

Four-Step Franchise Research Plan



The FranNet Four-Step Franchise Research Plan has been used by thousands of FranNet clients over the years. This is a step-by-step guide to researching a franchise.

Before you invest any money, FranNet recommends that you use our Four-Step Research Plan. These steps are designed to keep your decision-making as simple as possible by taking one small step at a time, yet allow you to thoroughly evaluate the franchise.

The key steps in the FranNet Four-Step Research Plan:

1**Talk to the franchisor****2****Call and visit some franchisees****3****Visit the franchisor****4****Consult with professional advisors**



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1 Talk to the franchisor

Read the Franchise Disclosure Document (FDD)

Review the materials provided by the franchisor and prepare questions. If the FDD is not provided in the initial information packet, ask for it on the next call with the franchisor. The FDD is a legal document that provides all required disclosures, including a list of the franchisees, that you need to read from cover to cover.

Compile a detailed list of questions to ask the franchisor

These documents may seem technical, so as you read, compile two lists of questions for the franchisor and franchisees. Highlight sections that you may wish your attorney to explain at a later date. A list of suggested “Questions to ask Franchisors” is at the end of the Four Step Research Plan. As you go through this process you will need to make a list of any other questions as they arise.

2 Call and visit some franchisees

Interview franchisees

Carefully target your list of franchisees to interview. Ask the franchisor which owners listed have similar backgrounds to you. Ask who the most successful owners are and those that are struggling. Once your list contains a good cross-section of the franchise community, begin your phone interviews using the “Questions to ask Franchisees” found at the end of the Four Step Research Plan as a starting point.

Making calls

Call at least eight to ten franchisees and take careful notes. You may need to revise your list of questions as you go. If you receive the same answer from the first four to six franchisees, drop the questions and perhaps add new ones.



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Do not expect franchisees to stop everything to talk to you, a stranger. Do not expect them to return calls. Ask them when it is convenient for you to call back. View these as structured interviews, and you are the interviewer, but use a conversational tone. Use the FranNet list of questions as a starter, and add any other questions that occur to you. Take complete notes of each interview.

Write questions for the franchisor

Write down any new questions for the franchisor that occur as you speak with the franchisees. When you complete the first round of interviews, call the franchisor to get answers to these questions. Again, take careful notes.

Arrange to visit franchisees

Plan to visit two or three franchisees in their place of business. Prepare by making a list of what you want to learn before you go. The franchisees will know you are a serious person by the amount of investigation you have already completed.

Thanks to that research, you will be prepared to learn a great deal more. The unspoken questions you are asking yourself are: “Can I see myself doing this business? Will I like it? Is it what I have been looking for?” Remember: local franchisees may see you as a resource for growing the business or they may see you as a potential competitor for future locations.

Check your interest level

After completing the visits ask yourself: “Am I still interested?” Based on what you have learned from the people inside the business, does this franchise fit your model? Can you see yourself doing what the successful franchisees have done? Will this business help you achieve your goals?

If you can answer YES to all these questions, it is time to proceed to Step 3. If not, close the file and continue researching the other opportunities outlined by your FranNet consultant.



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3 Visit the franchisor or home office

Visit the home office of the franchisor

Arrange to visit the home office of the franchisor. Many franchise companies refer to this visit as a Discovery Day. It is an opportunity for you to meet face-to-face with the key players, top management and all the departments: training, accounting, operations, and customer service. Treat these as formal interviews by planning what you want to learn. On this visit you should decide whether you fit with the corporate culture, get answers to your final questions, and be able to answer a key question for yourself: “Are these the type of people that I want as my partners?”

4 Consult with Professional Advisors

Obtain qualified professional advisers

Use any and all experts that you deem appropriate. Hire a franchise attorney to review the FDD and agreement to make sure you understand all the provisions. You may also want to hire a qualified accountant to assess the financial strength of the franchisor and assist you with your economic analysis of the opportunity. If you will be financing a portion of your investment, you should be in discussion with one or more lenders as well. Your FranNet consultant can recommend several resources for you as well.

Now it's time to MAKE THE DECISION!

You can now be confident that you have carried out an intelligent and diligent investigation and making your decision on facts as opposed to initial perceptions.



Questions to ask franchisees

These questions are just suggestions. Add whatever other questions you wish. Do not expect franchisees to return calls. Remember you are a stranger asking for a favor, so ask when you may call them. Use a warm, conversational tone, but follow the outline of the questions. Write down the names of the franchisees, their telephone numbers, and the date of the call. Take careful notes. At the end of each interview, be sure to thank the franchisee for his/her help.

1. How long have you been in business?
2. What were you doing previously?
3. What made you choose this franchise?
4. How has it been going for you?
5. How would you rate your relationship with the franchisor?
6. How would you rate the initial training?
7. How would you rate the ongoing support?
8. How would you rate the marketing programs?
9. Are you aware of any franchisees that are unhappy in this business? Do you know why?
10. How difficult is it to find, train and retain employees?
11. How do you compensate them?
 - a. Benefits?
 - b. Paid time off?
12. Would you mind sharing with me what you expect your annual revenue to be for the year? How does that breakdown among the various products/services?
13. Can you tell me roughly what % of that will drop to your bottom line?
14. Approximately how much per year do you spend for:
 - a. Advertising and Marketing
 - b. Uniforms
 - c. Insurance
 - d. Supplies
 - e. Rent/Utilities or Other
15. What is your cost of goods sold as a % of sales?
16. How much could I reasonably expect to gross/net in first year, second year, and third year?
17. What do you like best and least about this business?
18. If you had it to do over again, would you buy this franchise?



Questions to ask franchisors

COMPETITIVE ADVANTAGE OF PRODUCT OR SERVICE

1. Ask the representative what makes this business more attractive to you, as an owner, and more attractive to a customer.
2. How is your system better than competitors?
3. Who are the competitors?
4. How does your business match up?

TIME-TESTED STANDARDIZED FRANCHISE SYSTEM

1. Ask the representative to describe in broad terms how the system works, how long they have been at it, and what improvements they have made recently. Ask them to describe the system.
2. How long have you been franchising?
3. How many franchise units are currently operating?
4. How many units have you closed in each of the last three years? Why?
5. How many units have been transferred or sold in each of the last 3 years? Why?
6. How many units have you opened in the last three years?
7. How many units do you plan to open in the next three years?
8. What is the function of the business?
9. What is the function of the owner?
10. What is the initial investment?
11. What do we get for that? Please describe any fees you have.
12. Do you have an earnings claim? If so, what is it?
13. What improvements have you made in your business recently?

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Questions to ask franchisors

STRONG FRANCHISOR SUPPORT

1. Ask the representative to describe the support: initial and on-going training, 800-help-lines, field support, annual meetings, local meetings, purchasing, marketing, promotion, etc.
2. Describe the support you provide franchisees.
3. What is the initial training like? How long is it?
4. What support is available after the business is open?
5. What kind of continuous support is there?
6. What will I hear from the franchisees on this subject?

FINANCIAL STRENGTH AND MANAGEMENT EXPERIENCE

1. Ask the representative to comment on both of these areas. The Franchisor's comments will help you to understand the Offering Circular when you have the document.
2. In layman's language, describe the financial strength of the franchise.
3. About how much revenue comes from initial franchise fees?
4. How much from royalties?
5. Is the franchise publicly traded?
6. How has the stock performed?

MUTUALITY OF INTEREST BETWEEN FRANCHISOR AND FRANCHISEES

Tell the representative that you will be asking franchisees about this, but you would like to hear his comments, and also what you might expect to hear from the franchisees. Of course, what you want is a system where the two interests are locked together!

- How will the franchisees describe their relationship with the franchisor?
- Is it supportive? Is it combative?
- Have there been any lawsuits or arbitration?
- What was the issue, and how did it end?

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Questions to ask franchisors

Please add any additional questions you would like answered by the franchisor. Having a list of questions, shows the franchisor you are a serious and thoughtful prospect – exactly the type they want in their business and it will give you good information in the critical areas of franchise selection, which will help you during due diligence.