

# Careers in Franchise Ownership

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Presented by SCORE Bucks County



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- Dedicated to Helping Small Business Start, Grow and Succeed
- Resource Partner of Small Business Administration

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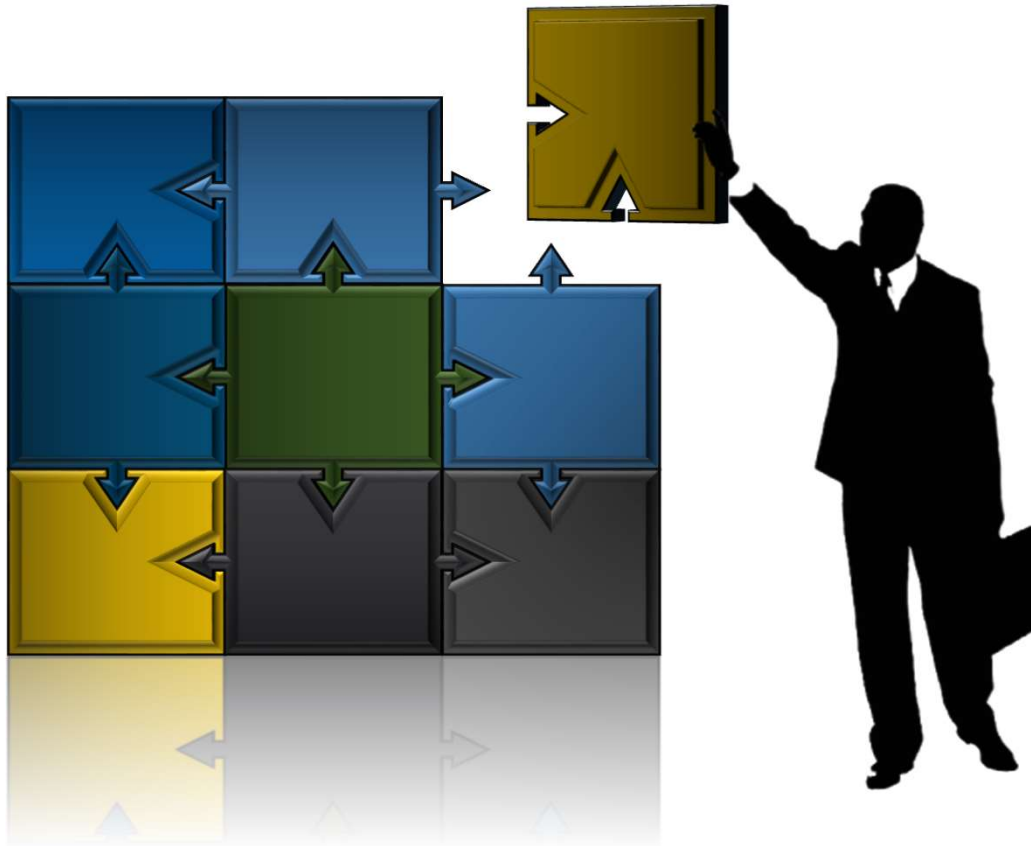
Call 215-943-8850

# Topics for Discussion

- Why business ownership?
- Buying a business versus buying a franchise.
- Franchise myths.
- Risk and rewards.
- Simplifying the search.



# What Do You Want From Your Own Business?



- Challenge, recognition, prestige
- Build wealth for retirement
- Time for family and interests
- Career independence
- Financial security

# Recession Resistant Businesses

## ***Growing markets driven by demographics***

- Ex: Senior Care, Residential Repairs & Cleaning, etc.

## ***Essential Services***

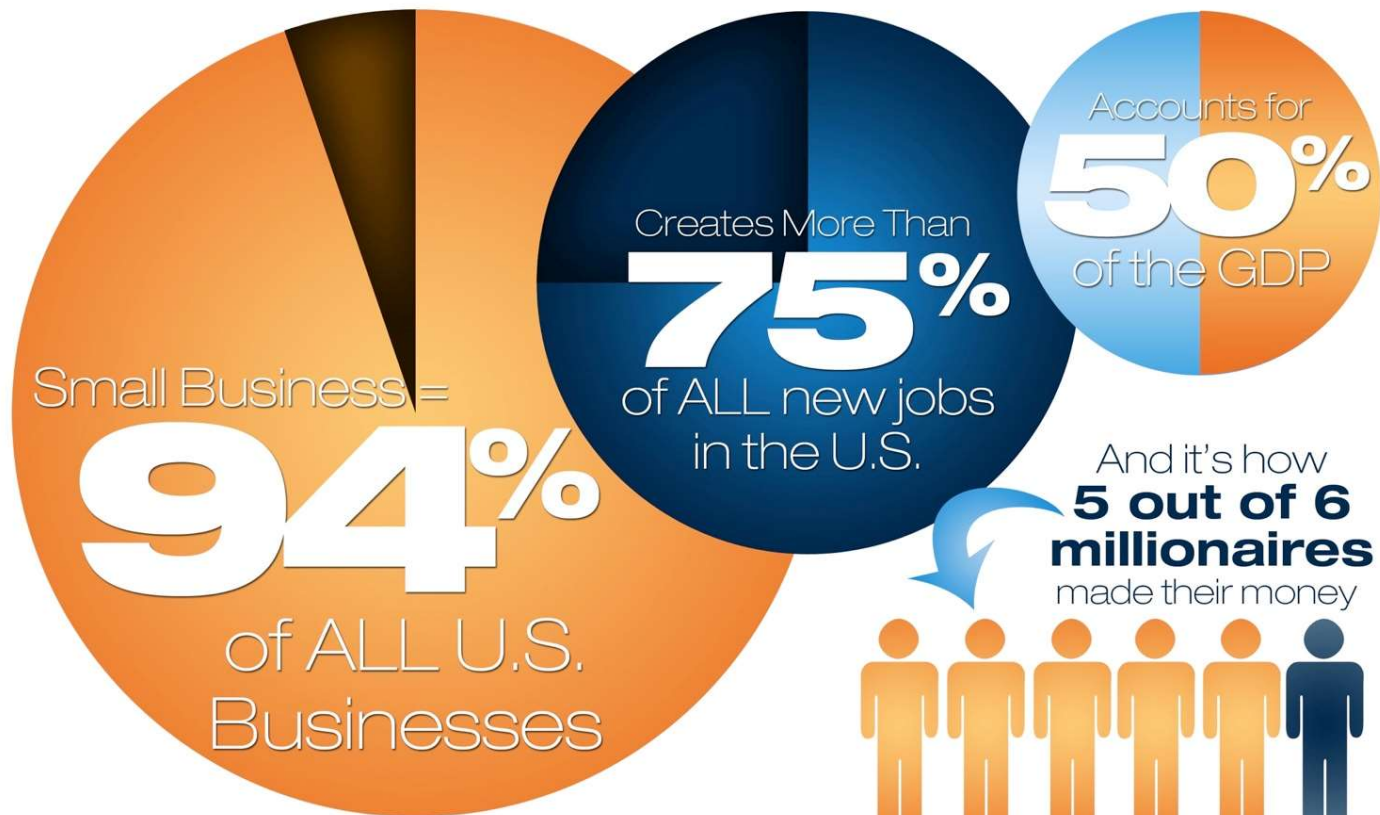
- Ex: Hair care, Automotive, Damage Restoration, etc.

## ***Businesses that help other small businesses thrive***

- Business Coaching, Expense Analysis, Sales Training, etc.

**Many businesses thrive  
in all economic conditions**

# What Is Small Business?



Source: *The Millionaire Next Door* by Stanley and Danko

# Business Ownership Options



BUILD

Buy an Existing Business

Create a start-up business



BUY



FRANCHISE

Buy a Franchise

# Starting Your Own Business

## Advantages

- Total control
- Make all decisions
- Room for creativity
- No predetermined rules
- Large Upside
- Build a business from your passion

## Disadvantages

- Must create systems
- Limited financial options
- Slow to ramp up
- High failure rate

# Buying a Resale Business

## Advantages

- Cash flow
- Goodwill
- Actual financial results
- Attractive to lenders
- Market established
- Customer base estab.
- Employees in place
- Systems may be in place
- Owner financing

## Disadvantages

- Cash flow
- Bad will
- May be overpriced
- Hidden seller motives
- Employee defection
- Higher debt service
- Poor training and support

# Buying a Franchise

## Advantages

- Name recognition/licensed trademark
- Proven business system to start and operate
- Training and support (initial and ongoing)
- Marketplace expertise/purchasing power
- Lower failure rate
- Lower cost/financing options
- Location choices
- Ability to conduct unbiased research
- Disclosure
- Franchise family



# Buying a Franchise

## Disadvantages

- Fewer industry options
- Structured operating system in most franchises
- Territory restrictions
- Can only sell approved products
- Restrictions on one's ability to be creative
- Ongoing royalty payments
- Little initial cash flow from start-ups

# What Is Franchising?

The creation of a distribution channel to build brand identity and attain market dominance...

**QUICKLY!**



# Franchise is...

## **A license to use:**

- Name and trademarks
- Products and Services
- Business Systems

## **In exchange for:**

- Initial franchise fee
- Ongoing royalties



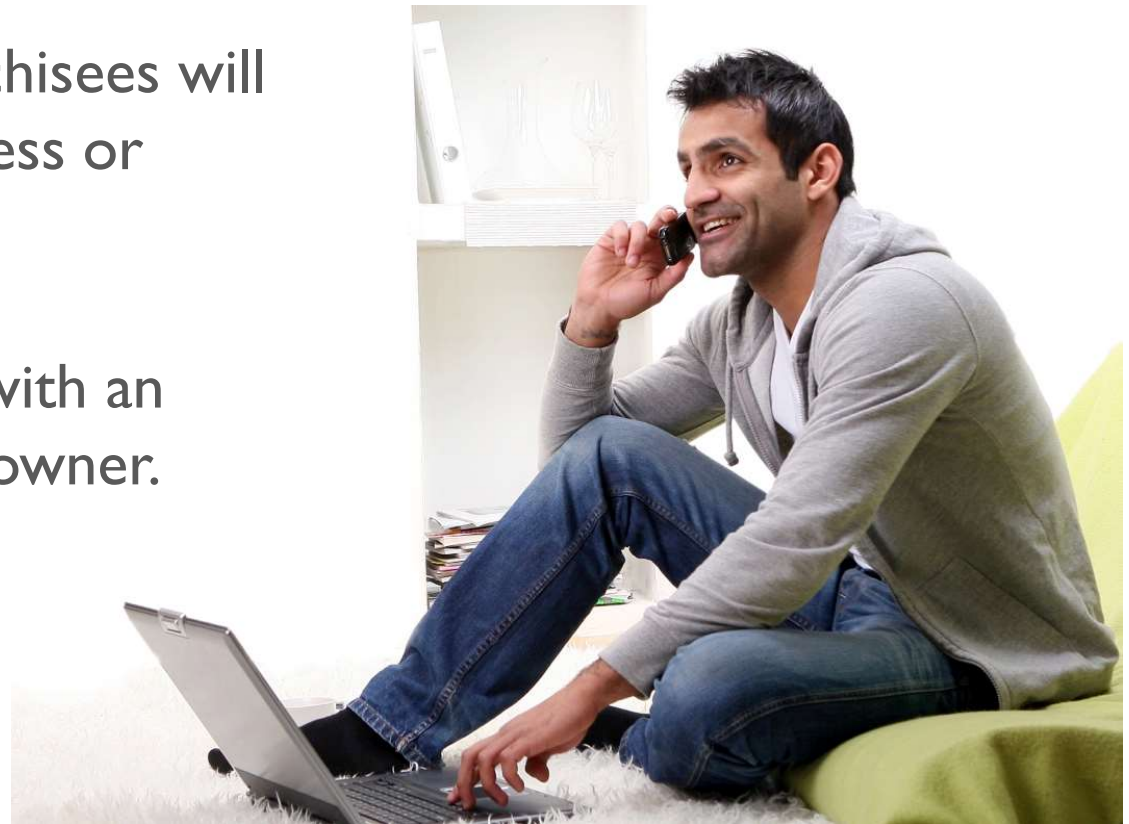
# Government Disclosure: FDD

- Obligations for Franchisor & Franchisees
- Territory
- Listing and Contact Info For:
  - Current franchisees
  - Past franchisees
- Earnings Claims
- Financial Statements
- Manager Policy
- Renewal, Termination & Transfer Policies



# Due Diligence

- Current and past franchisees will let you know the success or failure rate.
- Not true always true with an independent business owner.



# Franchising Myths



## Franchising Myth #1:



**“Only fast food and retail”**

# Franchising Fact #1:

## **FACT:**

- **Over 3,100 different franchise companies**
- **In more than 80 industries**
- **With over 900,000 operating units**
- **Research IFA.com**

## Popular Categories

- Education
- Retail
- Pet Care
- Cleaning
- Real Estate
- Senior Care
- Home Repair
- IT Services

## Franchising Myth #2:



**“Franchises succeed because of  
the quality of the product”**

## Franchising Fact #2:

### **FACT:**

Can you make a hamburger?

Is your hamburger better than  
McDonald's?



**If it is not the product then what is it?**

## Franchising Fact #2:

### **FACT:**

**It is all about the Business System:**

- **Marketing**
- **Sales**
- **Operations**
- **Accounting**



## Franchising Myth #3:



**“Successful franchises emerge in  
a new industry with no new  
competitors”**

## Franchising Fact #3:

**FACT:**

**Successful franchises emerge from well established industries by creating consolidation.**



# Franchising Fact #3:

## FACT:

- **It's The System**
- **McDonald's started when there was a burger joint on every corner.**
- **More recent examples are in Consumer and Business services**



## Franchising Myth #4:



**“Franchises are expensive”**

## Franchising Fact #4:

### FACT:

| Average Initial Investment Range | Percentage |
|----------------------------------|------------|
| Under \$50,000                   | 13%        |
| \$50,001 to \$100,000            | 17%        |
| \$100,001 to \$250,000           | 28%        |
| \$250,001 to \$500,000           | 23%        |
| Over \$500,000                   | 18%        |

Source December 2010 FranData

# Financing Facts:

## How Much Do I Need?

**Typically, 25-30% of the total investment will be your money.**

**Financing is relatively easy to get for 70-75% of the total investment including working capital.**



# Financing Facts:

## Sources:

- **Personal savings**
- **Friends, relatives or partner**
- **Home equity line of credit**
- **Financial Institutions**
- **Seller financing – resale**
- **401K, IRA, etc.**



## Franchising Myth #5:



**“High return requires a high investment”**

## Franchising Fact #5:

### **FACT:**

**There is no automatic correlation between the cost of the franchise and the potential return.**



## Franchising Fact #5:



### **FACT:**

**Service businesses  
require far less capital  
investments and  
frequently yield higher  
returns.**

## Franchising Myth #6:



**“Industry experience is required”**

## Franchising Fact #6:

**Only 25% of franchisees are in the same industry as they were employed.**



# Why Own a Franchise?

- Over \$1T Industry
- Less than 12% of businesses are franchised in N.A.
- Account for an estimated 50% of all retail sales
- Approx 90% of franchise owners are still in business after 5 years vs. approx 20% of independent start ups

*Statistics from International Franchise Association Estimates*

## Why Pay Royalties?

### **You're making a trade-off:**

You're exchanging additional operating costs in the long term for risk reduction in the short term

# Franchises Are Not All the Same

- **Many Units vs. Fewer Units**
- **Older, well established vs. Newer**
- **Structured vs. Flexible Systems**
- **Expensive vs. Inexpensive**

**There are franchises available to meet almost any business model.**

# Why Franchising Works

You're in business for yourself, **but not by yourself....** franchises are a hybrid between corporate executive and an independent business operator.

# CAUTION!

- If you see yourself as an entrepreneur, franchising may not be right for you.
- Most entrepreneurs want to do their own thing.
- As a franchisee, you are bound by a contract to follow the systems in place and to display marks and trade dress as per franchisor policy.

# Questions?

*Remember, if you don't have a dream,  
the person you work for probably does...*