Your Ticket to a New Career?
Anne Field in New York

Franchising can put your skills to work in your own business, but be sure to read the fine print before writing any checks

Franchising is giving James Radebaugh a second chance. Three years ago, after he was laid off from his job as a human-resources executive at food-products company Bob Evans Farms, Radebaugh, now 55, found himself disillusioned with the corporate world. So, Radebaugh, based in Powell, Ohio, consulted for several software companies while he figured out what to do next. Then it dawned on him: Why not buy a franchise? That way, he could run his own business without having to start from scratch.

This month, he plans to open a Great Clips hair salon, which he discovered when he got a haircut at a unit of the franchise a year ago. With a $300,000 line of credit acquired by putting up his house as collateral, Radebaugh intends to open two more salons by the fall, and possibly three more after that. He says he expects each unit to earn about $60,000 on $300,000 in revenues within 18 months. "I wish I had done this a long time ago,'' he says.

If you're a corporate refugee like Radebaugh -- or fear you might become one -- franchising could be the answer for you, too. You'll have the advantage of starting a business with the resources, brand, and established system of the franchisor. What's more, franchisors these days are seeking out executives for their management skills and financial savvy. Ex-execs also are desirable because, with their severance package, house, or investment portfolio, they're more likely to get bank financing. "Many members tell me they want the high-level expertise of corporate executives,'' says Don DeBolt, president of the International Franchise Assn. in Washington.

NOT JUST BURGERS. With some 1,600 franchisors in the U.S., franchising covers a lot more than burgers and frozen yogurt. Many areas identified by experts as having growth potential have sprung up to meet new economic or demographic needs. In computer services, companies such as two-year-old Geeks On Call America in Norfolk, Va., provide consulting to small businesses. Eight-year-old Mad Science Group, based in Montreal, rides the wave of parental interest in children's educational enrichment; franchisees put on science programs for schools, scout troops, and birthday parties. Even fast food has changed to satisfy different consumer tastes, with "fast casual'' restaurants that feature more healthful fare and attractive decor.

Of course, being part of a franchise network is no guarantee of success. One franchise broker was attracted by the growth potential of franchises providing nonmedical care services for the elderly living at home. But when he got in touch with franchisees, he discovered many were unhappy. Some complained of little customer interest. Others said business was hampered by the difficulty of finding qualified workers. At the same time, more established franchises may be overly saturated.

To find the right franchise, you'll need to do a lot of research -- which can take six months to a year. Your first step should be figuring out how big an investment you're willing to make. Franchisors require an initial fee that can range from $1,000 to $200,000 or more, plus they typically charge an annual royalty of 4% to 8% of gross sales. That's on top of other startup costs, from real estate to equipment. Bear in mind that you can't expect to break even until the second year in business, says Jeff Elgin, CEO of FranChoice, an Eden Prairie (Minn.) franchise broker.

WHERE TO LOOK. Still, about 60% of franchises have startup costs of less than $250,000, says the International Franchise Assn. "There's no correlation between the size of the investment and how good a deal is,'' says Howard Bassuk, chairman of the Franchise Network, a broker group in Carlsbad, Calif.

Even a low-cost franchise can generate an acceptable income. At Cleaning Authority, a Columbia (Md.) house-cleaning franchise, your initial costs of $75,000 to $100,000 can yield an annual income of $150,000 to $200,000. But remember that with many other lower-cost franchises, you may need to buy more than one unit to earn a six-figure income.

To find potential franchises, you can go to the International Franchise Assn.'s Web site, www.franchise.org. It lets you search through a database of 800 members, using such criteria as the size of startup investment needed or type of business.

You can also hire a broker. Most represent 200 or so franchisors, who pay the brokers $10,000 to $12,000 for every client who becomes a franchisee. You need to know how they choose the companies they represent. For example, do they interview franchisees to make sure they're satisfied? Do they check the companies' financials?

DO YOUR HOMEWORK. Once you pinpoint the franchises you're interested in, ask each company for its Uniform Franchise Offering Circular (UFOC), a federally required document that covers everything from startup costs to training. Make sure the annual turnover rate -- the percentage of franchisees who leave the system -- is no higher than 2%, says FranChoice's Elgin. Also check on pending litigation, particularly concerning franchisees.

Your most important step is interviewing franchisees. They're your primary source for such vital information as earnings, return on investment, and cost of goods. Talk to at least 20 and preferably up to 50. Ask whether the franchisor protects territories from encroachment, forces franchisees to buy supplies at unfavorable rates, or provides enough marketing support.

Franchisees are also the best source on market saturation. A year and a half ago, Jeff Troiano, 38, a financial adviser in Kennebunkport, Me., looked into acquiring a fast-food franchise as a side business. But many franchisees revealed they were having problems with competition. Last February, after hiring a broker, he signed on with Aussie Pet Mobile, a Dana Point (Calif.) franchisor, which provides dog grooming services in trailers. He now hopes all his leg work has led him to make the right choice.

Disponível em Business Week on-line - acesso em 13/05/2003