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Answers to
Key Questions



1.

What is so special about the automotive service business?

The industry track record of the last fifty years has been excellent in terms of economic opportunity. The reason for the industry's long-term success, in large part, rests in the fact that the American public is dependent on automotive transportation and, as a whole, is very concerned about motoring safety and dependability. In turn, the maintenance and repair of automobiles has been described as a "Basic Need" business and can be compared to other necessity industries such as food, clothing and shelter.

2.

Why will the automotive service industry continue to prosper?

- New cars cost a lot of money.
- The average age of the cars and light duty trucks in use currently exceeds 8 years and continues to increase each year.
- The average annual number of miles driven per vehicle increases each year.
- The number of vehicles in use during 1997 exceeded 164 million in the United States alone and continues to grow.
- The complexity of consumer lifestyles and scarcity of personal time continues. Increasing numbers of people just don't have the interest, the ability, or the time to repair their own vehicles by themselves.

3.

Why is the automotive service industry attractive to small business entrepreneurs?

There are three fundamental reasons:

- No dependency on minimum wage labor.
- Limited hours of operation (no 16 hour days).
- The attractive business economics associated with a retail service business.

4.

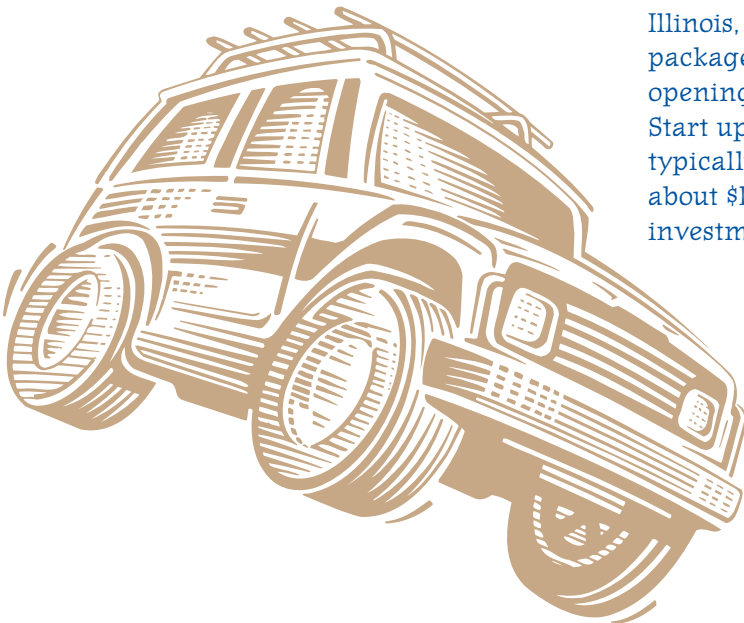
What services and products are standard at Merlin Muffler & Brake Shops?

Within the automotive service industry, the Merlin chain is classified as an under-car specialist, and its shops specialize in the replacement of brake systems, muffler and exhaust systems, shock absorbers, springs and other suspension components. Many Merlin shops also offer lubrication services, wheel alignment, air-conditioning service, starting/charging systems repair, and/or other maintenance services authorized by Merlin.

5.

In terms of a business opportunity, what additional advantages do the undercar services have over other types of automotive services?

The undercar service category is one of the fastest growing segments of the automotive aftermarket. The gross profit margins are superior to most other automotive categories. Furthermore, undercar services do not have the complexities or headaches associated with such hi-tech services as tune-up, nor are undercar service shops faced with the same intensity of competitive pressure inherent in the fast lube and/or tire & battery business categories.



6.

What kind of franchise is available?

There is an opportunity for financially and personally qualified applicants to develop individual or multiple franchises in selected metropolitan markets east of the Rockies.

7.

What will the franchise cost?

The initial franchise fee in most markets for a single shop is \$26,000. In Northern Illinois, it is \$30,000. The Merlin equipment package costs approximately \$85,000, and opening inventory amounts to \$27,000. Start up expenses and working capital will typically bring the initial investment to about \$195,000. A good portion of the initial investment can usually be financed.

8.

How much up-front cash is required to secure an individual franchise under the Merlin program?

In most cases, a qualified candidate will need a minimum of \$45,000 in cash. However, the exact amount will depend on the background of the individual, his or her financial resources and overall business plan. If the candidate qualifies under Merlin's FASTRAK program or is a participant in the Entrepreneur Development Program, the initial cash investment could be significantly less.



9.

What special qualities & skills does a Merlin franchisee (or shop manager) need to successfully operate a Merlin shop?

- High energy level and good work ethic.
- Ability to concentrate and follow a system.
- Good verbal communication skills.
- Successful management experience.
- Basic understanding of business economics.
- Sales and marketing aptitude.
- Ability to lead and motivate employees.
- Integrity
- Dedication to the customer.

10.

Why is dedication to the customer so important?

Because, quite frankly, Merlin shops are not in business merely to fix cars. Our purpose for being is to satisfy the needs of our customers. Cars do not have dollars. People do. Without a large base of regular and repeat customers, sufficient sales levels do not happen. Successful auto service business owners must be focused on and dedicated to serving customers in order to build that base. They must be willing to do whatever it takes to create strong customer relationships.



11.

How much money can I make?

Not a lot at first. The answer depends on several considerations.

- The amount of energy and time you will put into your business.
- The degree to which you follow and execute the Merlin operating system.
- Your ability to recruit, develop and lead employees.

In other words, your profits will be determined by how quickly you grow your business, to what extent its sales volume exceeds a "cash flow break even point" and to what extent you are effective in controlling expenses. It depends on you and how consistently you apply yourself and implement our operating system. Only you can answer this question. At our initial meeting, we will give you sales statistics as well as the tools and introductions with which to research the business economics and determine the profit potential. Discussions with existing Merlin franchisees will be instrumental. However, just the sheer number of Merlin shops suggests that reasonable profits are possible.

12.

How long would my franchise last?

The initial term is twenty years. After that you may renew for an additional twenty-year period. The renewal is subject to lease availabilities and terms current at the time of renewal. No additional franchise fee would be charged for franchise renewal.

13.

Where would my Merlin shop be located?

Merlin shops are generally located in high growth areas that are being under served by the competition. We currently have a limited number of approved locations from which you may make a selection. If you have a location of your own or one available to you, we will be glad to evaluate it. Selection of a site is always subject to mutual approval.

14.

Who will find and develop the location?

We will. In most cases, we will lease the location from a third party and sublease to you.

15.

What about a protected area?

Our franchise agreement defines a territory for each Merlin shop in which no other Merlin shop will be built or operated within a two mile radius of the shop.

16.

Why do most Merlin shops have five or more service bays?

Most individuals we interview relative to the Merlin opportunity are interested in a "business franchise" rather than a "buy yourself a job" franchise. The realities of the undercar service business (particularly the longer service times relative to brake repair) are such that a five-bay concept is paramount to handling the sales volumes necessary to achieve attractive returns on investment. Customer traffic patterns are generally inconsistent on an hourly basis, and business tends to come in "rushes" at certain peak times. In order to accommodate customers and maximize sales, it is necessary to have an adequate number of service bays. Five-bay facilities offer a much better work environment for shop employees and are far more efficient than smaller size shops. Furthermore, the rent cost for a five-bay unit, in terms of rent per bay, is generally less than a four-bay unit.

17.

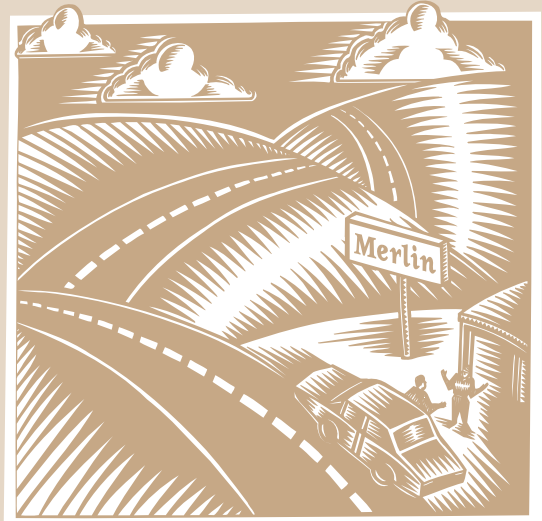
Do I receive training from Merlin's?

Yes. Franchisees and their designated managers must attend and successfully complete the five week management training program conducted at Merlin's headquarters. As well, Merlin's will provide ongoing training covering management, marketing, and technical subjects at its headquarters and company shops.

18.

Do I receive assistance in opening a Merlin shop?

Yes. In addition to your initial training program, an operations specialist will work with you in your shop prior to and after its opening.



19.

What form of continuing operational guidance will I receive?

First of all, you will receive Merlin's Operations Manual covering the many important facets of your shop operation. As the manual is updated, revisions will be made available to you. You will also receive periodic visits by our field representatives, who will consult with you and offer useful advice and counsel on system elements such as sales techniques, shop marketing, product installation, communication, and personnel policies and procedures. Merlin's also, from time to time, will utilize independent, third-party services to inspect and evaluate customer service, facility appearance, and operating system implementation. Their findings will be shared with you.

20.

What is the charge for the continuing services and use of the Merlin brand and operating system?

6.9 percent of gross sales, exclusive of any sales tax. Because of the realities associated with opening a start-up business, Merlin's discounts the fee rate to 4.9 percent and 5.9 percent for the first and second years of operation respectively.

21.

What about purchasing of parts?
Must I buy from

Merlin's has established several approved group buying programs with local distributors and national manufacturers that afford each individual shop special discounts and services. Each shop, in turn, can choose between several alternative vendors. No parts are purchased from Merlin's, and each franchisee is free to purchase his or her inventory requirements from other vendors as long as those parts conform to Merlin's product specifications.

22.

What about advertising and promotion?

Each franchisee is required to contribute five percent of gross sales to the central marketing fund managed by Merlin's. This fund is utilized to professionally promote the goodwill and public image of the Merlin chain via such media as radio, TV, print, direct mail, outdoor, and selected community service events. Furthermore, each new shop will be locally promoted and advertised during its first few months utilizing a custom-tailored marketing plan designed, implemented and funded by Merlin's. A minimum of \$3,400 will be spent by Merlin's in this regard. In addition, each franchise is required to budget and spend one percent of sales for ongoing local promotion and advertising.

23.

What is the biggest challenge in the business on a day-to-day basis?

It varies from shop to shop, but, like many retail service businesses, a large number of Merlin franchisees, as well as many of our competitors, would say the answer is recruiting, motivating, and retaining shop employees. We agree.

24.

What tools has Merlin's developed to help Merlin shops recruit and keep the best employees?

By name, they are known as People Power, Entrepreneur Development Program, Career Development Program, and FASTRAK. Properly implemented and executed at shop level, they are very effective in streamlining and simplifying the recruitment process and permitting Merlin shops to benefit from the best employees available.



25.

What about ethics, honesty in selling, and the questionable reputation of the automotive repair industry in general?

We acknowledge that the industry as a whole does not have the best image with consumer groups, government agencies, the media, and many individual consumers. Some of our competitors have fallen short of customer respect and basic ethics. On the other hand, Merlin has consistently over the years been one of the honest alternatives for the driving public. Our mission, as well as our training, has always been focused on building long-term customer relationships, giving options in the sales process and, in turn, securing referral business. As a Merlin franchisee, you will never be expected to mislead or otherwise take advantage of a customer.



26.

What's the difference between Merlin and the other undercar service chains? Why choose Merlin?

It may be that there are several answers to this question. One might be that we concentrate much of our efforts on individual shop success as evidenced by the facts that the average annual sales per Merlin shop statistic has grown by 54 percent since the beginning of 1990, that it continues to grow each year, and that it is much higher than at least two competitor chains twice our size. Another answer could be that our chain-wide retail sales volume has increased by 126 percent in the same period. Perhaps, it is the way we go to market and our overall business philosophy. (We focus on building long-term customer relationships instead of maximizing one-time sales transactions.) Or, because we are not the biggest. Or maybe, the answer is that we do not approve everybody as a franchisee, nor are we a good fit for every applicant's life strategy. However, the best answer is the one you determine on your own as a result of your observations during our initial meeting, as a consequence of your independent research, and as a conclusion from your discussions with Merlin franchisees (and, perhaps, competitors). Your answer to this question #26 is far more important than any of ours.

27.

How soon can I be in operation once I have been accepted as a franchisee?

Location is the determining factor. On a new and "contract-controlled" location, construction normally can be completed in 120 to 150 days, subject to building permits and zoning requirements. In the case of an existing operation, this time period could be as little as 75 days.

28.

I would like to know more. What is the next step?

First, fill out completely and submit the enclosed Preliminary Qualification Summary form to our corporate office. In turn, if we sense a potential fit, you will be contacted to set up a personal meeting at our corporate office. During this meeting, mutual goals will be explored and detailed information will be exchanged. Such a meeting is purely exploratory and does not obligate you or Merlin's Franchising, Inc. in any way.

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