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FRANCHISING 101: A GUIDE TO THE FRANCHISING INDUSTRY

Franchise Basics

What is a Franchise?

A franchise (or franchising) is a method of distributing products or services involving a franchisor, who establishes the brand's trademark or trade name and a business system, and a franchisee, who pays a royalty and often an initial fee for the right to do business under the franchisor's name and system. Technically, the contract binding the two parties is the "franchise," but that term more commonly refers to the actual business that the franchisee operates. The practice of creating and distributing the brand and franchise system is most often referred to as franchising. There are two different types of franchising relationships. Business Format Franchising is the type most identifiable. In a business format franchise, the franchisor provides to the franchisee not just its trade name, products and services, but an entire system for operating the business. The franchisee generally receives site selection and development support, operating manuals, training, brand standards, quality control, a marketing strategy and business advisory support from the franchisor. While less identified with franchising, traditional or product distribution franchising is larger in total sales than business format franchising. Examples of traditional or product distribution franchising can be found in the bottling, gasoline, automotive and other manufacturing industries.



Franchising Is About Relationships

Many people, when they think of franchising, focus first on the law. While the law is certainly important, it is not the central thing to understand about franchising. At its core, franchising is about the franchisor's brand value, how the franchisor supports its franchisees, how the franchisee meets its obligations to deliver the products and services to the system's brand standards and most importantly – franchising is about the relationship that the franchisor has with its franchisees.

Franchising Is About Brands

A franchisor's brand is its most valuable asset and consumers decide which business to shop at and how often to frequent that business based on what they know, or think they know, about the brand. To a certain extent consumers really don't care who owns the business so long as their brand expectations are met. If you become a franchisee, you will certainly be developing a relationship with your customers to maintain their loyalty, and most certainly customers will choose to purchase from you because of the quality of your services and the personal relationship you establish with them. But



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first and foremost, they have trust in the brand to meet their expectations, and the franchisor and the other franchisees in the system rely upon you to meet those expectations.

Franchising Is About Systems and Support

Great franchisors provide systems, tools and support so that their franchisees have the ability to live up to the system's brand standards and ensure customer satisfaction. Additionally, franchisors and all of the other franchisees expect that you will independently manage the day-to-day operation of your businesses so that you will enhance the reputation of the company in your market area. When selecting a franchise system to invest in, you want to evaluate the types of support you will be provided and how well the franchisor is managing the evolution of the products and services so that it keeps up with changing consumer expectations. Some of the more common services that franchisors provide to franchisees include:

- A recognized brand name,
- Site selection and site development assistance,
- Training for you and your management team,
- Research and development of new products and services,
- Headquarters and field support,
- Initial and continuing marketing and advertising.

You want to select a franchisor that routinely and effectively enforces system standards. This is important to you as enforcement of brand standards by the franchisor is meant to protect franchisees from the possible bad acts of other franchisees that share the brand with them. Since customers see franchise systems as a branded chain of operations, great products and services delivered by one franchisee benefits the entire system. The opposite is also true.

Franchising Is also a Contractual Relationship

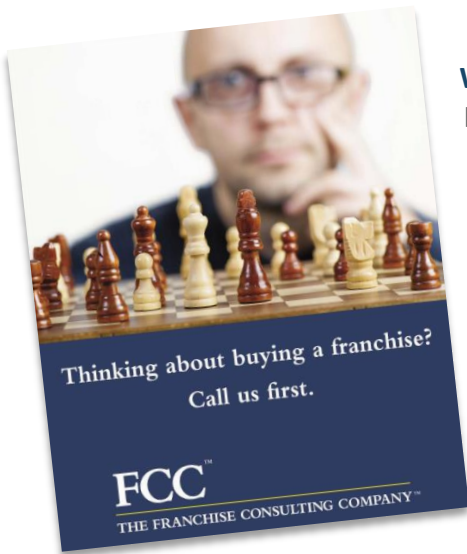
While from the public's vantage point, franchises look like any other chain of branded businesses, they are very different. In a franchise system, the owner of the brand does not manage and operate the locations that serve consumers their products and services on a day-to-day basis. Serving the consumer is the role and responsibility of the franchisee. Franchising is a contractual relationship between a licensor (franchisor) and a licensee (franchisee) that allows the business owner to use the licensor's brand and method of doing business to distribute products or services to consumers. While every franchise is a license, not every license is a franchise under the law. Sometimes that can be very confusing. In the United States, a franchise is a specific type of licensing arrangement defined by the Federal Trade Commission and by several states. In the United States a franchise generally exists when:

- The franchisor licenses a franchisee the right to use its trade or service mark;
- To identify the franchisee's business in marketing a product or service using the franchisor's operating methods;
- The franchisor provides the franchisee with support and exercises certain controls; and,
- The franchisee pays the franchisor a fee.



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The definition of a franchise is not uniform in every state. Some states for example, may also include a marketing plan or community of interest provision in the definition. The definition of what is a franchise can vary significantly under the laws in some states and it is important that you don't simply rely on the federal definition of a franchise in understanding any particular state's requirements. Put another way, in a franchise a business (the franchisor) licenses its trade name (the brand, such as BrightStar Care or Sport Clips) and its operating methods (its system of doing business) to a person or group operating within a specific territory or location (the franchisee), which agrees to operate its business according to the terms of a contract (the franchising agreement). The franchisor provides the franchisee with franchising leadership and support and exercises some controls to ensure the franchisee's adherence to brand guidelines. In exchange, the franchisee usually pays the franchisor a one-time initial fee (the franchise fee) and a continuing fee (known as a royalty) for the use of the franchisor's trade name and operating methods. The franchisee is responsible for the day-to-day management of its independently owned business and benefits or risks loss based on his own performance and capabilities. Investing in a franchise or becoming a franchisor can be a great opportunity. But before you select any franchise investment and sign any franchise agreement, do your homework, understand what the franchise system is offering and get the support of a qualified franchise lawyer.



What is a Franchise Fee?

In exchange for a franchise, the franchisee usually pays the franchisor an initial start-up fee and annual royalty fees or licensing fees depending on the language in the franchise agreement in order to use the franchisor's proprietary business knowledge, intellectual property, processes, and branding, allowing the franchisee to sell a product or service with the franchisor's business name.

What is a Franchisor?

A franchisor is a business or corporation that licenses the right to operate in its name and sell its products or services using the franchise's branding, assets, and intellectual property. The

advantage to becoming a franchisor is that franchising allows a business to expand its locations and size more quickly and more successfully by relying on franchisees to use their local market knowledge to grow the business.

What is a Franchisee?

A franchisee licenses the right to do business under a franchisor's brand using the franchisor's operational processes. Franchisees receive access to the franchisor's proprietary knowledge, systems and support, while being held responsible for maintaining the same brand and quality standards as the franchisor. The advantage to becoming a franchisee is that the costs of opening a franchise are often lower compared to starting a company from the ground up, and the franchisee inherits the proven, established business model and brand as opposed to starting a new one.



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What are common franchising terms and definitions?

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.

Disclosure Statement – Also known as the FDD, or Franchise Disclosure Document, the disclosure document provides information about the franchisor and franchise system.

FDD – The Franchise Disclosure Document, FDD, is the format for the disclosure document which provides information about the franchisor and franchise system to the franchisee.

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 each is supposed to do.

Franchisee – The person or company that gets the right 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 – The person or company that grants the franchisee the right to do business under their trademark or trade name.

Product Distribution Franchisee – 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.

Trademark – The marks, brand name and logo that identify a franchisor which is licensed to the franchisee.

What is the FTC Franchise Rule?

The FTC Franchise Rule is a federal regulation which requires franchisors to prepare an extensive disclosure document and give a copy of this document to any prospective franchise purchaser. The disclosure document typically used to comply with the Rule is called a Franchise Disclosure Document (FDD), which replaced the prior Uniform Franchise Offering Circular, or UFOC, in 2008. The Franchise Disclosure Document contains categories of information about the franchise's operations such as required fees, basic investment, bankruptcy, and litigation history of the company, how long the franchise will be in effect, a financial statement of the franchisor, and earnings claims.

How can I tell if a business is a franchise?

Many franchises have franchisee-operated locations as well as corporate-operated units, so it can be difficult to determine if a local business is a franchise at first glance. However, franchised businesses typically post signage in their stores and notes on their marketing materials (brochures, websites, vehicles, etc.) indicating that they are independently owned and operated.



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What is the role of a Franchise Consultant / Broker*?

The main difference between a franchise broker and a franchise consultant is that a broker's primary goal is to make a sale, while a consultant's role is to provide advice and guidance:

- **Franchise broker**

A broker's role is to connect franchisors and franchisees, and they are paid by commission from the franchisors. Brokers represent a portfolio of franchises and are typically used by smaller brands to expand their business.

- **Franchise consultant**

A consultant's role is to help entrepreneurs navigate the process of becoming franchise owners, and they are usually paid by the franchisees. Consultants are more likely to make decisions that resonate with the franchisee personally, and they are less focused on pushing sales.

**For the purposes of this guide, Consultant and Broker are synonymous.*

Why use a Franchise Broker / Consultant instead of dealing directly with a Franchisor?

A franchise broker's role is to ensure that you have taken a step back at the start of this exploration to assess and put into writing a plan that summarizes what your criteria are. Without a plan, you'll likely waste a lot of time looking at franchises that are not a good fit for you. There's also a lot of data to review and understand, legal and financing issues to address, and a lot of marketing hype to sift through to get to the heart of a franchise opportunity. You need an experienced franchise broker that fully understands every step of the process so you don't waste your time or money. BEST YET... Using our franchise broker services will not cost you a penny more than what you would pay the franchisor anyway, should you decide to purchase one. You have nothing to lose by working with an experienced guide!

When you work directly with a franchisor, they will be able to tell you all about the franchise they are selling but...

A franchise broker will help you also answer the following questions...

- Do you know why that franchise may or may not be a good fit for you?
- What is the investment requirement, and do you have the liquidity and net worth required?
- Are they looking for someone with your kind of professional background or is it just a business you like to patronize?
- Have you established a criteria list for a potential business investment and does it meet or exceed them?



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- Do you have any idea how you are going to finance this venture?
- Do you have the necessary legal support to help you navigate the FDD and franchise agreement?
- Do you understand why franchising is or isn't right for you in the first place?
- & more

Ultimately, a franchise broker's role is to ensure that you have taken a step back at the start of this exploration to assess and put into writing a plan that summarizes what your criteria are. Without a plan, you'll likely waste a lot of time looking at franchises that are not a good fit for you. There's also a lot of data to review and understand, legal and financing issues to address, and a lot of marketing hype to sift through to get to the heart of a franchise opportunity. You need an experienced franchise broker that fully understands every step of the the process so you don't waste your time or money. *BEST YET... Using our franchise broker services will not cost you a penny more than what you would pay the franchisor anyway, should you decide to purchase one. You have nothing to lose by working with an experienced guide!*

How much does it cost to work with a broker?

Nothing, zip, nadda. I'm paid by the franchisor if and only if you decide to buy into their business program and they do not get to charge you any kind of a premium for working with me. Our relationships are contractual with these franchisors and they know we're bringing them well qualified, interested candidates. We make their development efforts a lot easier.

Am I locked into a contract when I decide to work with you?

No, my engagements with any client are always at will. However, if you agree to work with me I do expect you to commit to the process of discovery and keep an open communication channel with me. Since you are not the person paying me, you have no financial exposure resulting from my assistance. That being said, I do ask for the courtesy of being notified if you are working with another broker or directly with any specific franchise companies. I don't like to duplicate efforts or waste your or my time if you already have someone looking at specific business types or brands.

How much money do I need to fund a franchise?

Investment requirements for purchasing a franchise differ tremendously based on the industry and the type of business the franchise operates. Total start-up costs can range from \$20,000 or less to more than \$1 million, depending on the franchise selected and whether it is necessary to own or lease real estate to operate the business. To learn more about the full costs of purchasing a specific franchise, use the [International Franchise Association's franchise opportunity search tool](#) to find the franchise that will be the best financial fit for you. While it is possible to find a franchise opportunity that requires a lower level of cash liquidity, my experience has taught me that any client coming in with less than \$50,000 of their own money will have a hard time finding a reputable and viable franchise opportunity. This liquidity can come in the form of cash, home equity or even a portfolio



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loan you take out against your non-IRA stock account. There are many more potential options, so let's discuss.

How do I fund my franchise?

The sooner the better. It is usually a good idea to start figuring out how you will be funding your business venture as early in the process as you can. Some funding options take time and you don't want to miss out on an opportunity. One of the most important aspects of opening a franchise is funding. A franchise consultant I've developed relationships with a variety of lenders and financing brokerages that will help you leverage your good credit, your existing cash and financial assets to ensure you're finding the best avenue for funding your business venture. All clients will need to invest at least 10% and up to 30% of their total startup costs in cash, depending on the type of financial vehicle you are using to fund your business. Based on your timeline, risk tolerance, credit history, and more, the best option for you might be a single solution, or a combination of several options.

Franchise Funding 101 (source: *Benetrends Financial*)

One of the most important aspects of opening a franchise is funding. But just as franchises come in all shapes and sizes, so do the options for funding them. Based on your timeline, risk tolerance, credit history, and more, the best option for you might be a single solution, or a combination of several options.

Intro to Funding

- **Using your Retirement Funds to Buy a Franchise** (also called Rollover as Business Startups, ROBS, or 401(k)/IRA Rollover Funding) – This method allows you to use your 401(k), IRA, 403(b), or other qualified retirement account to buy a franchise – with no penalties, upfront taxes, or debt. It can also be used as the capital injection required for SBA loans.
- **SBA Loans** (Small Business Administration) – There are a variety of loan programs available through the SBA including specific ones for veterans, disaster recovery, etc. The primary one for small business owners is the 7(a) program, which is more generally focused on helping small businesses start and grow.
- **Conventional Loans** – Conventional loans can be provided by bank and non-bank lenders but are not guaranteed by the SBA or other government entity. Any small business or franchise can apply; however, they are not typically available for new businesses. Approval depends largely on the overall credit risk of the business.
- **Securities Backed Line of Credit** – A line of credit backed by securities held in an investment portfolio. This type of loan is similar in concept to a home equity loan, but rather than the loan being backed by the equity in your home, it is backed by the securities held in your investment portfolio.
- **Home Equity Loans** – Although becoming less common, some entrepreneurs still rely on their biggest asset for cash – the equity in their homes – to finance a franchise or business purchase.
- **Equipment Leasing** – Finance up to 100% of the value of equipment you need to start or run a business including: computers, office furniture, company vehicles, machines or special service equipment. This option may include a buyout for \$1 at the end of the lease.



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Funding Strategies

- First time Franchise Owners** – Taking into account the franchise fee, royalty fees, working capital and other possible costs needed to start a franchise business, most potential franchisees find they don't have the cash resources to purchase a franchise upfront. If you find yourself in this position as well, don't be surprised if you run into a few financing challenges. Many lenders are typically more hesitant to approve loans if you don't have experience or a solid track record as a business owner. Having said that, it's not impossible, and luck favors those who are prepared.
- Multi-Unit Operators** – The most important thing to know if you want to become a multi-unit operator is that how your first unit is funded affects your ability to fund future units. So, if you are arranging financing for the first unit without considering how it is going to affect your ability to get additional financing, you may find yourself without any other additional units. Since many larger franchises require a 3-unit commitment, the most common scenario is a "three-pack" over a 2-3 year window.



Where can I find legal support for reviewing franchise documentation?

A review of the Franchise Agreement by a Franchise Attorney is the most critical part of your due diligence. I strongly recommend speaking with a Franchise Attorney to help provide clarity as well as guidance. I have a short list of preferred franchise lawyers that I am happy to refer to you when you are ready to start reviewing FDDs and franchise agreements. It's essential you don't work with just any kind of lawyer – they must be someone with franchise expertise. Whether you ultimately hire one of my recommendations or find a franchise specialist lawyer in your area is of no specific consequence to me, as long as you get legal help to review any contracts you may end of signing.

How do I franchise my business?

Franchising your business can not only strengthen your company's brand recognition and reach, but it can also help secure its future. Franchising provides business owners that have an established product sales or services business, which may already enjoy local/regional brand-name recognition, the opportunity to capitalize on their success nationally. I and my brokerage, The Franchise Consulting Company, have spent the last 3 years developing a comprehensive system of companies that will not only help successful business owners turn their model into a franchise opportunity, we will also help you successfully market your opportunity through multiple channels, manage the sales effort and even prepare you for an eventual exit. My goal is to





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become the first member of your franchise board of directors and serve as your long-term ally as you build out your franchise business, find great franchisees, and get your operations and royalty revenue to the point that your business is one that private equity investors want to buy out. Ask me about my Alloy program – there's no one else out there that can offer you the kind of comprehensive ecosystem of service providers that I can.

What is the Best Franchise to Own?

The best franchises are those with proven franchise business models and strong support systems that provide high-quality products or services that stand out from competitors. You can learn about the details of a franchise by researching its process to become a franchisee, reading its franchise agreement, speaking to current franchisees, and examining a franchise's performance data to make an informed franchise business decision.

What are the hottest franchise brands right now?

I get asked this question a lot. Honestly, this is not how I work. What is hot or great for one person won't be for another – it depends on too many factors to just say “Hey, this is the best franchise for you.” As a consultant with The Franchise Consulting Company, I work with over 300 different franchise brands. Some are new to franchising and offer amazing pioneer franchise ownership opportunities and just as many are well established with years of operating history and success. Many require your full-time commitment and others are semi-absentee or fully absentee owner friendly. I have something for every investor/owner type. Below is a sampling of business categories I can make available to you...

- Automotive
- Beauty / nail / massage salons
- Boutique fitness
- Building/storage
- Business expense reduction services
- Cannabis clubs and/or CBD oil distributorships
- Children's education and childcare centers
- Computer tech & repair (commercial and consumer)
- Construction / repair / restoration
- Co-working and shared workspace businesses
- Decorating & home / kitchen / bath remodeling & cabinet refacing/upgrades
- Direct mail marketing
- Entertainment centers / bars
- Food service: quick serve restaurants & sit-down venues
- Food / oils / vinegars / alcohol retail
- Financial services/debt reduction



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- Furniture repair & restoration
- Haircare / spa / mani-pedi
- Health / nutrition/weight loss centers
- Home & lawn maintenance services
- Laundry / dry-cleaning / laundromats
- Maid-janitorial (residential and commercial)
- Maintenance (commercial and residential)
- Medical services and clinics
- Personnel and staffing
- Pet care and pet retail
- Real estate and vacation property management
- Retail sales of specialty & resale/used products
- Signs and printing
- Senior care (mostly in-home), retirement home placement services and senior advocacy
- Social clubs and entertainment businesses
- Small business marketing services
- Swim schools

What are the most common franchised industries?

Franchises operate in virtually every sector you can imagine. In addition to a large presence in the restaurant and hotel sectors, the most franchised industry categories include service-related fields such as:

- Home repair and remodeling
- Carpet cleaning
- Household furnishings
- Maintenance and cleaning services

As well, franchises are commonly seen in business support services such as:

- Accounting
- Mail processing
- Advertising services
- Package shipping
- Personnel services
- Printing services.



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Other commonly franchised industries include:

- Automotive repairs and services
- Environmental services
- Hair salons
- Health aids and services
- Computer and phone repair
- Clothing stores
- Children's services

Buying into a franchise is going to be a lot easier than starting my own business, right?

Not really. Look, by buying into a franchise concept you will absolutely be getting a huge head start toward the opening of a successful business when compared to starting your own business from scratch. But it's hard work in either scenario, and both will cost you money up front. The difference is that franchising eliminates a lot of the unknowns and the headaches associated with starting your own company. You pay a franchisor up front for all the work an independent business owner may have to pay 10+ vendors to help them accomplish. Franchises are streamlined, with proven processes, marketing, and training programs. But owning any kind of business will require work, some long hours (at least initially), some risk and uncertainty. Franchising simply gives you the opportunity to know a lot more up front about what you can/can't do and how you will do it. For many people that level of transparency and proven track record provides confidence in processes and ensures a more predictable outcome. For others who don't want the restraints of a business system and franchise, it's not a good fit.



What kind of franchises do you work with?

We represent a little over 10% (nearly 400) of the franchise opportunities in the North American marketplace. That may seem like a small number, but keep in mind that not all franchises are created equal. Taco Bell, KFC, MacDonald's, Chick-Fil-a and the other big international brands have more franchise inquiries than they can handle. Of the 4000+ franchise opportunities out there, many are not that great. Our corporate leadership has hand-picked each franchise we represent to ensure they play by the book, have a solid support structure, viable business concept and no history of shady deals or franchisee lawsuits. We represent almost every franchise category available, from automotive services to children's supplemental education to salon/spa/massage/lash lounges to food/hospitality to boutique fitness to home restoration and maintenance to senior care to entertainment. We have franchises that are a low as a \$60,000 investment to as much as \$5MM.



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What You Need To Get Started

Am I ready to start my own business?

Regardless of whether you choose to remain an independent business owner or become a franchisee, research is the single most important activity in making your decision. Without adequate information, you may end up making the most costly decision of your life.

What business would you enjoy?

Sometimes people start a business because they think they'll make a lot of money, only to find out that they do not enjoy the business. The adage "know thyself" certainly applies here. You should start a business in an industry that you will enjoy for the next 10 to 15 years.

Ask Yourself...

- What do you like to do? (interests and hobbies)
- What do you know how to do? (experience)
- What do you do well? (special skills and talents)
- Which industry (or industries) involves your interests and use your skills and talents?
- What products or services could you sell in this industry?
- Would you rather sell a product or service?
- What products or services would you like to sell the most?

Is there a market?

All successful businesses must... Satisfy a need or Solve a problem or Respond to a trend. Before starting any business, determine if there is a market for your product or service by conducting market research. Questions to ask include...

- How many potential customers are in your area?
- Will your product or service sell?
 - What need does it satisfy?
 - What problem does it solve?
 - What trend or fad does it address?
- What should the appropriate pricing be?
- Who are your competitors?
- How many competitors do you have?
- What do they offer?
- How will your product or service be unique?
- What marketing niche can you capture?



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Determine if you can afford to start a business.

Make profit potential your most important consideration. In order to start a business, you have to have money! In order to stay in business, you have to make money! The single most common reason new businesses fail is that they did not have enough money to begin with! Don't forget the old business adage: "It takes twice as long and costs twice as much!"

Costs to consider...

- location design and construction
- professional fees
- equipment and fixtures
- furniture
- opening inventory and supplies
- insurance
- pre-opening labor
- opening advertising and promotion

Estimate how much working capital you will need (the money you will need until the business becomes profitable – include your living expenses, if necessary), paying particular attention to...

- salaries
- insurance
- utilities
- advertising
- rent
- interest on a loan, if applicable

Brainstorm where you might be able come up with money...

- yourself
- family
- friends
- savings and investments
- a partner
- selling personal assets
- loans

Determine if you can make enough money to make the venture worthwhile.

Estimate the profit potential for the business using the formula... profit = income – expenses. Think about the amount of time and energy it will take to make the business successful. Decide as to



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whether you think you can make enough money to make the entire venture worth your time and energy.

Is a Franchise a Good Way to Start Your Own Business?

There are typically three paths to going into business for yourself: starting a new business, buying a new franchise, or purchasing an existing franchise. To summarize, starting your own business can be a more affordable, flexible option, but often requires significantly more effort and carries a higher risk of failure. Purchasing a franchise comes with significant brand and business support from the franchisor, although your costs are generally higher and you cede some operational independence to the franchisor.

Pros and Cons of Starting a New Business:

Advantages

- Typically lower start-up cost
- Independence and creative freedom
- No inherited problems from an existing business

Disadvantages

- Requires more time and energy
- Higher risk of failure
- Takes longer to become profitable
- Financing may be more difficult to obtain

Pros and Cons of Buying a New Business (Franchise):

Advantages

- Reduced risk of failure over an independent business
- Proven methods and products
- Start-up assistance
- On-going training and support
- Local, regional, and national advertising
- Collective purchasing power
- Research and development
- Association and synergy with other franchisees
- Easier to obtain financing

Disadvantages

- Higher costs (fees, royalties, supplies)
- Smaller profit margins



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- Lack of independence and freedom
- Difficult to achieve redress if franchisor fails to meet obligations
- A franchisor's problem may become your problem

Pros and Cons of Buying an Existing Franchise:

Advantages

- The business is already up and running
- Risk and uncertainty are reduced
- The basic infrastructure is in place:
- Established location
- Existing customers and reputation
- Employees
- Vendors
- Policies and procedures
- Cash flow
- No start-up period, leading to quicker profitability
- Easier to obtain financing

Disadvantages

- Tangible limitations:
- Design problems
- Location problems
- Merchandise problems
- Intangible limitations:
- Customer or employee ill-will
- Pricing problems
- Inadequate procedures
- Lease problems
- Potentially higher costs to buy
- Legal liability in inheriting lawsuits



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What Are the Advantages and Disadvantages of Owning a Franchise?

Advantages

Owning a franchise allows you to go into business for yourself, but not by yourself. A franchise provides franchisees (an individual owner/operator) with a certain level of independence where they can operate their business. A franchise provides an established product or service which may already enjoy widespread brand-name recognition. This gives the franchisee the benefits of a pre-sold customer base which would ordinarily takes years to establish. A franchise increases your chances of business success because you are associating with proven products and methods. Franchises may offer consumers the attraction of a certain level of quality and consistency because it is mandated by the franchise agreement. Franchises offer important pre-opening support: site selection, design, construction, financing, training, and a grand-opening program. Franchises offer ongoing support: training, national and regional advertising, operating procedures, operational assistance, ongoing supervision and management support, increased spending power, and access to bulk purchasing.

Disadvantages

The franchisee is not completely independent. Franchisees are required to operate their businesses according to the procedures and restrictions set forth by the franchisor in the franchisee agreement. These restrictions usually include the products or services which can be offered, pricing and geographic territory. For some people, this is the most serious disadvantage to becoming a franchisee. In addition to the initial franchise fee, franchisees must pay ongoing royalties and advertising fees. Franchisees must be careful to balance restrictions and support provided by the franchisor with their own ability to manage their business. A damaged, system-wide image can result if other franchisees are performing poorly or the franchisor runs into an unforeseen problem. The term (duration) of a franchise agreement is usually limited and the franchisee may have little or no say about the terms of a termination.

Is Franchising Right For You?

Are you willing and able to take on the responsibilities of managing your own business?

Some very careful self-analysis is important before buying a franchise. Indeed, your personal house should be in good order. One of the myths that has been perpetuated is that franchise ownership is easy. This is just simply not true! While the franchise system will give the start-up training and offer ongoing support, you, the franchisee, must be prepared to manage the business. While some franchises may lend themselves to absentee ownership, most are best run by hands-on management. You must be willing to work harder than you have perhaps ever worked before. Forty-hour weeks are also a myth, particularly in the start-up phase of the business. It is more like 60-to-70-hour weeks. You must also be willing to mop floors, empty trash, fire as well as hire employees and deal with upset customers.

Will you enjoy the franchise?

Sometimes people buy a franchise they think will make them a lot of money, only to find later they do not enjoy the business. The adage, "know thyself," certainly applies here. You should buy a franchise that centers in an area that you will enjoy for the next 10-15 years.



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Are you willing to completely follow the franchise system?

The very key to franchising success is the consistency of product and service customers find from one franchise to another. When you display the sign and logo of a franchise, you are indicating to customers that you follow a particular system. People who are extremely entrepreneurial in the sense that they do not like to conform to a predetermined formula should be very careful about buying a franchise.

Do you have a history of success in dealing and interacting with people?

Many franchised businesses are based on people relations. Your ability to interact well with your franchisor, other franchisees, your employees and your customers cannot be emphasized enough. A negative, critical franchise owner can be a detriment to the entire franchise system. You must have a track record of good relationships with employers, supervisors and fellow employees.

Can you afford the franchise?

One of the major causes of business failure is under capitalization. While the franchisor will be able to give you a good idea of the start-up costs, sometimes these will vary due to leasehold improvements needs and other valuables. You will need enough money to not only open your franchise, but to run it until such a time as it is profitable. For some franchises, that may take a year. Remember, it is better to start out with more money than you think you will need rather than less.

Have you carefully studied the legal documents?

Franchisors are required to prepare a document called the franchise disclosure document. This document will give you pertinent information about the franchise. It will also contain the franchise agreement that you will sign. This agreement will govern your relationship with the franchisor for the term of the contract. The disclosure document is a vital document. It should be studied very carefully and discussed with your lawyer.

Does the franchise you are considering have a track record of success?

You should get to know the principal directors of the company—their business background and how profitable their franchise has been. The disclosure document will contain this information. Have an accountant review the financial analysis of the franchise. Is it a solid company? Also, examine how long the franchise has been in business. A new start-up franchise may offer you the opportunity to get in on the ground floor. But it might also mean that the franchisor has not had sufficient experience to fully develop the system.

Are the franchisees generally happy and successful?

The disclosure document will contain a listing of all the franchise owners. It would be worth your time to contact a few of them to discuss their experiences with the franchise. Has the franchisor followed through on commitments? Did the franchisees receive adequate training? Would they buy the franchise again? Is the business profitable? What advice would they give you?



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Do you like the franchisor's staff—those people with whom you will be working?

One of the most important elements of a franchise is the ongoing support and contact you will have with the franchisor. For this reason, you should feel comfortable with the people you will interact with for a few years.

Do you have a support system?

Managing a franchise is a full-time job. It requires great sacrifices of personal and family time. For this reason, your friends and family should understand that you will have tremendous demands on your time.

Am I Ready To Buy A Franchise? 3 Questions...

Do I have what it takes to start my own business?

So you want to be an entrepreneur? You're not alone! An entrepreneur is defined as:

"One who pursues opportunity beyond the resources currently controlled."

"A person who sees an opportunity and creates an organization to pursue it."

"A dreamer who attempt to turn an idea into a profitable reality."

"Anyone who assumes the risk and responsibility for starting and managing a business."

"Anyone who takes the risk of starting a business for the purpose of making a profit."

Entrepreneurs have a different way of looking at life...

- Opportunity INSTEAD OF Security
- Results INSTEAD OF Routine
- Profit INSTEAD OF A Paycheck
- Trying New Ideas INSTEAD OF Avoiding Mistakes
- Vision INSTEAD OF Short-Term Gain

The advantages of being an entrepreneur...

- freedom and independence
- control over a major aspect of your life
- an outlet for creativity
- excitement
- satisfaction and sense of achievement
- self-esteem
- status and recognition
- flexibility
- job security-you cannot be fired or laid off
- unlimited income potential
- growth of initial monetary investment



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The disadvantages of being an entrepreneur...

- risk
- responsibility and pressure
- fear of failure
- obstacles and frustration
- loneliness
- more work
- longer hours
- less time or energy to spend with friends and family
- less financial security
- fewer job benefits
- risk of losing investment
- income fluctuation
- you are responsible for your own portion of taxes and FICA

Questions to ask yourself...

- Do you have the personal drive to be a successful entrepreneur?
- Are you willing to work whatever hours it takes to make your business a success?
- Are you willing to give up the perks of being an employee to invest and run your own business?
- Are you self-reliant?
- Can you work without support?
- Are you healthy?
- Do you have the physical ability to meet the needs of operating on your own?
- Can you handle stress?
- Do you have the mental ability to meet the everyday needs of operating your own business?
- Can you handle the crisis situations and deadlines?
- Do you like people?
- Do you listen well?
- Do you have patience when working and interacting with others?
- Do you communicate well?
- Can you be a leader and a trainer for your staff as well as a front person for your business?
- Can you maintain a positive relationship with the people who work for you?
- Can you meet the needs of your customers?



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- Do you have the ability to sell yourself and your products and services?
- Can you afford to start your own business?
- Do you have the support of your family and friends?

Do I have what it takes to be a franchisee?

Once you have determined that you have the abilities, skills and desire to start your own business, you have to further determine if you have the requisite traits to become a franchisee.

- Can you follow someone else's rules, even when you think you have a better way?
- Are you prepared to accept coaching and advice on how to run your business from a franchisor's field and headquarters' staff?
- If the Franchisor turns down your great idea for changing the system, can you live with that?
- Can you trust that a franchisor is working for the benefit of the entire system-even when their decisions do not necessarily go your way?
- Are you willing to share your financial information and prepare required reports each month?
- Are you willing, able and eager to learn new skills?
- Can you set aside old habits and beliefs to follow a franchise system?

Do I have all the answers I need about the franchise I'm considering?

Do you know the franchisor? Have you spent enough time finding out about the franchisor from...

- other franchisees?
- the International Franchise Association
- the franchisee's owner's association
- the franchise advisory council

Can you afford a franchise?

- How much do you have to invest?
- How much can you risk losing?
- How much do you need to live on?
- What is the total investment required for getting into the franchise?
- What portion of the investment can be financed?
- Can you find anyone willing to invest in you and your future?
- How much can you earn as a franchisee?
- How long will it take to breakeven?
- What return can you get on your investment?
- Can you get a better return from another investment?
- Are the risks equal?



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- Is your research thorough? (Have you researched the industry, the franchisor, the disclosure documents, and talked with current and former franchisees?)
- Have you gotten the assistance of professional advisors who are familiar with franchising?
- Have you made a slow and detailed evaluation of the opportunity to determine if you will meet your personal and financial goals?

Do you understand the terms of the contract?

- Have you thoroughly read the FDD and the franchise agreement?
- Have you had all your questions satisfactorily answered?
- Have the promises which the franchisor made during your discussions been included in the agreement?
- Have you had a qualified, experienced franchise attorney review the documents?
- Have you had a qualified, experienced accountant, familiar with franchising review the documents?

Are the franchisees happy with their investments?

- Have you talked with and visited other franchisees? (referred to as *validation*)
- Have you worked at a franchise location to get a better feeling if this is the right decision?
- Have you contacted the franchise owner's association and talked with the president?
- Have you talked with the director of the franchise advisory council?

Does the franchisor have a history of litigation?

- Are other franchisees constantly bringing lawsuits against the franchisor?
- Is there anything about the franchisor's litigation history that causes you concern?
- Have you discussed these concerns with the franchisor's management and the leadership of the franchisee owner's association or franchisee advisory council?

Can you make enough money with this franchise?

Ask other franchisees...

- Are you making money with the franchise investment?
- How long did it take you to breakeven?
- How long before you started to make money?
- Was the investment estimate the franchisor gave you accurate? If not, how much more money did you need?
- Was the estimated working capital accurate? How much did you need to have and how long before you could take money out of the business to live on?



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- Are there mistakes you made ins starting up the franchise that cost you money? How can I avoid the same problem?

Is the franchisor making money and where is the money coming from?

- If the franchisor has been in business awhile, is their business being supported by continuing royalties or is it coming mostly from initial franchise fees?
- Is the franchisor profitable?
- Is the franchisor on firm financial ground?

Does the franchisor understand franchising?

- Does the franchisor have adequate staff, resources, and trained personnel to meet its commitment to you?
- Do you feel the franchisor has the appropriate temperament to operate a franchise system?
- Does the franchisor staff attend seminars on franchising and management? DO they know about the latest changes in the industry? Are they active in trade associations for their specific industry and are they active in the International Franchise Association?
- Has the franchise been growing? Are new locations being added on a regular basis? How many locations closed in the last year? Why did they close?
- Are the sales within individual stores increasing?
- Does the franchisor have an active research and development department that introduces new products and services?
- Do the field staff act as consultants and advisors or do they act as police personnel (inspecting franchises and writing up violations, but not offering help and guidance?)

What are the Risks of Buying a Franchise?

Like starting any business, buying a franchise involves risk. Although most franchisees are satisfied and successful, some do suffer financial losses. That’s why you must be particularly wary of any company that “guarantees” profit or certain success. If you hear a claim about a company that sounds too good to be true, it probably is. Investigation of all earnings claims made by a franchisor is especially important. Regardless of earnings claims, you must recognize that your success can come only through hard work. Success or failure ultimately depends on you.

To help mitigate the risks of buying a franchise, studies show that successful franchisees...

- conduct their own marketing research
- use their own financial and legal advisors
- develop thorough marketing and business plans
- have prior work experience in the industry



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Quiz: Is Owning a Franchise Business Right For You?

This short quiz will give you and I the opportunity to assess if you have the personality, temperament, and financial foundation to own a business and more specifically a franchise.

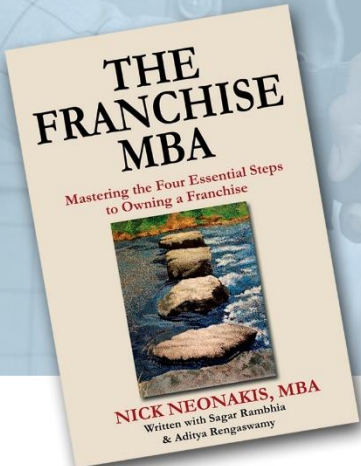
1. What is motivating you to start looking at business ownership opportunities right now?
2. Do you feel comfortable taking direction from others and being a team player? Are you comfortable being a leader, director, coach?
3. In your current work environment, when given instructions for a project from your manager/boss, would you agree that you are more inclined to follow their direction than trying to put your own spin on things? Would you consider yourself a flexible person, able to modify your efforts and perspectives as situations dictate?
4. Are you comfortable working as a promoter, sales and/or business development person (please note, I'm not asking if you have sales experience, more so if you are comfortable taking on this kind of responsibility. If you are a "work behind the scenes" kind of person then you should answer "no" to this question)
5. If you were put in charge of running a whole division of your company and were given a detailed operations manual to do so, would you follow it? (Answer "no" if you are more inclined to reference such a manual but will feel compelled to add your own spin to things given your experience).
6. Very few businesses - franchise or independent - make money right away. In fact it's pretty common you could go 8 - 12 months without being able to take out any income. Do you have alternative sources of income, savings that would be separate from the cash you'll invest in the business, or a spouse with sufficient income that you can cover your living expenses during this start-up period?
7. Most franchise opportunities require investors to come to the agreement with at least \$50,000 of their own cash plus the ability to qualify for financing, should that be required. This implies a credit score of 680 or higher and some sort of collateral like a home with equity, securities, bonds and/or retirement/pension funds. Does this sound like you and a level of investment you are prepared to make?
8. What is your approximate net worth (Assets minus Liabilities/Debts)? Can you afford the type of franchise you're considering?



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9. Are you realistic in understanding that owning a business requires work. Hard work. Just because you buy into a franchise doesn't guarantee you will be successful (it will certainly give you a leg up), and do you understand that? With that in mind, does your spouse/partner also understand the effort required to start a business and do they support this effort?


The secret to owning the right franchise business is no secret if you understand what it takes to succeed



THE FRANCHISE MBA
Mastering the Four Essential Steps to Owning a Franchise
NICK NEONAKIS, MBA
Written with Sagar Rambhia & Aditya Rengaswamy


Thinking of owning your own business?
Let us help you understand and master the 4 critical steps to finding the ideal franchise.

There's a reason why there's over **750,000 franchises** in the U.S.!



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