regional or national conferences where the Franchisee can meet and exchange other ideas with other franchisees? \_\_\_\_\_

83. Are their special requirements (uniform facility layouts, use of Franchisor's logo, company uniforms for employees, purchase of company product, insurance, etc)? \_\_\_\_\_

### Information Reporting:

84. What information (such as financial statements, audited balance sheets, etc.) is the Franchisee required to provide to the Franchisor and how often? \_\_\_\_\_

### Franchisor Derived Benefits:

What types of benefits can the Franchisee receive from the Franchisor that s/he could not provide for themselves? Advertising campaigns? Accounting techniques? Group buying power? \_\_\_\_\_

### Review by Advisors:

\_\_\_\_\_ Franchise Attorney (including any list of suggested changes).

\_\_\_\_\_ Accountant's Review (of Franchisor's financial position and Franchisee projections).

\_\_\_\_\_ Management/Marketing Advisor.



## PART II

	<u>Yes</u>	<u>Not Sure</u>	<u>No</u>
1. Was I treated fairly and openly by the Franchisor?	_____	_____	_____
2. Do I believe the Franchisor has met the spirit and intent of the FTC rule?	_____	_____	_____
3. Was I allowed to take my own time? NOT hustled?	_____	_____	_____
4. Were people professional and qualified?	_____	_____	_____
5. Do I think the Franchisor is honest?	_____	_____	_____
6. Were all my questions answered to my satisfaction?	_____	_____	_____
7. Does the Franchisor have a good reputation?	_____	_____	_____
8. Is the Franchisor financially sound?	_____	_____	_____
9. Are all the materials I received clear and easy to understand?	_____	_____	_____
10. Is the Franchisor a member of industry trade associations?	_____	_____	_____
11. Is the Franchisor listed in major franchise directories?	_____	_____	_____
12. Does the Franchisor have a toll-free number?	_____	_____	_____
13. Has the Franchisor's product or service proven to be a success?	_____	_____	_____
14. Does the product or service seem to have staying power?	_____	_____	_____
15. Is the industry growing?	_____	_____	_____
16. Is the Franchisor growing?	_____	_____	_____
17. Is the Franchisor national in its operation?	_____	_____	_____
18. Do I think this franchise will go in my area?	_____	_____	_____
19. Does this franchise fill my personal goals?	_____	_____	_____
20. Does the Franchisor help me with local advertising, either financially or by providing ad copy?	_____	_____	_____
21. Does the Franchisor have a customer service department to answer my questions?	_____	_____	_____

22. Did the Franchisor give me an idea of who or what my market is? Or of who buys their products or services?
23. Does the Franchisor have plans for new products and services in the future?
24. Am I free to hire whom I want?
25. Can I make a good living from this franchise?

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

To score Part II, give 4 points for every "yes," 2 points for every "not sure" and 0 points for every "no." Your total score will be between 0 and 100. You can give yourself a letter grade based on the following formula:

- A = 90-100  
B = 80-89  
C = 70-79  
D = 60-69  
F = 59 and below.

If the Franchisor you are investigating ranks a C or below, you should consider dropping the company from consideration at this point.

## PART III

Pick a minimum of six Franchisees from the lists provided by the Franchisor. Pick these randomly and not necessarily in your city or general area. Ask them the following questions either in person or via the telephone. Use a separate sheet of paper for each Franchisee's response. Put their answers down in writing as near to verbatim as possible for later review.

1. Give a brief description of your business as you understand it now.
2. Is that belief different than when you started in business?
3. Do you believe that the business works?
4. If you had to do it all over again, would you choose the same business and the same Franchisor?
5. Has the Franchisor provided everything they said they would?
6. Have they provided even more than they said they would?
7. What is your opinion of the advertising, public relations & marketing approach of the franchisor?
8. What is the biggest advantage of your business?
9. What are your business's greatest drawbacks?
10. Is it as profitable as what you believed it would be?
11. What were the first year's results, month by month?
12. Did the franchisor give you any financial projections or pro formas?
13. How were you able to get them?
14. Did you have to get them from someone else?
15. Were the projections accurate?
16. Do you know any specific reason why a person might fail in this business?
17. How many franchisees have failed in this business?
18. In the last two years? In the last five years?
19. Why have they failed?
20. Where were they located?
21. Franchisee failure:
  - Franchisor reasons:
  - Better Business Bureau reasons:
  - Franchisee's reasons:
22. Do you like what you're doing? Are you satisfied? Are you fulfilled?

### Discussion with Franchisee.

Name: \_\_\_\_\_  
 Address: \_\_\_\_\_  
 City, State, Zip: \_\_\_\_\_  
 Telephone: \_\_\_\_\_  
 FAX: \_\_\_\_\_

## FRANCHISOR COMPARISON WORKSHEET

You can now summarize and compare one franchisor's strengths and weaknesses with another's.

The worksheet below lists key traits which you need to consider before investing. Rate each trait on a scale 1 to 10. The number 1 signifies the lowest rating, and number 10, the highest. Multiply the rating by the corresponding weight factor and place the answer in the "index" column.

When you have rated the franchisor on all the traits, add the numbers in the index column. The sum is the franchisor's final "score." The maximum score is ten (10). Before you make your final decision, see how this franchisor rates against others you are considering.

<u>Factor</u>	<u>Weight</u>		<u>Rating</u>		<u>Index</u>
Background					
Length of time in business	.10	x	_____	=	_____
Length of time in franchising	.05	x	_____	=	_____
Serious litigation	.05	x	_____	=	_____
Industry outlook	.05	x	_____	=	_____
Industry Know-How					
Length of time in primary industry	.05	x	_____	=	_____
Turn key operation	.05	x	_____	=	_____
Advertising reach (radio, TV, direct mail)	.05	x	_____	=	_____
Number of outlets	.05	x	_____	=	_____
Site selection/assistance	.05	x	_____	=	_____
Financial					
Net worth/liquidity	.15	x	_____	=	_____
ROI	.05	x	_____	=	_____
Past stability	.05	x	_____	=	_____
Other					
Training programs	.06	x	_____	=	_____
Franchisee satisfaction	.05	x	_____	=	_____
Appreciation of business	.05	x	_____	=	_____
Management style/gut feeling	.09	x	_____	=	_____
TOTAL			=====		=====

**Source:**

FRANCHISOR ANALYSIS FORM provided by Lee Weight, Marketing Manager, Insty Prints, Inc., Minneapolis, MN.

Modifications to Parts I and III adapted from Raymond Munna, *Franchise Selection: Separating Fact from Fiction*, pages 81-100, 1987.

FRANCHISOR COMPARISON WORKSHEET adapted from Dennis Foster, *The Complete Franchise Book*, p. 177, 1988.