



April 13, 2008

**SMALL BUSINESS****Franchise Matchmakers' Real Clients**By **KELLY K. SPORS**

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Start shopping for a franchise to buy, and you'll likely soon realize there are hundreds to choose from -- some with flashy names like "Extreme Pita" or "Pilates Joe" that you've probably never heard of.

It's no wonder so many aspiring franchisees feel they need help choosing the right franchise. Just be careful where you turn.

There's a thriving industry of so-called franchise brokers, referral networks or consultants offering prospective franchisees free help finding a franchise system that meets their needs. All these brokers -- including bigger operations like FranChoice, FranNet and The Entrepreneur's Source -- essentially do the same thing: They interview prospective franchisees and recommend a short list of supposedly compatible franchises.


**Conflict of Interest**

But what's often lost in all this "free help" is a screaming conflict of interest: Brokers get paid by the franchise systems that want to be promoted to potential franchisees -- not by you.

The extensive interviewing process "gives a prospect a sense of false assurance that the broker is really working for them," says Michael Seid, a West Hartford, Conn., franchise adviser. In reality, "the broker's job is to bring as many good leads to the franchisors it represents as possible."

And there's great financial incentive to do just that. Brokers, Mr. Seid says, often make flat commissions of around \$20,000, or 50% of the franchise fee, for every

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prospect who buys a franchise they recommended. They generally negotiate their commissions with each franchise system separately, so they might even get more money by recommending one over another.

Another potential drawback to using a broker, he adds, is that some represent only a small group of franchise companies -- sometimes fewer than 10. So prospective franchisees may assume brokers are giving them recommendations from a vast pool of options when they're only pitching the same five franchises again and again. There are no federal requirements for the brokers to disclose the franchises they represent or their compensation, though some states may carry their own disclosure rules.

A 2007 survey by Franchise Update Media Group, an industry resource, found that 14% of franchise sales were initiated through brokers. Some franchise systems that use brokers heavily, however, get more than 30% of their leads through them, industry experts say.

#### **What the Brokers Do**

Here's how the broker relationship usually works: A prospective franchisee hears about a broker through an acquaintance or a Web site and arranges a call or face-to-face meeting. The broker interviews the prospective franchisee and sometimes administers personality tests to gauge what kind of franchise system is best-suited for that person. The interview process often involves questions about lifestyle needs, interests, managerial experience, risk tolerance and finances.

The broker then provides a list of three or four franchises for the prospect to further examine. The broker doesn't finalize sales for franchises, but instead leads clients their way.

Many brokers say that despite being paid by the franchises they promote, they only represent systems they've thoroughly vetted and believe are financially sound. The valuable service they can offer, they say, is the ability to help prospective franchisees home in on what they want in a franchise.

Kim and Rich Paul of Bel Air, Md., originally thought they wanted to buy a fast-food franchise. But after four hours of phone consultations with a FranChoice broker last year, they realized they preferred a franchise in which they didn't need

to have employees or a storefront, and one allowing them a more flexible schedule. "Using a broker was probably the best thing we did because we really didn't know what we wanted," says the 51-year-old Mr. Paul.

After researching the four franchises the broker recommended, the Pauls bought a V2K window-treatment service franchise with \$59,500 in start-up costs.

Marc Kiekenapp, a Scottsdale, Ariz., broker who represents six franchise systems including LA Sunset Tan and Right At Home, says brokers can also offer clients more details about the franchises they represent, how they operate and what to expect.

Many of his prospects are referred to him by franchisors wanting to make sure franchisee candidates really understand the business and are well-suited before signing up. He provides more information about the franchise and then, if clients are interested, they fly out to the franchisor's headquarters and perform their own due diligence to ensure the franchise really feels like a good fit.

Still, some say the inherent conflict of interests makes the value of using brokers questionable. Mr. Seid estimates that only a few hundred of 1,500 to 2,000 U.S. franchise systems work with brokers. Moreover, some of the best-known ones, like McDonald's, don't.

### Careful Approach

Prospective franchisees hoping to use brokers may want to work with several to get the widest pool of possibilities, says Mark Siebert, chief executive of iFranchise Group, a Homewood, Ill., franchisor consultant.

They should also ask brokers questions to discover how many franchise systems they represent, the fees they get paid and how they conduct due diligence on the franchises they recommend.

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