Franchising 101







Some basics to introduce you to the franchising world.

A publication by Fran-LINK Franchise Consulting

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About the Author



Alan Goldberg is a marketer, business builder, coach, dynamic speaker, and franchise specialist. After 25+ years overseeing corporate media and marketing for Fortune 500 companies, he shifted his focus to the small businesses community and became a principal in a specialty finance company providing capital to early-stage companies, and start-ups. In this role, Alan came across many bright , motivated and very talented entrepreneurs with vision and brilliant ideas. But, their businesses lacked systems and process. Great ideas aren't enough to help businesses scale and become profitable enterprises.

In 2009, Alan shifted his focus to the franchising arena where entrepreneurs leverage "other people's" brilliant ideas and leverages their blueprint for systems to operate a business and minimize risk. As a Franchise. Consultant, Alan works with middle-/senior-level executives transitioning from the corporate jobs, newly minted MBA's, entrepreneurs, and individuals looking to reinvent themselves and re-boot their careers in new industries. He provides guidance on small business ownership and helps navigate the constellation of business opportunities.

It's my privilege to help you determine your long range objectives, and research business opportunities for you that will help you achieve your goals. My process is fun and thorough and will simplify and shortcut the navigation through the world of franchising. I know the steps you need to take to reinvent yourself, and the process of self-discovery you will be going through.

I love business and learning about new businesses every day. Let me help you find the right business for you based on your strengths, skill sets and income requirements – and to help you find the courage to reinvent yourself. Transitions are hard, but with the right partner can be incredibly rewarding.

The proprietary tools and resources at my disposal will assure that you ask the right questions, and that the answers you receive will give you the information you need to move forward.

Alan Goldberg, Franchise Consultant

Welcome

We are so glad you've decided to learn more about franchising! This eBook was designed to give you a few of the tools, tips and tricks you'll need to start a franchising business. So, let's get started.

So, you're thinking about starting a business, but you're not sure where to get started? Maybe, you don't have the confidence to completely start your own deal. Congrats. Smart move – starting a business from scratch is a risky proposition. Franchising is risky too. Some people think that because it's a franchise, it will be easy. Well, it IS much easier than starting something from scratch, but nowhere near easy. Running a business is demanding! It takes determination and will. It takes discipline and emotional strength. It takes patience and realistic expectations. Franchising is not a get rich quick scheme. It's a get rich (maybe) with a lot less risk, long term plan. But rest assured, cash flow will be tight for the first few months and possibly even years.

What are you buying with a franchise? Most people think they are buying a brand name. Of course, that has something to do with it, but it is NOT the primary reason you purchase a franchise. You are buying a system. You are buying someone else's education from the school of hard knocks. You are paying them to save you the tens of thousands of dollars in ineffective processes and systems, also known as "trial and error". You are buying a fully-fledged instruction manual on how to do every single aspect of your business well, the first time around, not the tenth. That's why you're paying the big bucks. And, usually not too big, but more on that later.

First a few basics …

+ Investing in a franchise…

When you invest in a franchise you're going to sign a contract (usually, a 10-year contract). You better make sure you love the concept and love the partners – the franchisor and the fellow franchisees. You will have an opportunity to get to know them somewhat before you sign on the dotted line. But more importantly, because franchising is highly regulated (by the FTC) there's a HUGE amount of information you will have at your disposal before you commit. Not the least of which is the names and numbers of fellow owners and even people who failed in the last year. That's what makes franchising so easy to research and vet if you know what you're doing, and are willing to commit the time to the research process.

Lets also be sure to address the number one reason why small businesses fail. Inadequate startup capital. A lot of well meaning business owners think that starting their business will cost them a set amount. They don't account for the ridiculous amount of unknown expenses that they were totally unaware of at the time of their planning. This is the pivotal error that is next to impossible to plan for and yet takes so many business owners to bankruptcy court. This is one of the huge advantages to investing in a franchise – the Franchise Disclosure Document (FDD) is going to outline all the possible expenses, including your working capital for the first 3 to 6 months, in most cases.

Now that you understand franchising a little better - close your eyes and picture your perfect life. What kind of business do you want to run? What kind of hours would you work? How much money do you want (or need) to make? What type of clientele would you enjoy working with and serving? How many employees can you handle? What could you do that would make you feel amazing at the end of the day? A good tip here is to think about what you currently enjoy (or did enjoy) with your previous positions and also what you currently complain about. These are things that you'll want to address, include, and/or exclude from your dream business. There are literally thousands of franchise

> ***"I never dreamed about success. I worked for it!"***
>
> **- Estee Lauder**

Now, let's dive in!





What is franchising, anyway?

Franchising is a business strategy for distributing goods and services through a licensing relationship. In franchising, franchisors (a person or company that grants the license to a third party for the conducting of a business under their marks) not only specify the products and services that will be offered by the franchisees (a person or company who is granted the license to do business under the trademark and trade name by the franchisor), but also provide them with an operating system, brand and support.

A franchise is the agreement or license between two legally independent parties, which gives:

- a person or group of people (franchisee) the right to market a product or service using the trademark or trade name of another business (franchisor)
- the franchisee the right to market a product or service using the operating methods of the franchisor
- the franchisee the obligation to pay the franchisor fees for these rights
- the franchisor the obligation to provide rights and support to franchisees

There are two main types of franchises:

- product distribution
- business format

Product distribution franchises simply sell the franchisor's products and are supplier-dealer relationships. In product distribution franchising, the franchisor licenses its trademark and logo to the franchisees but typically does not provide them with an entire system for running their business. The industries where you most often find this type of franchising are soft drink distributors, automobile dealers and gas stations.

Although product distribution franchising represents the largest percentage of total retail sales, most franchises available today are business format opportunities.

Business format franchises, on the other hand, not only use a franchisor's product, service and trademark, but also the complete method to conduct the business itself, such as the marketing plan and operations manuals.

Business format franchises are the most common type of franchise.

Tell me about regulations….



One of the best things about franchising is that it's a highly regulated way of doing business.

Franchises are governed by the Federal Trade Commission. For example, it's not really acceptable, unless disclosed in a uniform way in item 19 of their franchise disclosure document (FDD), for a franchise system to make earnings claims That's why you won't hear information on income potential by talking to the franchisor of any given concept. There are vast disclosure laws that state, among other things, that they are only allowed to discuss the earnings to the extent that they are disclosed in the Financial Performance Statement (Item 19) of the Franchise Disclosure Document (FDD).

Early on in your research into a particular Franchise business, you will be given access to something called a Franchise Disclosure Document (FDD). Inside that FDD is a wealth of information, and various legally required disclosures. The beauty of this is that there is the same information, in the same format, in everyone's FDD. This makes if fairly easy to compare franchise systems. The FDD itself is not a contract. If you decide to invest in a franchise, you will be signing an agreement. This is a legally binding contract. This agreement, or contract, is actually inside of the FDD. So are the names and phone numbers of everyone who is a current franchisee of that system. Also listed are the names and phone numbers of anyone who has left the franchise system - generally because of either business failure or, occasionally, a health issue, in the last year. Current and ex-franchisees are the people you will be calling to discover the answer to the all - important "how much money can I make" question, and many others. This is the most important step in the due diligence process and is called "validation".

All of this makes the due diligence process of researching franchises a lot easier than it used to be prior to regulation by the FTC. Before you invest a dollar in your new business, you will have all the information you need to make a fully informed decision. And a good franchise consultant will walk you through all of these steps.

"Find something you love to do and you'll never have to work a day in your life."

—Harvey Mackay



<u>WHAT ARE THE KEY ITEMS IN THE FDD</u>?

Item 5: **Franchise Fees**

The disclosure of all the fees that must be
paid to the franchisor before opening your business and the timing of those fees.

- Franchise fees vary widely, but generally expect to pay $25,000 to $50,000 at the time you execute your agreement.

Item 6: **Other Fees**

This is the disclosure of any possible other fees you will be obligated to pay the franchisor. Common fees include: royalties (a percentage of your gross sales) and fees for advertising or a marketing fund.

- Royalties are typically 4-8% of gross sales, and are generally paid weekly. Ad fund fees are generally 1-3%

Item 7: **Estimated Costs**

This is where you will find a chart of all the estimated start- up costs.

Talk to other franchisees who have been in the system for a year or more to see:

- How much money they needed in the beginning until they became profitable.
- How much they were able to draw from the business (and when) to support themselves.

Item 9: **Franchisee's Obligations**

This is a detailed section typically displayed in a table, of all the obligations you are assuming.

- Read this section closely and be sure you understand what your requirements are.

Item 11: **Franchisor's obligations.**

Here you will find and hopefully understand the services you will get before you open around:

- site selection
- training
- development assistance

Be sure you know what support you will receive for your pre and post opening in the areas of:

- marketing
- advertising
- field support

Be sure you know what services you will receive on an ongoing basis in these 3 key areas:

- training
- advertising
- operations

Pay particular attention to those services the franchisor is obligated to provide and the services they **may** provide.

Item 17: **Renewal, termination, transfer and dispute resolution**

Take your time to understand what rights you will have and what rights you are giving up.

Pay particular attention to any non-compete provisions and your obligations when the franchise relationship ends.

Item 19: **Financial performance representations**

Probably less than half of all franchisors provide prospective franchisees with information about financial performance, but if they do disclose it's a great initial indicator of a good system.

The next best thing to sniffing out the income potential of the business is to talk to existing franchisees about sales and earnings potential.

Item 20: **Outlets and franchisee information**

Examine how many units the franchisor has opened and how many have closed. What's the growth trend?

Pay attention to the number of the franchisees who have left the system, any more than 5% of total outlets is a bit of a red flag. Later, when you start to validate, those failed franchisees should be on your list of people you want to call.

Item 21: **Financial statements**

Financial statements are the track record of the franchisor. You should be given copies of the franchisor's last three years financial statements.

Take them to an accountant who specializes in franchising to evaluate.

Remember that the financial condition of the franchisor not only affects its ability to run a financially successful operation in the future, but it also determines whether it may go under and you will be left "holding the bag."

The two key financial statements to focus on are the balance sheet and the income statement. Make sure they are audited.

Item 22: **Contracts**

Make sure that all the agreements listed are attached to the FDD-and read every one of them.

Before signing the agreement, you may want to have it reviewed by a Franchise Attorney who can bullet point for you the salient points. Sometimes small concessions can be asked for and modified. Things like territory boundaries, right of first refusal for surrounding territory and what will happen to your business should you die, are all things that a good attorney can negotiate for you in the agreement. Be sure to NEVER use a general attorney. That would be akin to seeing a podiatrist for a heart condition. Your franchise consultant can provide you with multiple references for a franchise specialist attorney.



COMMON FRANCHISE TERMS

There are a lot of terms, acronyms and abbreviations in franchising, most of which you won't know unless you have experience in the industry.

Knowing these terms can be very helpful when doing your research.

Area Development Franchise – under an Area Development franchise, a Franchisee has the right to open more than one unit during a specific time, within a specified area. The Franchisor grants the Franchisee exclusive rights for the development of that territory.

Business Format Franchise – this type of franchise includes not only a product, service and trademark, but also the complete method to conduct the business itself, such as the marketing plan and operations manuals.

Business Opportunity – (also known as a 'Biz Opp') involves the sale or lease of any product, service, equipment, etc. that will enable the purchaser-licensee to begin a business. The Licensor, or seller of a business opportunity, usually declares that it will secure or assist the buyer in finding a suitable location or provide the product to the purchaser-licensee. This is different from the sale of an independent business, in which there is no continued relationship required by the seller.

CRM – (Customer Relationship Management) is an industry term for methodologies, software, and usually Internet capabilities that help an enterprise manage customer relationships in an organized way. For example, an enterprise might build a database about its customers that describes relationships in sufficient detail so that management, salespeople, people providing the service, and perhaps the customers can directly access the information, match customer needs with product plans and offerings, remind customers of service requirements, know what other products a customer has purchased, and so forth.

Franchise – a license that describes the relationship between the Franchisor and Franchisee, including use of trademarks, fees, support and control.

Franchise Agreement – the legal, written contract between the Franchisor and Franchisee which tells each party what is required of them.

Franchisee – (also known as a 'Zee') the person or company that gets the rights from the Franchisor to do business under the Franchisor's trademark or trade name.

Franchising – a method of business expansion characterized by a trademark license, payment of fees, and significant assistance and/or control.

Franchisor – (also known as a 'Zor') the person or company that grants the Franchisee the right to do business under their trademark or trade name.

COMMON FRANCHISE TERMS

Master Franchise – a Master Franchise agreement gives the Franchisee more rights than an Area Development agreement. The Master Franchisee has the right to sell franchises to other people within the territory, known as sub-franchises. Therefore, the Master Franchisee takes over many of the tasks, duties and benefits of the Franchisor, such as providing support and training, as well as receiving fees and royalties.

Multi-Unit Franchise – a multi-unit franchise is an agreement where the Franchisor grants a Franchisee the rights to open and operate more than one unit.

Net Worth – the difference between the assets and liabilities of an individual or an entity. If an investor owns stocks, bonds, a house, and other assets worth $2 million and has liabilities of $500,000 (including mortgage amounts and accrued taxes on appreciated assets stated at fair market value), then the investor has a net worth of $1.5 million. Similarly, if a company owns land, buildings, computers, and other tangible and intangible assets with a cost basis for financial statement purposes of $10 million and has liabilities of $9 million, then the company has a net worth of $1 million.

Product Distribution Franchise – a franchise where the Franchisee simply sells the Franchisor's products without using the Franchisor's method of conducting business.

Royalty – the regular payment made by the Franchisee to the Franchisor, usually based on a percentage of the Franchisee's gross sales.

SBA – (Small Business Administration) an independent agency of the United States government that protects the interests of small businesses. The SBA ensures that they receive a fair share of government contracts, offer loans and provide counseling to small businesses. SBA loans are loans that you can apply for through various banks that have quite favorable terms. This is a very good way to borrow money to fund your franchise.

Single-Unit (Direct Unit) Franchise – this is the simplest and most common type of franchise. A single-unit (direct-unit) franchise is an agreement where the Franchisor grants a Franchisee the rights to open and operate ONE franchise unit. It is possible, however, for a Franchisee to purchase additional single-unit franchises once the original franchise unit begins to prosper. This is then considered a multiple, single-unit relationship.

Trademark– the Franchisor's identifying marks, brand name and logo that are licensed to the Franchisee.



Benefits of franchising

Owning your own business puts you in control of your own future. But it's also difficult to do by your self. When you buy a franchise, it's been said that you are in business FOR yourself but not BY yourself. This is because the franchisor offers support, experience, and knowledge in all aspects of the business. They have been there so they know what challenges will arise and the best way to overcome them.

Franchisors provide you with all the tools to be successful. They will train you prior to your opening. They give you advertising and marketing support that builds your business. Most importantly, they reduce your risk because those who came before you have tested and tweaked the system until it works. The training and support you receive should give you confidence that you will have a partner to help you with whatever comes up along the way.

Here are more benefits of franchising:

Franchising is Less Expensive

The mistakes, trial and error, and development of systems (in your own start-up) will cost much more than the franchise fee, which is typically the only difference in cost between starting from scratch or buying a franchise.

Support From the Franchisor

One of the most important reasons to join a franchise is the ongoing support. Franchisors provide ongoing training for you and your employees; they often provide coaches, mentors, franchisee groups and training materials to keep you educated.

Strong Brand

Having a strong, prominent brand creates trust with your customers. The basis of a strong brand is consistency. Customers want to know what to expect when buying from you, the brand helps create a level of comfort before they do business with you. The brand's strength can be transferred into all new markets that the brand appears in.

The franchisor creates all branded and marketing materials to create a consistent message and take one more thing away from your workload as a franchisee.

Group Buying Discounts

Mom-and-Pop shops have a major disadvantage in this area. They are competing with a corporation that may have 50 or more units buying the same products. Vendors of those products give the larger groups bulk-pricing discounts, advantages on delivery and more products to offer.

Power of Being a Business Owner

Franchising gives you the freedom of the American Dream of business ownership, but protects your investment by limiting your risk.

The insurance of working with a big, already successful franchise just gives you the chance to do other things on a more personal level.

Jason Statham

Details of the Franchise Disclosure Document (FDD)

The FTC regulates franchising, and because of that the franchisor must provide full disclosure of their earnings, financial position, background of the executives, current and former franchisees with full contact information, a copy of the operations manual's contents, a disclosure of all initial fees and all ongoing charges, a copy of the agreement, territory restrictions and more. This is extremely important as it allows you to know exactly how this franchise is doing. Are they stable? Are their franchisees successful? This information is available to those that understand how to read these documents.

Other Franchisees to Help You Grow

Having other franchisees in the system is an absolutely invaluable resource. There is a huge support group of individuals who are doing exactly what you are around the country. This group is always there and available to call on when you have questions. The franchisor is just one part of the total support system. Some businesses have a Franchise Advisory Group that is a group of franchise owners who act as the intermediary between the zee's and the zor and essentially lobby for improvements to the system.

Technology

Franchisors spend a great deal of time, energy and money on developing technology within their model to simplify the operations of the franchise. As a franchisee you benefit from these advancements every step of the way. Things like expenses, sales, cash flow, customer satisfaction, employee management, and inventory need constant attention and management.

The world of technology has completely changed the landscape of how well an entrepreneur can run a business. Franchise systems are leading the charge on utilizing technology to increase the opportunity for success for their owners. Those royalties allow them to reinvest in their technology systems offering you, the franchisee, continuous improvement.

Research and Development

Franchisors allocate a portion of your franchise fee to research and development of new products, systems, marketing programs, competitive edge opportunities and public relations. These things allow your business to stay current while other businesses in the same industry struggle.

Proven System

Franchisors have developed a system that has not only been tested by them, but also by every single franchisee that has entered into their program. That means you have a tremendous advantage by opening a business with a proven and tested system. This reduces the learning curve, the breakeven point and the stress of opening a business.

Business Planning

Some franchisors help you plan your growth and stick to that plan. It is extremely important to have objective and realistic ways of obtaining those goals by a certain date. This creates a sense of urgency, especially when you are reporting the information back to the franchisor. That adds the pressure you need to stay on target.

Equity in a Franchise

We begin with the end in mind. When you start your business, set your goals and your exit strategy in advance. If you set a goal to sell your business in five years, your franchise will have grown in value by whatever your current annual income statement shows. This means for a $50,000 investment, if your annual gross revenue is $1,200,000 then when you sell you can earn up to 24 times the investment you put into the business.

Franchises are also easier to resell than an independent start-up business. The reason is that franchisors are properly equipped with the sales team, marketing materials, support staff and success rate of their franchisees for the buyer to review. They provide a security and comfort level to the new business owner that a start-up simply cannot.

Build Your Net Worth

As your business pays off your equipment, cars, mortgages, and more your business increases in value. Your employees alone create equity in the business, growing your net worth substantially.

Sales Systems

Franchisors often help franchisees with the actual sales process. If you have a large client but are not comfortable approaching them with an offer, use your franchisor. They will get on a conference call to help you close the deal. They will help you plan a strategy to secure the client and keep that client coming back. Franchisors are your advisors, mentors, sales team, back-end support and more. Use the resources you have at your disposal within your franchised system and you will be glad you did.

Potential Pitfalls of Franchising

There are many franchisors that have never turned a profit, are deeply in debt and are frankly insolvent. You should know how to read a financial statement in order to determine these things. The information is provided for you in the Franchise Disclosure Document, which every franchisor must provide to you before you purchase the franchise. A good franchise consultant (ahem) will help you avoid these pitfalls.

Hidden and Ongoing Fees:

It is important to know exactly what fees you will be responsible for paying once you are in the franchise system. Sometimes the fees are not clear or are hidden inside things like mandatory equipment purchases. The royalty must remain the same once the agreement is signed. However, advertising fees, technology fees and equipment fees are subject to fluctuation. You can have protections written into your agreement to ensure a limit as to what the franchisor can change after you are in the system. We provide one hour of complimentary legal counsel to discuss this.

> Hard work does not necessarily guarantee success, but no success is possible without hard work.
>
> ~ Dr. T.P. Chia

Competition from Corporate:

At no point in time should the corporate operations on a franchise be permitted to directly compete with you, the franchisee. This can and will destroy your business. You will want to make sure what is included in your franchise agreement is language that the franchisor is not allowed to conduct business within your defined territory.

Restrictions on Purchasing Equipment, Products, & Materials:

Some franchisors require that you purchase their over-inflated equipment, supplies and materials. This can be their primary revenue source. Naturally you wouldn't be likely to want to invest in those brands. But if you do, try to add a clause in your franchise agreement that says you will pay fair market value for products and services, and any requirement of equipment purchases will be subject to cost review based on the current market.

Ensuring That the Franchisor is Solvent:

There are many franchisors that have never turned a profit, are deeply in debt and are frankly insolvent. You should know how to read a financial statement in order to determine these things. The information is provided for you in the Franchise Disclosure Document, which every franchisor must provide to you before you purchase the franchise. We can provide free accounting support and consultation to review the financial statements of the franchisor.

Unnecessary Requirements from Franchisor:

In some instances franchisors will require unnecessary expenses, requirements and restrictions. They usually do this for uniformity, but some can take it too far. Ask what alternatives they would be willing to accept and see if you can negotiate an agreement. It is always easier to negotiate before you purchase the franchise rather than after.

Protected Territories:

Ensure that you have a protected territory (if your franchise operates that way) that is large enough and has enough business prospects to make a viable business. Some larger franchises split their territories up so small that it becomes difficult for an individual franchisee to make any real money within that market area. Protected territories ensure you will not have to compete with other franchisees of your system in a too small area.

Clauses in Your Agreement:

Franchisees sometimes want to be in business for a long period of time, and to eventually pass along their business to their children and/or spouse. Some franchisees will make provisions to franchise agreements (with the help of an attorney) asking for longer renewal terms (beyond the standard 10), keeping their successor(s) in mind for the renewal. If the franchisor disagrees with the renewal and/or successor terms, you must decide if you still want to proceed with the standard terms of the agreement.

Territory size, additional training, changes in requirements, exit clauses, and first right of refusal for additional territories are all things that can be negotiated. The one thing that is never negotiable is the franchise fee, because the fee must be disclosed to the Federal Trade Commission and individual states per their requirements. If one fee is changed, the franchisor is required to resubmit all of their pertinent disclosures, which is a lengthy and costly process.

Preserve Resale:

Often we are only working now so we do not have to work in the future. As a franchisee, you will eventually want to sell your business for a profit. You must insure that the franchisor gives you the opportunity to legitimately sell your business.

Personal Liability:

Personal liability can be a major concern to an individual. However, if you sign the franchise agreement using your corporation or LLC you can often be alleviated of personal liability. Sometimes, franchisees only include the name of the franchise they are purchasing on the franchise agreement and exclude their corporation or LLC. By including your corporation or LLC, you limit the amount of personal liability and are now considered a “member” of this corporation or LLC. This ensures that you are not signing as an individual; you are signing as a corporation, and therefore are not held liable as an individual.

Preserve Transfer to Family Members:

In the event of death or injury, if it's not clarified in the agreement, you may want to ask for provisions and/or modifications to include your successors (spouse and children) as the transferee of the business. For example, If your children are not of age to become the business owner, include a provision to have the business placed in a trust until your children are of age. If you would like your spouse to be the successor of your business, you will need a trained manager on staff to run the business for a time period specified by the franchisor. This is why it’s so important to use a franchise specific attorney. They know how to do this and have all the language and tools to modify what is important to you.

But, am I really cut out for this?

Find out with this quick quiz. How strongly do you agree with the following statements?

1=Strongly Disagree 2=Slightly Disagree 3=Undecided 4=Agree 5=Strongly Agree	
1.I am an agile learner.	
2.I am an optimistic individual in the workplace and at home.	
3.I am a self-starter/self-motivator.	
4.I demonstrate strong and consistent work ethic.	
5.I am a successful and effective communicator.	
6.I am efficient in the workplace.	
7.I am a team player.	
8.I am a problem solver.	
9.I am a hard worker.	
10. I have advanced relationship skills.	
11. I am comfortable in asking for assistance from corporate.	
12. I make those around me feel at ease and comfortable within the workplace.	
13. I have experience in sales.	
14. I have experience in marketing.	
15. I am able to appraise my own performance.	
16. I have experience in project management.	
17. I have management experience.	
18. I am not easily sidetracked.	
19. I allow colleagues the opportunity to ask questions and to give feedback.	
20. I take my business/work seriously.	
21. I can manage money and financials wisely.	
22.Everything you do in business must be customer focused, including your policies, warranties, payment options, operating hours, presentations, advertising and promotional campaigns and website.	

Add up the right column, if you score an 88 or higher, you are an ideal candidate for business ownership!



How will I pay for this?

There is nothing more exciting than working with clients who are in the early planning stages of choosing the right franchise for them. However, the financial commitment can seem daunting and it's easy to become overwhelmed. The concerns of funding your franchise should not hold you back from starting this new and very rewarding chapter in your life. There are so many options out there when it comes to funding your franchise!

When I meet with someone interested in becoming a franchise owner, financing the purchase of the franchise is almost always a major consideration, and one of the first things we'll discuss. Business ownership can be a path to financial security, but of course it requires you to spend before you will reap the rewards. Often LONG before you will reap the rewards!

Before you put down any money, one of the steps in the due diligence process is to reach out to fellow franchisees. Here's the most common ways for you to finance your new business.

Savings

The first one, and perhaps the most obvious option, is to look at your savings. If you have mutual funds, bonds and stock market investments, you can liquidate (taxes will be incurred) and apply towards your franchise. Many people feel more secure investing in their own abilities (which they can control), rather than the unpredictability and lack of control inherent in the markets. And, if your securities are in excess of the amount of money you need – you can borrow against your securities. Interest rates are good, and you simply pay yourself back when you can. If your need for funding is half (or less than half) of the value of your securities, this is a good route to go.

Rollovers as Business Startups (ROBS)

Another option is to use your retirement funds. Companies like Tenet Financial, who we work closely with, allow you to invest your retirement funds into a franchise. This can be a very attractive way to go if you feel that your business will grow in value and that you may want to sell it in the future. That's because the retirement account will then own the business, and when you sell, the bulk of the capital gains will be sheltered inside the account. Best of all, you won't have to worry about early withdrawal penalties or taxes. And finally this option allows you to start your new business completely debt free – you don't have to pay back the money you withdrew unless you want to replenish your retirement savings.



Using some of your savings to help fund your franchise is always ideal. When it comes to this option, one thing to keep in mind is to not put all you have saved towards your business. Never invest more than 75 percent of your cash reserves. If you have $100,000, invest $75,000. If you have $25,000, invest $18,750."

Bank and credit union loans

If using your savings isn't the best choice for you, another option is to get a loan from your bank or credit union.

The Wall Street Journal reports, "Commercial banks fund many franchises, so look to these lenders first. The single most important issue in landing bank financing is your credit rating. You will need to present a complete loan package including a personal financial statement, copies of personal tax returns for three years, and verification of the source of your down payment." We have many sources to scour for finding loans, this is part of the advantage of working with a franchise consultant – that is part of the consulting process we provide.

Keep in mind that your franchise choice will have an influence on whether or not you will receive a loan. Franchises with hundreds of locations and successful track records are going to be most attractive to banks. An emerging brand that just started a year ago will be much more challenging to find financing for.

When meeting with a bank or credit union, be prepared to provide three years' worth of tax returns and personal financial statements. You should also be prepared to be asked to put in your own money. They usually ask for between 20% – 30% of the amount needed so that you have "skin in the game".

SBA Loans

Another great option is to get a loan backed by the U.S Small Business Administration (SBA). The SBA Express loan program has become so popular that they recently exceeded the budgetary limit for the fiscal year! But small business is an important driver for the economy, so as expected, Congress quickly allocated more funds to the program so it could continue running.

According to Entrepreneur, “In the 2011 fiscal year, the agency approved a record-setting $19.6 billion in 7(a) loans, the most common type of SBA funding . More than $1.5 billion of those were for franchise businesses, up from approximately $826 million the previous fiscal year.”

One reason SBA loans are so appealing is because they are partially guaranteed by the government, which makes them less of a risk to the lender. These loans provide short-term capital that cover your franchise fee, equipment, lease buildout and working capital. Generally speaking the total of the highest end of the range in item 7 of the franchise disclosure document is the total amount of loan you will be considered for. These loans carry different interest rates, but generally are 2.75% over “prime rate” (the lowest rate of interest at which money may be borrowed commercially). These loans require you to inject anywhere from 20-30% of the loan in cash.

Unsecured Lines of Credit

No discussion of funding would be complete without talking about unsecured lines of (business) credit.

A non-traditional line of credit in the form of business credit cards are the easiest lines of credit a company can get. It provides the fast access to cash and payment flexibility associated with a traditional credit line but without all the drawbacks.

Qualifying for this type of revolving credit line is FICO® driven and doesn’t require the yearly reviews, excessive documentation and level of scrutiny that comes with a traditional credit line.

Some of the advantages of non-traditional business lines of credit are as follows:

1. Access to cash quickly – With unsecured business credit cards, you can utilize as much or as little credit from your line as you want to, anytime and anywhere
2. High credit limits – Business credit cards carry high credit limits, making it extremely convenient to finance larger business purchases. Many cards even offer 0% APR for the first 12 months.
3. Flexibility – With business credit cards you have flexible payment options compared to a fixed month-to-month payment that comes with a business loan. When you tap into your credit line, you have three options every month. You could pay the full amount due, pay at least a minimal portion of the balance or pay greater than the minimum amount due.
4. True separation – Business credit cards enable business owners to separate personal and business expenses while benefiting from business credit reporting. This makes it possible for business owners to establish the creditworthiness of the business itself.
5. Personal credit protection – small business credit cards that report solely to the business credit agencies allow business owners to protect their personal credit ratings while building their business credit.

Of course, these lines of credit have drawbacks as well: once the introductory interest rate is over, the rates jump and you can get into trouble quickly. It’s important to manage your debt responsibly, make large payments when you can, and get those credit card debts paid off first.

For this reason, we generally recommend using SBA loans as your primary source of funding, while then lining up unsecured lines of credit as a supplemental form of “insurance” so you can be well capitalized for those first few months when cash flow will be minimal.

+ Funding Checklist

☑	Complete The Following Checklist
	Discuss your financial resources with a funding consultant or your franchise consultant FIRST to determine what type of funding/resource options are available for your particular needs – BEFORE submitting applications.
	Obtain tax returns for last three years. You can request returns at http://www.irs.gov/pub/irs-pdf/f4506.pdf.
	Go to www.creditkarma.com and obtain credit score & report.
	Review your credit report – check for any delinquencies or late payments. If necessary, work on a credit repair strategy. This will generally take 6 months or so but is well worth it to you in terms of better financing rates to fund your business.
	Make a list of monthly expenses.
	Make a list of any other assets: CDs, statement from brokerage house for any securities (stocks, bonds, etc.) that are not part of a retirement plan. If you own real estate investments, gather approximate current market values with legal description and location.
	Collect statement(s) of 401k/ IRA or other retirement funds (including spouse's).
	Pay down credit card balances to increase available credit – below 50% is good, below 35% is great.
	Make sure you are not late on any payments.
	AGAIN - Talk to a funding specialist or a franchise consultant BEFORE applying for a loan.

Do Not Do The Following

- Do not cancel any credit cards.
- Never cancel older credit cards – credit cards held for many years improve credit.
- Do not make loan or credit card applications – excessive inquiries may lower your credit rating.
- Do not co-sign on any loans.
- Do not go to a bank for funding advice – they will try to get you to fill out an application that will spur an inquiry.



+ Why use a franchise consultant

Franchise ownership is more than purchasing a business. Franchising is a path to independence. Being a Franchise owner is a solid and tested career change. It's an investment in yourself with the peace of mind that comes from knowing you're not alone and great support is readily available.

The key is finding the right opportunity for your unique situation, interests, and experience. That's how franchise brokers help. They utilize their experience as industry professionals to sort through the options and find what works best for your personal goals.

Each type of franchise business has its merits and strengths. There are opportunities in nearly every business category, and many have financing options to fit your needs. They all, however, want you to succeed as an independent entrepreneur.

How do you know which franchise is right for you? That's where we come in!

Here are just some of the benefits of using Your Franchise is Waiting:

- Access insider knowledge
- Reduce franchise research time
- Preparation for franchisor meeting
- Better understanding of the terminology & process
- The possibility of negotiating more favorable terms
- Our services are offered at no charge to you

What we can do for you	We'll teach you some of the questions you might want to ask when speaking with the franchisor.
Research Franchises that Fit Your Interests and Investment Level	Your Franchise is Waiting will take you through an interview process to identify what franchises you will qualify for, which franchises match your long- term and financial goals, and which franchises are available in your market.
Introduce You to the Right People at the Franchise	Your Franchise is Waiting has special contacts with the franchisor that allows us to get you in front of the right person at the franchise quickly.
Answer Questions for You as You Do Your Due Diligence	Your Franchise is Waiting is there to help you through the process and answer any questions you have along the way. We spend all of our time researching franchises so we have great information on franchise systems.
Funding	Your Franchise is Waiting can help clients obtain funding. This is important considering the normal options are not as readily available as they were in the past. There are many funding options and we work with all of them. The good news is we get franchises funded all the time.
Questions to Ask the Franchisor	These questions help you to be informed when speaking with the franchisor and to ask the right questions that will lead you to proper due diligence.

Demographics Studies	Every market is different and the number one item to cover when starting a franchise should be: Is this a viable business for the market that I am in? Do you have a large enough population, the right demographic profile for the franchise, and how heavy is the competition? Consultants can pull demographics studies to help you determine this.
Franchisee Satisfaction Reports	Consultants can give you reports (when available) on how the franchisees of a franchised system rate their franchisor. This is information that comes directly from the franchisees out in the field doing exactly what you will do. This means that you can see a snapshot of their success levels and comfort level with the franchisor, making your due diligence much easier.
1 Hour of Free Legal Consultation	If you have questions on the entity type, partnership agreements, the Franchise Disclosure Document, your exit strategy, or anything else, you can discuss those questions in a one-hour complimentary session that we provide you with to speak to one of our franchise attorneys.

SBA Loan Default Review	Do you know which franchises have the majority of defaulted loans through the SBA? We do! Consultants have access to default reports to ensure that your franchise does not have a high failure rate. This is important information to know, especially if you are applying for a loan.
Franchisee Validation Support	Your Franchise is Waiting will help you with your franchisee validation calls. This can be a challenging part of the process because of the personal nature of your questions. By using Your Franchise is Waiting to guide you, you can delicately obtain the information you need to make an educated decision on the franchise and form valuable partnerships along the way.
Business Plan Templates	Though we are unable to draw up a business plan for you, we can point you in the direction of helpful tools and resources to outline and produce a proper business plan. The template that we make available is extremely easy to use, is thorough and creates an excellent blueprint for your goals.

MORE FUN FACTS:

Albert Singer is widely considered the father of modern-day franchise model, particularly in the United States. Singer is credited with being the first to develop a franchise contract in the mid-1800s in order to help him distribute his sewing machines across the country.

AlphaGraphics became the first desktop publishing retailer in 1984. Throughout the years, the company's business center offerings have evolved to include printing, marketing communications as well as document creation and management.

Baskin-Robbins – known for its "31 flavors" slogan – has introduced over 1,000 ice cream flavors since 1945. The top five selling Baskin-Robbins ice cream flavors are Vanilla, Chocolate, Mint Chocolate Chip, Pralines 'n' Cream and Chocolate Chip.

Pinkberry rotates its flavor offerings several times a year. However, there is one flavor that is always regardless of the time of year – the frozen yogurt shop's "Original." Pinkberry also offers more than 30 toppings for its yogurt to customers.

Dave Thomas, founder of Wendy's, learned the franchise restaurant business under Colonel Harlan Sanders of KFC while working at locations in Fort Wayne, Indiana. Thomas would later earn the money to open up Wendy's by way of profits from an ownership stake given to him by Sanders for turning around underperforming KFC locations in Columbus, Ohio.

**Source: Franchise Direct*



Franchising FAQ's

How much up-front money is required to start a franchise?

There is a wide range of franchise options available to someone that is shopping for a franchise.

Retail:

If you are looking for a retail location you will want to have 30-50% of the total cost available in cash for the purchase. An average retail location begins at approximately $150,000 and goes up from there. There are many options in the $150,000 to $250,000 range including clothing stores, restaurants, digital stores, office service stores, light manufacturing and equipment stores. For a large location or a stand alone building, the average price is over 1 million dollars.

Service:

There are many service franchises that start at $30,000 and go up to around $150,000. These types of businesses can be ideal for first time business owners or business owners that are looking to invest a smaller amount of capital.

When will I achieve a return on my investment?

It is different for everyone and every business. Franchising is a unique system whereby the franchisor can assist you with a marketing plan that will show you the Key Performance

Indicators (KPI's) you will need to achieve at each step in order to obtain the financial goals you set for yourself. There are some franchises that have a very quick return on investment, estimated at only a couple months, and others that estimate more than a year to have a return on the investment.

How much can I earn as a franchisee?

This is variable depending on your willingness to follow the system, the franchise system's realistic earning capabilities, and the focus that has been placed on marketing and sales. Some franchises earn $40,000 a year and others earn 1 million dollars a year. There is a very wide variance between the different systems. A business can be a tool to help you take advantage of major tax savings, work as a vehicle to purchase assets and, in many cases, create ongoing passive income streams once the business is set up and functional. Therefore, there are many income streams available to a business owner that go beyond the day-to-day activities of the business.

How do I find out how much other Franchisees earn?

We can provide you with an evaluation tool that will help you to ask the questions needed to evaluate the earnings of franchisees currently in the system. Franchisors are allowed to disclose earnings information ONLY if they have properly disclosed that information in their Franchise Disclosure Document. Earnings can therefore be more challenging to obtain without the knowledge of what to ask the franchisees. We can provide you with tools to help.

What type of support is included?

This is a very important question for a franchisee to ask. There was a study reported in Franchise Times, conducted by professors at Florida State University and the University of Illinois at Urbana-Champaign; the study surveyed 100 franchise concepts to determine the one factor that made some franchise systems more successful than others. They concluded that the amount of initial and ongoing training was directly proportionate to the success level of the franchisees in the system. Therefore, we believe that solid and lengthy training programs properly prepare a franchisee for success.

How much should I spend on a franchise without risking all of my investment?

You many want to leverage your investment with borrowed funds. We recommend no more than 70% of your investment amount should be spent for business set-up costs. For those that are extra conservative, 50% is a good safe number to work from. It may take a little longer than expected to get everything up and running, so having that extra cushion for working capital is a responsible way to approach the business.

How much should be allocated for ongoing costs (including living expenses)?

Many business owners will have one spouse keep their current job while the other one starts the business. This allows for cash flow to continue coming into the household while the business is being set up. We recommend that you have six months to one year worth of living expenses set aside while purchasing a franchise. This will allow you to comfortably transition into the business and build it to replace your former income.

"What you get by achieving your goals is not as important as what you become by achieving your goals."

~ Henry David

What is the difference between a biz opp and franchise?

Franchising is the practice of using another business's successful business model. For the franchisor, the franchise is an alternative to building "chain stores" to distribute goods. The franchisor's success depends on the success of the franchisees. The franchisee is said to have a greater incentive than a direct employee because he or she has a direct stake in the business. A business opportunity (or biz opp) is the sale or lease of any product, service, equipment, etc. that will allow the purchaser- licensee to begin a business. The licensor (or seller) of a business opportunity usually states that it will acquire or assist the buyer in finding a suitable location or provide the product to the purchaser-licensee. This is different from the sale of an independent business, in which there is no continued relationship required by the seller.

What can a franchise do for me that I can't do for myself?

Purchasing a franchise ensures that you are buying into a functioning and proven business model. There is a considerably lower rate of failure for franchisees than for entrepreneurs with original business concepts in a start-up business. Additionally, many franchises profit because the items/services they sell already have a name and a reputation behind them.

Franchisors provide bulk purchasing power (much like wholesaling) which you would not have without the franchise system. Because all of the franchisees in a system contribute to the expense of creating the software, systems, tools, etc., the quality of those resources is superlative to resources provided to non-franchises businesses. If one tried to recreate those distributables, the expense would be far more than what one had invested in the franchise fee and the quality would be sub-par.

How does the franchisor make money?

Characteristically, a franchisor sells the right to a franchise for an initial flat fee called the "franchise fee." These fees are generally in the $25,000 to $50,000 range. The franchisor however isn't in it for the franchise fee - the majority of that goes to the introducing broker as their placement fee. The Franchisor makes money on royalty payments you will pay.

Royalties are anywhere from 3-24% of your gross sales and are typically paid weekly. That's why the franchisor is picky about awarding franchises. They want successful franchisees that will generate high sales for them for the life of the partnership they have with you. In exchange for these payments, the Franchisor will often work as a "back office" or provide other services that eliminate the need for additional support and administrative assistance. Some franchisors will also sell supplies and/or services to their franchises.

Why not go directly to the franchise instead of going through a broker?

We use our franchise experience to give you all the relevant information you need while you are buying your franchise business. We know which franchises are the least risky, most reliable, and those that have the most potential profit for you. If you are not familiar with this industry, this kind of knowledge could take several months to gather. Because we offer complimentary consultation, we feel that we are here to save your money, your time and give you peace of mind during a very important decision about your business future. Most importantly it costs you nothing to work with a consultant, and the franchise fee is exactly the same whether you go directly or through a broker so there's no reason NOT to have the extra guidance that is unbiased.

What will it cost me to use a broker for my franchise purchase?

You will not pay for the services that a franchise broker offers. You will pay the published price for any franchise just as if you had gone directly to the franchisor. The franchisor absorbs all of our placement fee as a marketing cost. The franchisors respect brokers from our organization and commit to following the processes we set in place and recognize the quality and fit of clients we refer to them after our franchise advice and consultations are complete. A franchise broker is uniquely able to provide a winning scenario for the investor and the franchisor.

How does it work? How will the broker find the best opportunity for me?

We want to match you with a business that meets your specific criteria. But we can't do that unless we know what those criteria are. We learn these criteria by asking you questions designed to help us narrow our search and provide you the best matches. Here are a few examples of what we might ask:

- Why do you want to own your own business?
- Have you owned your own business before now?
- How many hours and what time of day do you like to work?

- Is there a certain location you desire?
- How does managing people make you feel?
- What kind of capital do you have available to start your business?
- Are there partners involved?
- Do you want to have more than one business?
- When do you want to open your door for business?
- Will you be available full-time or part-time?

Once we answer these questions along with several others, we create a personal profile for you and use it to research franchise options. The consultation process makes it easier to match you with a few opportunities that meet your specific criteria. With just a few opportunities to evaluate, you save a lot of time and effort.

There are thousands of franchise opportunities available to you. Sifting through them all can take months for a person without our knowledge of the industry. Many people get frustrated and give up. Using our service can help you avoid this situation and put you on the path to owning your own business that has everything you really want.

How long will it take to get my business started?

It varies based on your comfort level and time available. If you are a motivated individual, you can complete the franchise research and consultation process in a few days fairly simply. Most clients can find a great opportunity in anywhere from 1 to 3 months. Once you have purchased your franchise opportunity, it can range from as little as 2 weeks to up to 6 months to get the business up and running.

Do I need to know the industry to buy the franchise?

Absolutely not. In fact, most companies prefer that you have no experience in the industry prior to owning the franchise. Franchisors want people that can motivate employees, close sales, and manage efficient operations. They do not want their owners doing the labor, but running the business. Typically in this equation, the franchisee is the manager not the labor.

What if I don't have enough capital to buy the franchise?

Funding your purchase of a franchise is nearly always a major consideration for business owners. Too often, businesses simply don't have enough capital to help them start-up a new business. We feel it is critical to discuss financing issues early so any problems can be addressed during investigation and research steps of the process.

One excellent resource for financing options is the franchisor. They have solved this problem in the past for themselves and for other franchisees. They will have a good idea of what works for their type of business and will likely have options that make the most sense.

When you buy a house you go through a stringent process of checks and balances to make sure you know exactly what you're buying BEFORE you lay down your life savings.

When you are looking into purchasing a franchise even more is at stake. You are considering a purchase that will determine your future income and stability.

Let us help you get the information you need to move into your future business with the confidence that your due diligence process was done thoroughly and well.

For more information about how to buy your own franchise
Visit:www.Fran-LINK.com ,
or call : *646.505.8262*