

Buying a Janitorial Services Franchise



Contents

How Janitorial Services Franchises Work	2
Problems You May Face	3
The FTC's Franchise Rule	7
Protect Yourself	8
For More Information	10
Glossary of Terms	12

INTRODUCTION

If you're thinking about starting your own business and have only a small amount to invest, you may be considering buying a janitorial services franchise. For a fee, a janitorial service company (the "franchisor") typically provides you (the "franchisee") with customers and marketing, billing and collection services.

Every franchisor has success stories to share. Be cautious. While success in the janitorial service industry is possible, it's not a guarantee.

A glossary of terms commonly used in the franchise industry is included at the end of this brochure.



HOW JANITORIAL SERVICES FRANCHISES WORK

In a typical janitorial cleaning franchise, you pay the franchisor a fee for a "package" of cleaning accounts. The fee is based on the dollar value of cleaning accounts that the franchisor will make available. The fee usually is about half the gross income the accounts are supposed to generate in a year. For example, for a fee of \$10,000, you'll get accounts worth \$20,000; for a fee of \$15,000, you'll get accounts worth \$30,000. You also may have to pay ongoing royalty or management fees.

The franchisor may offer you financing. This may sound especially attractive if you have trouble getting credit from traditional lenders.

The franchisor is supposed to offer you cleaning accounts that will produce the level of income represented in the package you purchased. However, several factors can affect that level of income. For example, if you don't accept an account, the franchisor may not have to offer you a substitute. Or, if you refuse an account because you feel it's located too far away, you may lose your right to that income. Also, if you lose accounts because you did a poor cleaning job, the franchisor doesn't have to replace those accounts.



PROBLEMS YOU MAY FACE

The Federal Trade Commission and the California Department of Corporations advise you to use caution when thinking about buying a janitorial services franchise, which often appeal to immigrants and others who speak limited English. The franchise agreement you'll receive from the franchisor may be long and complex. It may be difficult to understand your legal rights and obligations, and the obligations of the franchisor. ***Consider getting professional advice.*** Ask a lawyer, accountant or business advisor to review the franchise agreement. The money and time you spend on professional help may save you from a bad investment.

Here are some of the problems you may face:

- ❖ *Accounts offered versus accounts received.* There may be a difference between the accounts the franchisor ***promises*** to offer you and the accounts you actually receive, as well as the revenue that comes with them. For example, the franchisor may promise to offer you accounts generating \$1,000 in monthly billings for the first year. To meet its obligations, the franchisor may offer you more than one cleaning account. But given time conflicts, distance issues or other problems, you may not be able to accept all the accounts the franchisor offers. What's more, the franchisor may offer the



same accounts to several franchisees on a first-come, first-served basis. If you can't accept an account because you can't get to the location, or if another franchisee accepts the account first, the franchisor may have satisfied its obligation to offer you accounts. Because the franchisor may not tell you about this policy before you buy the "package" of accounts, you should not count on receiving all the revenue that the franchisor promised at first.

- ❖ *Rejected accounts.* The franchisor may not have to replace an account that you reject.
- ❖ *Franchisor-selected accounts.* The franchisor usually selects accounts for you. The size, number and location of the accounts may not be what you expect. For example, the franchisor may require you to service more than one account at the same time, or the job sites may be far apart.
- ❖ *Lost accounts.* Most janitorial franchise agreements specify that if a customer cancels the cleaning contract, the franchisor doesn't have to replace the account for you. In fact, you may have to pay an extra sales and marketing fee for a new account to make up for the lost income.
- ❖ *Integration clauses.* The franchise agreement you sign may contain a clause that limits the terms of your agreement to those specifically detailed in the **written** franchise agreement. This means that any oral claims or promises made by the franchisor are not part of your agreement. This is one reason why it's so important to **get all promises in writing in the franchise agreement.**
- ❖ *First year time lag for receiving accounts.* The package of accounts you buy will suggest a level of income within a year. But the franchisor may take several months to supply you with the

promised accounts. That means you may not earn any income until several months *after* you've purchased the package, so you may not earn the estimated annual income. Therefore, it's important to have other sources of income during your first few months of operation.

- ❖ *Ongoing fees.* The franchisor may charge you a monthly management or service fee. You'll have



to pay the fee even if you don't have any income from your cleaning business that month. If you finance the franchise fee, you must make the monthly

payment on that debt whether or not you're receiving income from the cleaning business. And although you may find customers without the franchisor's help, any income from a cleaning account you solicit will be included when the franchisor calculates the royalty and management fees you owe.

- ❖ *Franchisor-owned accounts.* The franchisor may own *all* the customer accounts, including those that you get on your own. This means that if your franchise agreement ends, you will not be able to service the accounts for which you paid a fee, and you won't be able to service the accounts you get on your own, either.
- ❖ *Training.* Get information about the franchisor's training program *before* you invest. The franchisor decides the type of training you'll get. It may involve watching videos and reading books; it may not involve classroom or on-site training.

- ❖ *Contract bidding procedures.* The franchisor may not tell you how it bids for cleaning contracts or what specific services you must provide to the customers. The franchisor may only tell you that



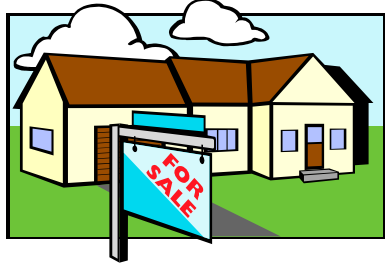
you should be able to earn \$12 to \$15 an hour doing janitorial work. However, when bidding for cleaning

contracts, the franchisor may offer your services at a lower rate, and you may have no say in whether the amount charged is reasonable. So even though the account is represented as being worth a certain amount of money, it may not be worth that much to you, and you may not be able to make a profit once you pay for expenses like supplies and transportation costs.

- ❖ *Short-term accounts.* People who operate janitorial franchises often find that customers rarely maintain an account for more than a year. That's because customers prefer short-term contracts so they can shop for the best deal. If the franchisor offers you replacement accounts, you may have to pay a new referral or marketing fee.
- ❖ *Performance obligations.* You may have to meet minimum monthly performance or growth requirements. If you don't, you may lose the franchise. Worse yet, you may not have the right to a refund of your franchise fee.
- ❖ *Payment for services.* The franchisor collects payment from your customers. If the customer doesn't pay, you don't get paid. The franchisor may not be legally obligated to force the customer

to pay, but if the franchisor sues for payment, you may have to pay the legal costs.

- ❖ *Personal guarantees.* Many franchisors require franchisees to personally guarantee the obligations of the franchise business. This means that if your business



assets don't cover your franchise obligations, you could lose personal assets, like your home or car.

- ❖ *Anti-competition rules.* You and your immediate family (your spouse and children) may not be allowed to have an ownership interest or perform services in another cleaning business, even if your family members don't have an ownership interest in your janitorial franchise. This restriction may continue even after your franchise ends.

THE FTC'S FRANCHISE RULE

By law, a franchisor must give you a detailed disclosure document. The disclosure document should include:

- the total number of franchises, and the number of franchises terminated or not renewed during the previous year;
- the bases and assumptions for any claims about potential earnings or the earnings of existing franchisees;
- the cost of starting and maintaining the business;
- the names, addresses and telephone numbers of at least 10 franchisees who live closest to you (names, addresses and telephone numbers of at least 100 franchisees is required in some states);

- the background and experience of the franchisor's key executives;
- a fully audited financial statement of the franchisor;
- any lawsuits against the franchisor or its directors by franchisees; and
- the responsibilities you and the franchisor have to each other once you've purchased the franchise.

You should receive the disclosure document at least 10 business days *before* you pay any money or legally commit yourself to buying a franchise. Ten business days should give you enough time to review the document, get answers to your questions, talk to franchisees and get advice from an attorney, accountant or business advisor.

PROTECT YOURSELF

Buying a franchise is a big decision. Before you commit, take the following precautions:

- ❖ *Read the company's disclosure document.* Review it carefully to learn more about your obligations, the litigation history of the franchisor and failure rates. This information will help you decide whether franchisees are dissatisfied with the franchise.
- ❖ *Talk to other franchisees.* Don't rely only on the information the franchisor gives you. Talk to current and former franchisees about their experiences with the franchisor. Their names, telephone numbers and addresses should be in the company's disclosure document. The franchisor may refer you directly to franchisees who are known to be successful. Don't rely on references the company selects.

- ❖ *Contact your state franchise administrator.* If you live in California, Hawaii, Illinois, Indiana, Maryland, Minnesota, New York, North Dakota, Rhode Island, South Dakota or Virginia, your state has an office that regulates the offer and sale of franchises. Contact your state franchise administrator **before** you invest. Ask if the franchise you're considering is registered to offer franchises in your state. If you live in California, call the Department of Corporations at 1-866-275-2677 (866-ASK-CORP), or visit www.corp.ca.gov. If you live outside of California, you can find the name of your state franchise administrator, by calling the North American Securities Administrators Association at (202) 737-0900 or visit www.nasaa.org. You may also contact your state Attorney General (www.naag.org) or Better Business Bureau (www.bbb.org) for more information.
- ❖ *Get all promises in writing.* If a salesperson tells you that the franchisor will give you accounts near your home, but the written agreement defines the geographic area more broadly, it's what's in the written agreement that counts. If a provision in the agreement is different from anything you discussed with the salesperson, demand that the written agreement be changed. If a salesperson tells you that you should be able to make \$12 to \$15 an hour, make sure that prediction is included in the disclosure document. If the salesperson or franchisor won't agree, walk away from the deal.
- ❖ *Review the franchise agreement carefully.* It's important to understand all the conditions of the agreement. It controls your relationship with the franchisor. Make sure the agreement spells out the details so there are not surprises.

- ❖ *Understand your obligations.* As a franchisee, you may have to pay royalties and other fees. Find out exactly what types of fees you'll have to pay, how much you'll pay and how often.
- ❖ *Investigate claims about potential earnings.* The estimated value of the package of accounts you buy may not reflect the income you'll earn from servicing those accounts. Find out how the company assigns a value to the accounts. Ask how many franchisees made the represented income and where those franchisees are located.
- ❖ *Be cautious when financing.* While financing your purchase through the franchisor may seem appealing, the terms of the financing agreement may not be the best deal for you. For example, you may have to sign a note to secure the debt and agree to terms that could make it tough for you to sue the company if you wanted to cancel your agreement. Before you agree to franchisor financing, be sure you understand all the terms of the deal.
- ❖ *Consider getting professional advice.* Ask a lawyer, accountant or business advisor to review the disclosure document and franchise agreement. The money and time you spend on professional help may save you from a bad investment.

FOR MORE INFORMATION

The FTC also publishes a series of consumer brochures on franchising and business opportunities. For free copies, contact the Consumer Response Center, Federal Trade Commission, Washington, DC 20580, 1-877-FTC-HELP (1-877-382-4357), TDD: (202) 326-2502, www.ftc.gov. The FTC works for the consumer to prevent fraudulent, deceptive and unfair business

practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint, or to get free information on any of 150 consumer topics, call toll-free, 1-877-FTC-HELP, or use the complaint form at www.ftc.gov. The FTC enters Internet, telemarketing, identity theft and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

The Department of Corporations also publishes a consumer brochure, "Look Before You Leap – A Guide to Buying a Franchise." A copy of this brochure is available on the Department's website, www.corp.ca.gov. For more information about California's requirements regarding the sale of franchises, contact the Department of Corporations at 1-866-275-2677 (866-ASK-CORP).

GLOSSARY OF TERMS

Disclosure Document – A written document that outlines the general franchise offering, including background information of the franchisor, a summary of the franchise agreement, and a list of current franchisees.

Franchise Agreement or Franchise Contract – The written document that spells out the legally binding obligations between the franchisor and the franchisee.

Franchise Fee – The purchase price for the franchise.

Franchisee – Any person who buys or invests in a franchise.

Franchisor – Any person who sells a franchise.

Management or Service Fee – A fee paid the franchisee for extra or ongoing support, such as providing additional or substitute accounts.

Royalty Fee – A specific payment made by the franchisee for the right to use the franchisor's trademark. In most instances, the franchisee pays this fee throughout the term of the agreement, regardless of anything else the franchisor may or may not do.