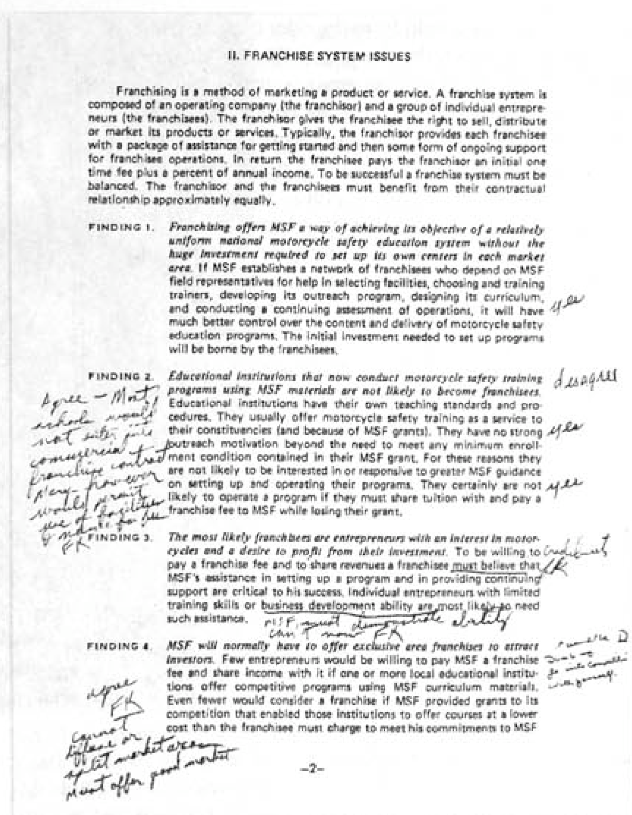
putting the plan into operation since at least 1997.

The copies we obtained have handwritten notes or underlining on them which reveal that the MSF simply wasn't ready to sell training franchises in 1981.[3] While we think of the MSF as the rider training authority, it wasn't always so. When the report was written, rider training was almost all conducted by disconnected, tiny, local institutions that operated by grants. Most of those grants came from the MSF itself or from the federal government, and only ten states had official training programs by 1982. But there was another problem: People weren't convinced they even needed rider training. The MSF had to overcome all these obstacles and more before they could sell training franchises.



II. FRANCHISE SYSTEM ISSUES

Franchising is a method of marketing a product or service. A franchise system is composed of an operating company (the franchisor) and a group of individual entrepreneurs (the franchisees). The franchisor gives the franchisee the right to sell, distribute or market its products or services. Typically, the franchisor provides each franchisee with a package of assistance for getting started and then some form of ongoing support for franchisee operations. In return the franchisee pays the franchisor an initial one time fee plus a percent of annual income. To be successful a franchise system must be balanced. The franchisor and the franchisees must benefit from their contractual relationship approximately equally.

FINDING 1. *Franchising offers MSF a way of achieving its objective of a relatively uniform national motorcycle safety education system without the huge investment required to set up its own centers in each market area.* If MSF establishes a network of franchisees who depend on MSF field representatives for help in selecting facilities, choosing and training trainers, developing its outreach program, designing its curriculum, and conducting a continuing assessment of operations, it will have much better control over the content and delivery of motorcycle safety education programs. The initial investment needed to set up programs will be borne by the franchisees. yes

FINDING 2. *Educational institutions that now conduct motorcycle safety training programs using MSF materials are not likely to become franchisees.* Educational institutions have their own teaching standards and procedures. They usually offer motorcycle safety training as a service to their constituencies (and because of MSF grants). They have no strong outreach motivation beyond the need to meet any minimum enrollment condition contained in their MSF grant. For these reasons they are not likely to be interested in or responsive to greater MSF guidance on setting up and operating their programs. They certainly are not likely to operate a program if they must share tuition with and pay a franchise fee to MSF while losing their grant. disagree yes yes

Agree – Most schools would not either ... FK

FINDING 3. *The most likely franchisees are entrepreneurs with an interest in motorcycles and a desire to profit from their investment.* To be willing to pay a franchise fee and to share revenues a franchisee must believe that MSF's assistance in setting up a program and in providing continuing support are critical to his success. Individual entrepreneurs with limited training skills or business development ability are most likely to need such assistance.

FINDING 4. *MSF will normally have to offer exclusive area franchises to attract investors.* Few entrepreneurs would be willing to pay MSF a franchise fee and share income with it if one or more local educational institutions offer competitive programs using MSF curriculum materials. Even fewer would consider a franchise if MSF provided grants to its competition that enabled those institutions to offer courses at a lower cost than the franchisee must charge to meet his commitments to MSF

agree FK

Cannot ... market area must offer good market

–2–

Franchise for Control

The MSF wanted to direct rider education in a comprehensive manner from the beginning—and that was a selling point for franchising; "MSF cannot effectively exercise control under its current procedures," the report stated, "over how its curriculum materials are used by organizations that operate their own programs." Field representatives, it says, weren't enough. "Better results can be obtained when [MSF] has a more direct role in setting up centers, training instructors and monitoring operations." To do this, though, the non-profit rider training system would have to go.

Such hard-nosed, business-minded thinking may not match up with the benevolent image most would prefer to believe the MSF to be—but that's because most think the MSF is a 501 (c) (3) corporation, the same sort of non-profit charity or educational institution as the other programs that currently offer rider training. Instead, it's a 501 (c) (6)—a Business Interest corporation. According to their by-laws, the MSF's purpose is to promote and foster the interests of the manufacturers through rider training. In other words, the MSF really is, as Buche said during our August, 2004 interview, a marketing effort of the Motorcycle Industry Council (MIC). The fact that Busche is President of both the MSF and MIC and that the two organizations share the same office space is not a coincidence.

Back then, the MIC's primary members, the motorcycle manufacturers, were the sole support of the MSF via their tax-deductible dues. The report reads, though, that it would cost far too much to set up franchising on a national level, "unless some revenues can be generated." Today, however, over half their funding comes from the administration fees collected from their state programs.

Selling franchises, however, would not only give the MSF "much better control over the content and delivery" it would provide the "initial investment needed to set up programs." Later chapters in the report would set out the costs the MSF would incur and how soon those costs could be recouped. From that point on, the MSF would make profit, but not so much that it would lose its non-profit status. Nor would it have to, since, according to 501 (c) (6) regulations, any extra money at the end of the year could be returned to the manufacturers. In other words, manufacturers would continue to get the public relations and marketing benefits from appearing to fund the the MSF with little or no cost to them.

The report said that the people most likely to buy a training franchise are "entrepreneurs with an interest in motorcycles and a desire to profit from their investment." It should be "quite attractive," it says, to those who own a motorcycle dealership or "proprietary school" that has an appropriate parking lot. Best of all, "there is virtually no competition for a prospective franchisee." But both "DM" and "FK" countered in the margins, "most dealers don't have large enough park [ing] lots." This, of course, is no longer necessarily the case.

Cut Out the Non-profits

But to get people to buy the franchise, the report goes on to say, the MSF would have to offer exclusive territorial areas, noting however that "few…would be willing to pay MSF a franchise fee and share income if one or more local educational institutions offer competitive programs." Even fewer entrepreneurs would be interested if the non-profits program cost less than they would have to charge. Then the report says, "Therefore, if the MSF sells a franchise in a given market, it must be prepared to terminate its relationship with and support for other organizations in the area" [their emphasis]. The non-profit organizations had to be cut out of the picture because, as "DM" commented on the side, "It would be dumb to go into competition with yourself."

The current providers, the report says, "certainly are not likely to operate a program if they must share tuition with and pay a franchise fee to MSF while losing their grant." In other words, if non-profit programs lost their source of funding, they would stop offering training. Removing funding from non-profits would be key in removing low-cost competition for the anticipated for-profit businesses. In that light, Busche's comments to the Murkowski committee made perfect sense.

Divide and Conquer

Subsequent chapters in the report estimate in significant detail how large a territory each franchise would have, discusses the differences in profitability with sunbelt and snowbelt states, estimates costs, capital expenses, and just how much profit an investor could make "even with just 12 to 13 students per class." The fee, in 1981 dollars, was suggested as $85. The franchisee would pay the MSF a one-time cost for the territorial rights and then a "royalty" of seven percent on the income he or she made.

In today's dollars (based on what Harley-Davidson's Rider's Edge charges) and class size, a site with only two classes a week could make roughly $34,000 a month. However, according to a source, if it was attached to a dealership, additional sales of merchandise might amount to $300-$400 per student—so up to an additional $38,000—plus any new motorcycle sales, which could raise the potential income anywhere from $250,000 to $750,000 a month. In other words, dealers could expect to make far more from auxil-