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## Franchising a viable alternative in a tough economy

By Robert Zarco

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You are a successful mid-level executive or high-level corporate officer and have suddenly fallen victim to corporate down-sizing due to the economic crisis. Or you are moderately successful in your present employment or small business, but your daily routine is no longer exciting. What are your options if you choose to change jobs or even careers in order to pursue The American Dream?

Franchising can be a viable and potentially lucrative career or entrepreneurial option. But what is a franchise and is it beneficial for you?

Simply stated, in a franchise, you enter into a business relationship with a company that owns a brand, usually trademarked, that sells, markets and promotes, products or services. In turn, you as the franchisee, become an independent business owner who utilizes the franchisor's brand and trademarks in a given market or territory. The franchisor has invented a proven and successful "mouse-trap." And as the franchisee, you will be provided with an operations manual that sets forth the "how to" of operating the franchised business so that in essence it's as manageable as coloring by number.

After paying an initial franchise fee, the franchisor commonly charges royalty fees ranging from 3-8 percent of all gross sales plus 2-5 percent of gross sales for advertising fees. There may be additional fees for licensing of computer software, employee training or other elements of the business. There are numerous startup costs for securing real-estate, investing in lease-hold improvements, including furniture, fixture, equipment and working capital.

All of the material information which is pertinent and relevant to the franchise, including the respective rights and duties of the franchisor and franchisee are set-out and expressly provided in a Franchise Disclosure Document ("FDD"). It contains a detailed description of the franchised business and should be reviewed by a franchise attorney.

While franchising is a wonderful way of getting into a new business and perhaps launching a new career, there are many pitfalls for the unprepared and unwary. Read all of the complex documents — before you sign Make sure all verbal representations are expressly incorporated into your agreement.

Conduct due diligence. Interview existing franchisees from your surrounding markets. Ask pointed questions about the products or services being sold, gross sales revenues, cost of products, cost of labor, quality of the franchisor's marketing and advertising programs, ability and history of the franchisor rolling out new products and services to keep up with the competition.

Inquire whether the franchisor provides appropriate levels of service, support and assistance to newly minted franchisees — highly essential element of success. Does the franchisor establish maximum or minimum pricing that can severely impact your top-line sales. Review vendor relationships to determine whether, and in what amount, the franchisor is receiving rebates.

If you wish to pursue franchising, find a successful business where you will enjoy working on a daily basis. Buying a franchise may be your best answer to protecting yourself and tackling something new at a time of economic hardship.

Robert Zarco is a founding partner of the law firm Zarco, Einhorn, Salkowski & Brito P.A. and focuses his practice on franchise, dealership and distribution law.

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