



# THE FRANCHISE DUE DILIGENCE PROCESS

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The purpose of this article is to assist those interested in owning their own franchise with the investigative process, and to set the stage for subsequent interaction with Andrew Rogerson. With over 27 years of small business experience including my own franchise, I will provide you with the proper coaching as you search for the right franchise opportunity and do the research on those you have interest in.

## **Hard Work**

Finding the right business is like finding the right job...only harder. Be prepared to spend several dozen hours doing your homework as outlined below. If you do not feel you can afford the time, abandon your search now! A half-hearted attempt will prove to be a waste of your time and a waste of the franchise company's time. It's not too late to cancel your investigation before it gets involved, so make sure you are fully committed before proceeding. By the way, if you cannot or will not be in a position to return phone calls and/or keep appointments with franchisor representatives, this will reflect poorly on you. Please, either honor your commitments, or don't proceed.

## **Narrowing the Field**

Ultimately, your goal is to select the franchise business that presents the best fit. *However*, beware the trap of eliminating a franchise too soon based on preconceived notions, insufficient investigation, etc. All too often, a candidate will prejudge a franchise solely on the basis of sales literature about the franchise opportunity, or a first impression formed after a brief conversation with a franchise development individual for that franchise. Don't succumb to this temptation! You may inadvertently eliminate the best one without realizing it! Force yourself to review the literature, and have a follow-up conversation with the franchisor representative in order to fully understand their program and explore all of your concerns. Call one or two franchisees before you eliminate any of them. This will help to insure that the end result and ultimate selection of a franchise is safe, affordable, and a great fit for you.

## **Contact with Andrew Rogerson**

I am prepared to be your consultant for the duration of your investigative process. Although you do not compensate me, I seek the same thing you do—a proper selection of the right franchise opportunity for you. Without this, my business, which depends heavily on referrals from happy clients, will not grow. Do not hesitate to contact me via phone or e-mail at any time with questions, concerns, comments, or just to use me as a sounding board. I typically schedule follow-up meetings or telephone calls about 7-10 days apart. Each time, we will review your progress thoroughly, answer more questions about individual programs, take stock of where the search is heading, and schedule a subsequent conversation.

### **The Investigation Process (Due Diligence)—General**

Soon, the franchisor representative(s) of the franchise(s) you have selected to consider will contact you. Typically, they will call to introduce themselves, follow up with a sales package, the Uniform Franchise Offering Circular (UFOC) if appropriate, and schedule an in-depth conversation. Please have this conversation with them in the time frame mutually agreed upon, or call them ahead of time to reschedule if you will have a conflict. Remember, these individuals are evaluating you on behalf of the franchise, just as you are evaluating their opportunity. Their time is as valuable to them as yours is to you.

Your next step after the in-depth conversation with the franchise representative might well be telephone or in-person contact with franchisees (see next topic). Alternately, you might schedule a meeting with the franchise company itself, typically at their headquarters. This is called “Discovery Day”. Don’t be alarmed if a franchisor invites you to pay a visit. They are NOT looking to take you in a back room and beat you into submission! They want to get to know you better and develop a warm fuzzy feeling about inviting you to join them, as well as furthering your education about them. In all probability, you will not discover a tremendous amount of *new* information about the franchise itself at such a meeting, as you should have a pretty good working understanding of what they are all about before going to visit them. However, this is an important opportunity to get to know the people with whom you are considering going into business. Incidentally, some franchisors will help you with the expense of coming to Discovery Day, but this should not be a deciding factor in your decision to visit.

A final note on Discovery Day. Do your homework before going! Don’t go with the idea that the franchisor is going to put on a “dog-and-pony show” for you and that’s it. You’re there to learn everything that is important *to you*, not just what they want you to know. Have your questions ready, and make sure they get asked *and* answered.

### **Investigation—Gathering Information from Franchisees**

One of the most important sources of information about franchises are their own, already established franchisees. Franchisees can provide a wealth of information (and opinions) about the franchise company, the industry, and how to be either successful or unsuccessful. Call or visit a minimum of 6-10 of them as part of your due diligence. Here are a few guidelines to help you get the most out of your contact with franchisees:

- Don’t *expect* them to return calls to you. You aren’t putting any money in their pockets. They’re doing you a favor (although they probably asked others to do them the same favor when they were investigating the franchise). Respect their time; ask them to identify a good time to spend a few minutes with you, and make the phone call be on your nickel.
- In order to get the most comprehensive and honest answers from existing franchisees, assure them at the beginning of the call that anything they say will be kept in the strictest of confidence.

- Have your questions ready at the beginning of the conversation, know where you are heading, and don't let the call take more than an agreed amount of time.
- The following won't cut it in terms of finding out income information: "I'm John Jones, looking into the ABC Franchise. Would you mind telling me how much money you're making as a franchisee?" Try this instead. After warming up the conversation for a few minutes, ask them if they had any income expectations when they went into the franchise, what were those expectations, and then ask them if those expectations have been met. Or, ask them in general terms about the income opportunity of their franchise company. If you create a *relationship* before you start asking financial questions you will have much greater success getting the answers you want.
- Most franchisees want the system to grow, just not in their own backyard. Be suspicious of negative information you get from local franchisees that in turn know that you are looking to buy in their general area. There's plenty of business to go around, or the franchise company would not be offering another franchise in the area. However, not all existing franchisees are enlightened in this regard and might discourage growth as they think it could cost them business, or they want to take advantage of growth in that area themselves.
- Most franchise prospects call franchisees at random, hoping to find the ones that are **not** doing well, as if that were the way to ferret out "the truth". This approach will not take you where you want to go! Talk to 5-7 franchisees that **are** doing well, *and ask them what it takes to be successful with that franchise*. If you bring to the table those required attributes, and a desire to do the things you must do to be successful, then maybe this is the perfect franchise for you. As to those who are not doing well, consider that they may be a fish out of water. Remember, compare yourself to the franchisees who are doing well. If you feel you are like them, you may have a winner! If you feel you are more similar to the ones who are struggling, walk away.
- Some franchisees just don't want to spend time with you discussing the franchise. This is not a reflection on the franchise (or you!). Some people are just not as helpful as others and don't want to take the time with conversation that does not directly improve their income. Move on to another franchisee, and disregard the contact.
- Finally, regarding comments from franchisees, never forget the adage, "Opinions are like belly buttons; everybody has one."

### **The Business Model**

In the course of investigating franchises, your attitudes about your needs and wants may change somewhat. The process itself is a learning experience. You may find that you started out looking at the wrong franchise(s), and need to change directions. I work with a sizeable number of different franchise companies. Don't waste time on

companies you are truly not interested in. If your business model changes, or the initial business's you are reviewing don't seem quite right, we will adjust the search accordingly.

### **The Offering Circular**

The Franchise Discovery Document (FDD) or formerly the Uniform Franchise Offering Circular (UFOC) will play a big role in helping your investigation become as safe and accurate as possible. When you receive it, review it carefully. It's long and tedious, but chock full of great information that will assist and inform you. Your investigation tools will include a good highlighter, a red pen, a stack of post-it notes (and a few cups of coffee!).

### **Financing**

Many franchise investments require some form of financing to capitalize the venture. You should look at various options to find the best one to fit your situation. The Small Business Administration (SBA) web site, [www.sba.gov](http://www.sba.gov), is a valuable source of information whether you use them as a funding source or not. Check it out. The franchise companies can offer suggestions for financing, and I have a number of sources I can recommend to you as well. If a franchisor has any type of internal financing source, they will disclose it in the FDD.

### **Personal Living Expenses**

You should have funds or a funding source in place to cover personal living expenses for a six to twelve month period prior to starting your new venture. You don't want to rely on profits from the business too soon and you want to start your new venture with a conservative, reasonable and safe financial plan.

### **The Final Decision**

So, you've spent hours reading the franchise information and the FDD, you've spoken with representatives of the franchise, as well as franchisees, and even visited the franchise company's offices and/or franchisee's locations. You feel comfortable that you have found a safe, affordable, positive match for you. You're not done yet! You have one more thing to do. Go back to the beginning of your search when you formulated a "shopping list" of elements that you wanted in your franchise business. Does the one you think is right for you contain all those elements? Make sure the one you pick matches *your* business and personal goals and *your* specific business preferences. Don't settle!

Finally, enjoy the process, as it's a big moment in your life, and **GOOD LUCK!**

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