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What do Franchise Brokers Do?

The simple answer is that franchise brokers are hired by franchise companies to sell you a franchise. If you are looking at franchise opportunities, sooner or later you will become acquainted with a broker network.

Using a broker will not change the amount of fees you pay. But keep in mind that brokers are paid a commission only when you buy a franchise from one of their clients. When you sign your franchise agreement, the broker will typically earn 40% to 50% of the franchise fee you pay to the franchisor, or even more since most brokers have a minimum fees in the range of \$12,000. In some situations, brokers may continue to earn a percentage of your payments to the franchisor if you invest in additional franchises later. And, in a few instances they may also earn a percentage of the continuing royalty payments you make.

It is important for you to understand that the broker only earns income when you buy a franchise from one of their clients. Using a broker to help you invest in a franchise is considerably different than using a broker when you buy a house. When you purchased your home, the home owner paid a commission of approximately 6% that was likely shared by the listing broker and the selling broker. The selling broker was able to access information on all of the houses in the market that were up for sale by looking at the multiple listing services. They then could bring you to each house that met your needs, regardless of whether the house was listed with their agency.

The difference between buying a franchise and buying a home is that there are no multiple listing services for franchisors. Except for the few houses that are not listed because they are being sold privately, the home buyer gets the opportunity to learn about every house in the market. Not so in franchising, since the franchise brokers can only earn money on the franchises offered by the clients they represent. Therefore, while there may be thousands of franchises available and hundreds that meet your pocketbook and your interest, the broker you are working with may only have a very small percentage of the market available to show you.

While the number is growing, only a small percentage of franchisors use broker networks, and even the largest broker networks only represent a relatively small number of franchise opportunities. Brokers can provide you with important information on franchising and the

opportunities available. However, if you work with a broker, keep in mind that they limit the pool of opportunities available to you if they are your only source of information about franchise opportunities.

Brokers often appear very knowledgeable about franchising to the novice prospective franchisee. This is one of the reasons that they are an appealing source of franchise sales for franchisors. Their recommendations can often carry considerable weight with the prospective franchisee and make the franchise sale that much easier. Also, inexperienced franchise prospects often take the broker's recommendation as gospel and do not conduct the type of thorough due diligence on the franchise opportunity that most professionals in franchising recommend.

There are many seminars, articles, and books on investing in a franchise. Two pamphlets available are *Investigate Before Investing* published by the International Franchise Association (www.franchise.org), and *A Consumer Guide to Buying a Franchise* published by the Federal Trade Commission (www.ftc.gov). For a more in-depth understanding of how to buy a franchise, you might consider *Franchising for Dummies* which was written by Michael Seid, Managing Director of MSA, and the late Dave Thomas, founder of Wendy's.

The World Wide Web provides opportunities for franchisors to advertise their franchises on lead generation websites where many different opportunities are available. Some of these sites provide information about franchising in general and also have information on franchisors that pay to advertise on the sites. These referral sites are the modern version of newspaper and magazine advertising. Referral sites provide a wealth of information on franchising and let you explore specific franchisors at your leisure, without having to deal with any franchise salespeople, until you are ready. Not all of these franchise information sites are referral sites. Many are actually operated by franchise broker networks.

Include brokers in your network of information on franchise opportunities. But keep in mind that no matter how knowledgeable they appear and no matter how friendly they are and no matter how many times they refer to you as their client, they work for the franchisor. And, they only get paid if you buy a franchise from one of their clients. If they tell you that a hair care franchise is perfect for you, they may be right. In addition to the hair care chain they introduce you to, get information on all of the other hair care franchises available. Their client may be the best fit for you, but you need to make that determination based upon your own research.

Headed by Managing Directors Michael Seid and Kay Ainsley, **MSA Worldwide** is the nation's leading franchise consulting firm providing strategic advice and tactical services to established and emerging franchisors in the United States and internationally. For additional information on MSA, please visit our website at www.msaworldwide.com or call 860-523-4257.

Franchise brokers are hired by individual franchises to spread the word about their investment opportunities and find suitable candidates to become franchisees. One broker will be affiliated with a number of franchises, and try to encourage qualified entrepreneurs to join one of them. If they're successful, they get paid a commission as the entrepreneur invests. Franchise broker networks run many of these franchise websites. This means they can provide accurate information about the franchise. Keep in mind, the broker works for a franchisor, and the franchise doesn't belong to them. But, it also reduces your chances of running into a disreputable opportunity. The process of using a franchise broker usually includes scheduling a time to discuss your goals. After an initial consultation, the broker takes the information you've provided them and presents you with your options. Franchise Brokers Association mission is to empower people, businesses & communities through secure franchise opportunities. We help you find the franchise that's right for you so you can achieve success. Visit Us Online! Ethics. Your franchise journey will begin with honesty and a focus on long-term success. Education. With so much at stake, you deserve to make well-informed decisions. Proof. This is business, and your next move should be backed by data. We know the good franchises.