

How to Choose and Buy the Right Franchise for You

Adapted by VBOC Florida from a San Diego SCORE Presentation
by Cheri Carroll and Jerry Greenspan

What is a Franchise?

Think of it as a business operations plan with a license to use in exchange for an initial buy-in or franchise fee and ongoing fees for the life of the agreement called *royalties*.



What Does The Franchisor Provide?

- Proven experience in their operations
- Established systems / manuals
- Training for owners and employees
- Group purchasing power
- Brand recognition
- Marketing expertise
- Support of other franchisees
- Possible funding sources



Who Needs All That?

Every business, but especially people inexperienced in small business operations.



The odds of entrepreneurial success without support are stacked against you.

THE BIG QUESTION:
What is the BEST
franchise for you?

The Best Franchise Is...



The one that will give you
the best chance for
SUCCESS
with the least **RISK**.
*So what's risky about a
franchise?*

First Rule:

Success is not guaranteed!

More than half of all small business close their doors with 3 years. 65.3% of franchises survived after 4 years.... *

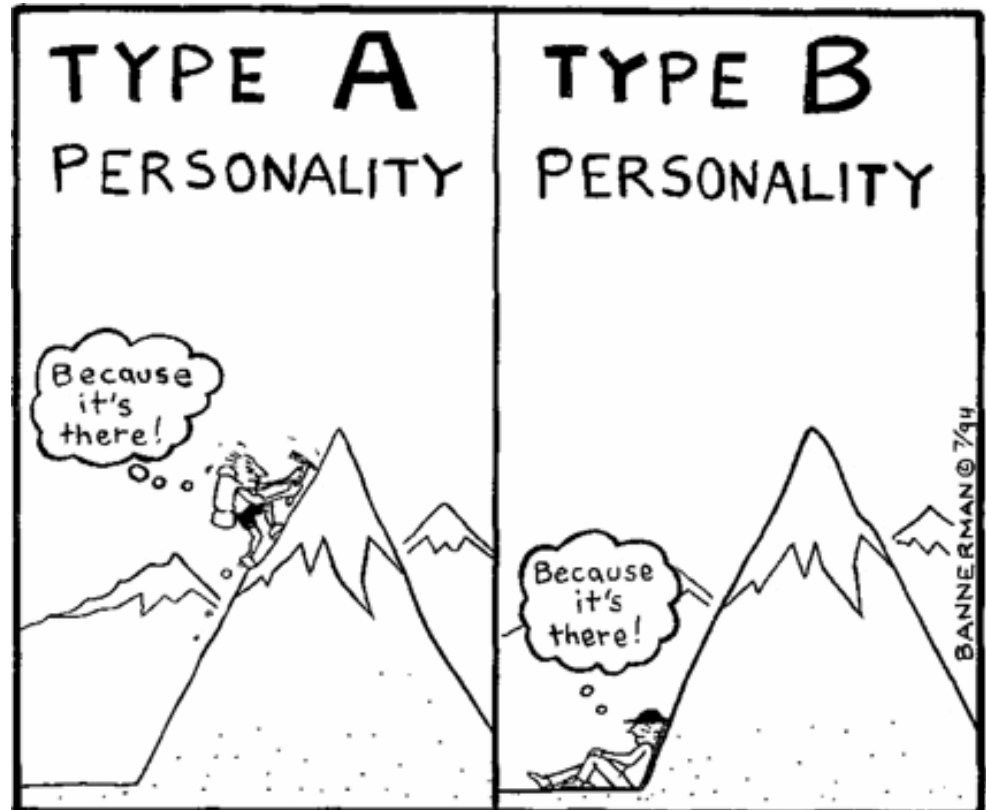
Veterans generally have a better success rate.

* Dr. Timothy Bates, Wayne State University



Second Rule:

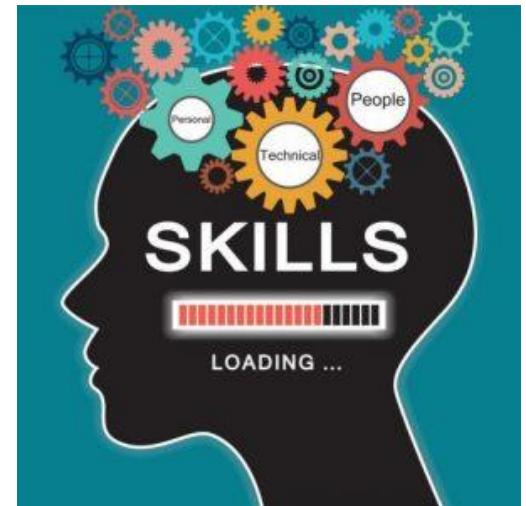
Your
personality and
skills should
match the
needs of the
business.



Why do some people fail in perfectly good businesses?

Because they didn't know how to choose wisely and had unrealistic expectations.

To increase your chances of success, your business should complement your skills, lifestyle, and financial goals.



Third Rule:

Certain personality types can succeed in one business and not in another.

What is best for one person is a disaster for another.



**DO YOU KNOW YOUR
PERSONALITY TYPE?**

**WHAT'S YOUR
INDUSTRY FIT?**

How Do You Know?



Start with VetFran's free Personality Assessment tool

VETFRAN TOOLKIT

Congratulations! You have now entered VetFran Toolkit!

We are so glad that you have taken the first steps in realizing your dreams of becoming a franchise business owner!

The VetFran Toolkit is designed to teach you about the franchise industry and supply resources to help veterans succeed in their business goals. Once you have reviewed all of the resources in the ToolKit, you can submit a request to be assigned a mentor and get advice from an experienced franchisor or veteran franchisee. To request a mentor or to become a mentor, click on "Join the Mentorship Network" at the bottom on the page to get started.

1. Franchisee Personality Type Profile

This accurate and easy to use assessment tool helps veterans determine their potential for success as a franchisee and to identify and explore the types of opportunities at which they may have the greatest chance for success.

<http://www.personalitytype.com/IFAVetFran>

VetFran's Free Personality Assessment Tool Asks:

WHERE IS YOUR ENERGY NATURALLY DIRECTED?	WHAT KIND OF INFORMATION DO YOU NATURALLY NOTICE AND REMEMBER?	HOW DO YOU MAKE DECISIONS OR COME TO CONCLUSIONS?	WHAT KIND OF ENVIRONMENT MAKES YOU THE MOST COMFORTABLE?
Are you a high energy, "people person" EXTROVERT or a quieter, more thoughtful INTROVERT ?	Are you a SENSOR who focuses on details and practical solutions or a "big picture" INTUITIVE who looks for connections and possibilities?	Are you an analytical THINKER who makes decisions objectively or a FEELER who may be more empathetic and motivated by harmony?	Are you a JUDGER who prefers structure and predictability or a more free-spirited PERCEIVER who likes to keep their options open?

NO RIGHT OR WRONG ANSWERS...
just what is right for YOU

1 000's of Franchise Industry Choices



Food

EX: Fast food, bakery, coffee shop, restaurants,



Automotive

EX: Tire sales, repair services, tools, parts suppliers



Retail

EX: Clothing, hardware, pets, tools, books



Business Services

EX: Signs, printing, temp agencies, janitorial, accounting, IT/computer repair, sales training.



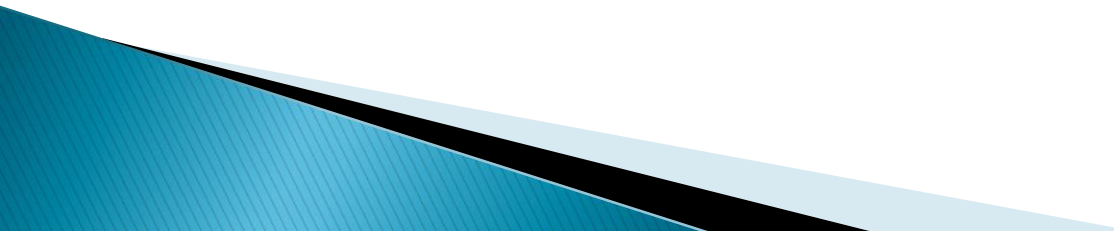
Personal Services

EX: Home health care services, daycare, tutoring, lawn care, fitness, picture framing, furniture repair

**Let's Design the
PERFECT
Business
for YOU**



Important Points Of Difference Between Franchise Types:

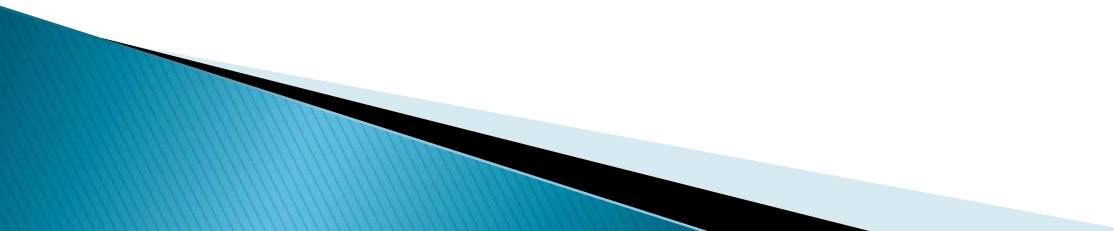
1. Start-up and pre-profit costs
 2. Start-up time (home vs remote)
 3. Hours per day or week
 4. Income potential
 5. Requirement to make sales
 6. Return on investment (ROI)
- 

1. Startup Costs

Does it need a physical location like retail stores, restaurants, and some service businesses?

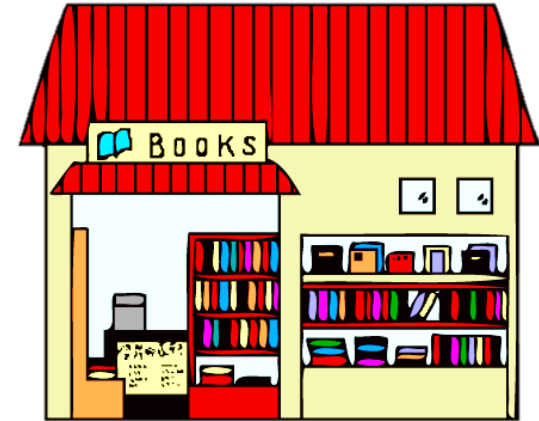
If it does, then you will need money for construction, rent, fixtures, furniture, appliances, inventory, and deposits. *AND* you'll generate losses before you reach break even.

These businesses will cost more to start than those that can be mobile or home-based.



2. Startup Time

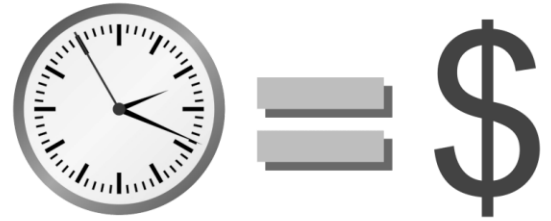
How soon do you need to generate an income?



If you need a physical location, it may take 6 months or more to find the right site, plus another 3–6 months for build-out/construction time before you even open the door.

Remember: A LOT OF CASH FLOWS OUT BEFORE ANY CASH FLOWS BACK IN

3. Hours Per Day Or Week



How many hours can you give to the business?

- Fixed or flexible schedules?
- Open weekdays only? Nights? Weekends?
- Family obligations?
- Health restrictions?

& what does the franchise operation require?

4. Income Potential

How much money do you need to make?

- Enough to support the family
- Vs Supplemental income?
- Major BUCKS to recoup your investment?
- How long will that take vs how long can you afford to wait?



5. Sales Skills

How do you feel about making sales calls or dealing with the public?



Are sales people:

- Fast-talking and shallow?
- A necessary evil?
- Absolutely vital to my business?
- Just like ME – *I love sales!*


6. Return on Investment

There is NO automatic correlation between the **COST** of the business and the **PROFIT** from the business.


Important hint from SCORE:

Very few franchises cost less than \$35,000.

If you can't afford it, you may want to consider working in your present job and saving money until you're ready.



So Now You Have Your Model:

- I need/want to start a business in ____ months
 - I have \$____ in cash available to invest (which means I may be able to borrow twice that much with external funding (lending or equity investment
 - I want to work ____ hours a week long term
 - I do/do not enjoy sales
 - I need to make \$____ a year
 - I want to recoup my investment expenses in ____ months/years
- 

Where Can You Get Specific Information On Franchises?

ONLINE RESOURCES:

- www.FranNet.com – Franchise brokers
- www.Franchisegator.com – lists franchise opportunities by state, industry and cost
- www.Franchise.org – the International Franchise Association (IFA) representing hundreds of franchises
- www.VetFran.org – IFA's franchise network catering to military veterans and spouses

FROM EACH FRANCHISOR: website and salespeople

FROM CURRENT & FORMER FRANCHISEES – talk to both!



For general info: U.S. Small Business Administration



www.SBA.gov

The US Small Business Administration (SBA) provides business counseling through its District Offices and Resources Partners and access to small business financing as the primary government guarantor of small business loans

SBA RESOURCE PARTNERS:



One Important Rule



Whoever is going to
run the business gets
to choose the
business!

(and the rest of the family should support
that decision)

Don't just choose the one your dad or spouse likes
best – choose the one that YOU like and can make a
success.

Pros to Buying a Franchise



- Name recognition – branding
- Already established product or service
- Systems that have been proven to work
- Successfully duplicated business model
- Corporate purchasing power
- Training and some operational support
- Advertising and promotional materials


“You’re in business for yourself, but not by yourself”

Cons of Buying a Franchise

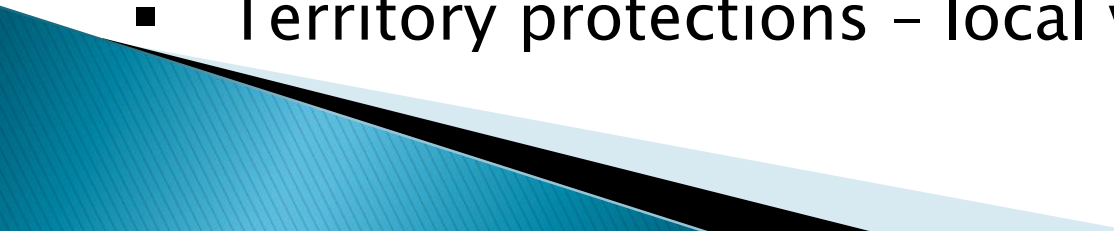


- Ongoing royalty and fees
- Dependent upon franchisor's model for success
- Conformity to standard procedures
- Inability to make changes readily
- Duration of relationship

The Franchise Process

- Search for a variety of businesses
 - Read about them on the Internet
 - Make sure they fit your business model, personality, and expectations
 - Request a brochure and READ it
 - Seek expert advice from trusted SBA resources (VBOC, SBDC, SCORE)
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Will It Last?

- Does the concept have staying power?
 - Is it unique? A niche or broader market?
Seasonal or year-round customers?
 - Does it have any barriers to entry in your market or service area?
 - How many other franchise owners do they have and how similar are their locations/markets to yours?
 - Territory protections – local vs state vs regional?
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Is There At Least One Corporate Unit?

- Helps prove their concept works (operations, training, vendor support)
- Lets them try out new ideas
- Provides an income for the corporation outside franchise sales
- Validates the business concept
 - they can walk the walk



The Franchise Process (Part A)

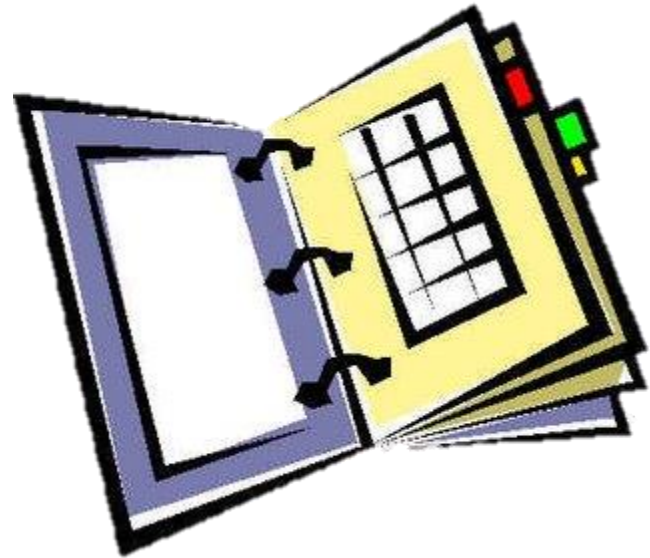
- Submit your application
- Their salesperson will call
- Ask your initial questions

Discuss:

- How long has the franchisor been in business?
 - How many company units are there?
 - Are territories available in your area?
 - How many other franchisees are already in the area? They should offer you a list.
 - Will it be all right for you to talk with them?
- If they say NO, run away!!**

How Do You Get The Truth about a Franchise?

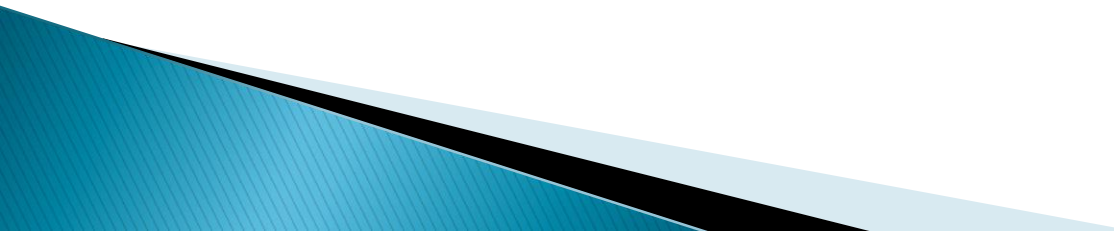
Ask for the Uniform Franchise Offering Circular (UFOC)



It is a Federal Trade Commission Franchise Rule that the franchisor supply this disclosure document to serious prospective purchasers.

The Franchisees Reveal the Truth

Ask at least 4 current and former franchisees:

- How long have they been in business?
 - How do they like the business?
 - How was the training?
 - Did they get good advice and support on site selection and leasing?
 - Were there surprises when they started?
 - How is the support?
 - How is the franchisor treating them after the sale?
 - What has been the biggest challenge?
 - How much will I have invested by the time it starts making money?
- 

And last but not least...

“All things being equal, if I am an average Franchisee, how much do you think I can net my first year?”



The Franchise Process (Part B)


Discovery Day

This is SALES day when you interview the franchisor.

- **DON'T** spend the money for the trip until you're knowledgeable and have talked with other franchisees in markets like yours. *What works in one part of the country might fail in yours.*
- **DON'T** sign anything on that day.
*It might be true love or it might be just lust
– get a second opinion!*

When To Buy

If there is a location involved, DON'T sign the franchise agreement or pay anything until you:

- Find several viable alternatives
 - Talk with the landlords about costs
 - Talk with others in the shopping center(s) about the landlord, customers, trends
 - Put together a comprehensive business plan
 - Seek legal and tax advice
- 

The Franchise Process (Part C)

- **Complete a Preliminary Business Plan**
 - Same as for buying or starting a business
 - Main differences are the buy-in requirements, ongoing royalty payments and start-up/training support provided
- **Obtain Financing (subject to final purchase agreement)**
 - Consider the franchisor as a potential source for some financing – they often have banking agreements for qualified buyers
- **Revise your Business Plan based on financing and the final negotiated Franchise Agreement**

What is the Franchise Agreement?



The written contract between the franchisor and franchisee and the fundamental legal document upon which the franchisor–franchisee relationship is based.

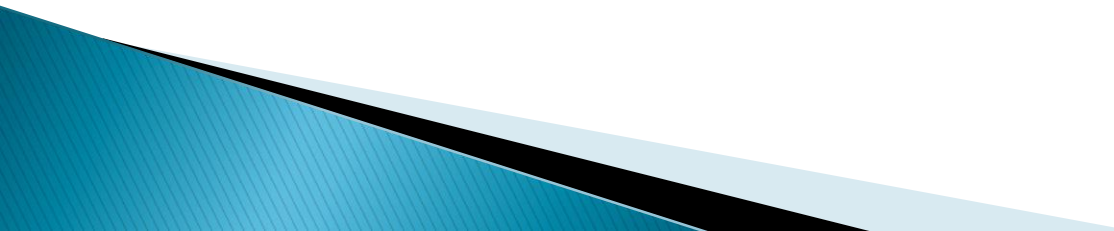
- Specifies the terms under which all parties will operate: the obligations, responsibilities and rights of each party to the contract, as well as the actions that the franchisee and franchisor are prohibited from engaging in.
- Both the franchisee and franchisor must sign the franchise agreement and is legally binding on both parties.

The Franchise Process

Negotiate the Franchise Agreement

- Get legal and professional advice BEFORE you sign anything!
- Terms such as territory size, area protection and development rights may be negotiable. Do not buy more than one location – negotiate rights of first refusal
- Training and marketing support may also be negotiable.
- Sales and exit clauses – how, when and to whom can you sell your franchise?
- Management fees and franchise fees for popular franchises are usually not negotiable
- Franchisor financing may be available – may offer buy-in discounts to military veterans and spouses!

YOUR PART in the Franchise Process: Do your Due Diligence

- 1) Think of your selection criteria.**
 - 2) Read the sample franchise agreement.**
 - 3) Determine which sections you would try to negotiate.**
 - 4) Get a second professional opinion.**
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Franchise Structures

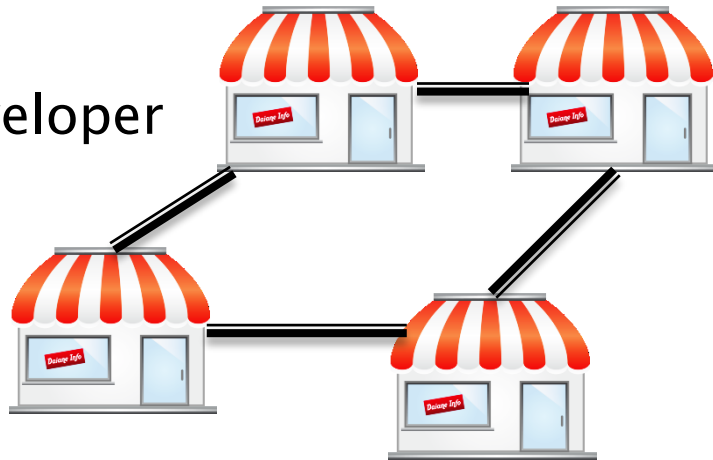
- Single unit



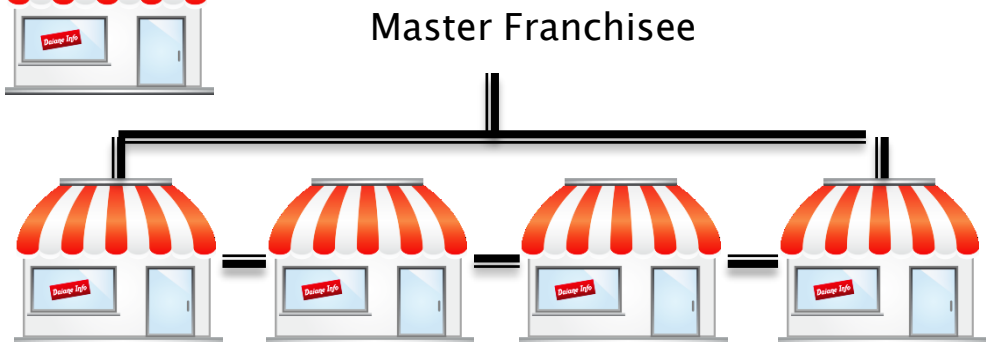
- Multiple units



- Area developer



- Master franchisee



How Much To Buy

Think you might like to have a multiple-unit situation?

Wait until the first unit is running and successful, and until you are sure you LIKE the business.

DO NOT pay for multiples up front!



You Are Making An Important Life Decision!



- **Consult your B.A.I.L Team**
(Banker–Accountant–Insurance Agent–Lawyer)
- **Get family buy-in**
- **Seek expert advice from SBA Resource Partners like the VBOC, SBDC and SCORE**