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# Franchisees must know what they're getting into

*By JERRY CHAUTIN*
*Herald-Tribune Columnist*

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For a bad case of entrepreneurial angst, go online to the Blue Mau Mau blog at bluemaumau.org. The negative entries expose many blemishes of the franzchising world. It makes you wonder if owning a franchise is riskier than advertised.

One day last week, the first three posts on the blog were about the ongoing lawsuits against Quiznos by its franchisees, the collapse of Kleenmaid and the trial by UPS Store owners against their franchisor.

Notably the articles and venting by franchisees are one-sided. But it illustrates what can happen if you pick the wrong franchise, fail to investigate it thoroughly and do not understand the potential consequences of signing the legal documents.

At a recent symposium, Kenneth Chapman Jr., a Sarasota-based franchise and business attorney with Chapman, Chapman & Chapman, addressed the legal issues of buying a franchise.

After pointing out the benefits of owning a proven concept and having operating systems in place, he talked about the Franchise Disclosure Document.

The Federal Trade Commission requires the franchisor to give you the FDD at least 10 days before you put up any money or commit to buy a franchise unit.

That is because FTC wants you to have enough time investigate the franchise and shop around for competitive opportunities.

Chapman says that the FDD is very lengthy and contains 50 to 100 pages or more.

It includes financial information about the franchisor, how to contact its officers, start-up costs and a description of the system's operations.

Names and contact information for its franchisees are provided. FTC recommends that you speak with as many operators as possible. It is an important part of your due diligence.

Failed franchisees and lawsuits are listed. Check them out to learn what can go wrong. Claims of revenues and ongoing operating expenses may be estimated in the FDD.

Existing franchisees can tell if the numbers are achievable and how responsive the franchisor is to their needs.

Perhaps the most important document is the legally binding Franchise Agreement. It codifies the relationship between the franchisee and franchisor and takes priority over the glossy promotional brochures and sales presentation.

In fact, many of the lawsuits described in the Blue Mau Mau blog resulted from Franchise Agreement disputes. Chapman says that the terms and conditions set forth in the Franchise Agreement are not negotiable.

In part it is because the agreement is filed with FTC and in some cases with the U.S. Small Business Administration. Changes have to be approved by both agencies.

An alternative can be side agreements. Sometimes they are necessary to consummate the deal.

For more information about franchising, check out the National Franchise Association and FTC, franchise.org and tinyurl.com/c5csry.

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