

Careers in Franchise Ownership

Presented by SCORE Bucks County



FOR THE LIFE OF YOUR BUSINESS

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

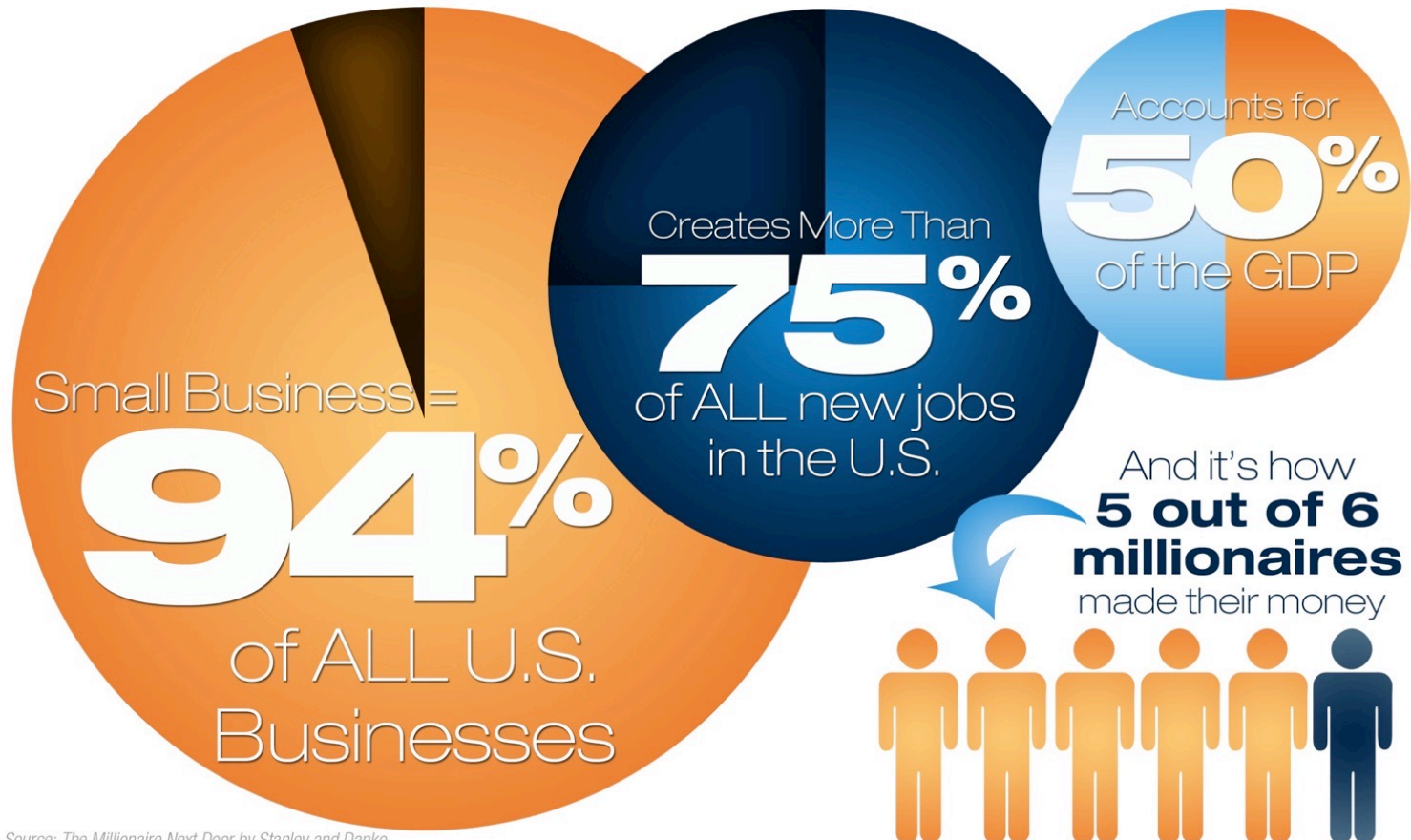
- Ex: Hair care, Automotive, Damage Restoration, etc.

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

Create a start-up business

Buy an Existing 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



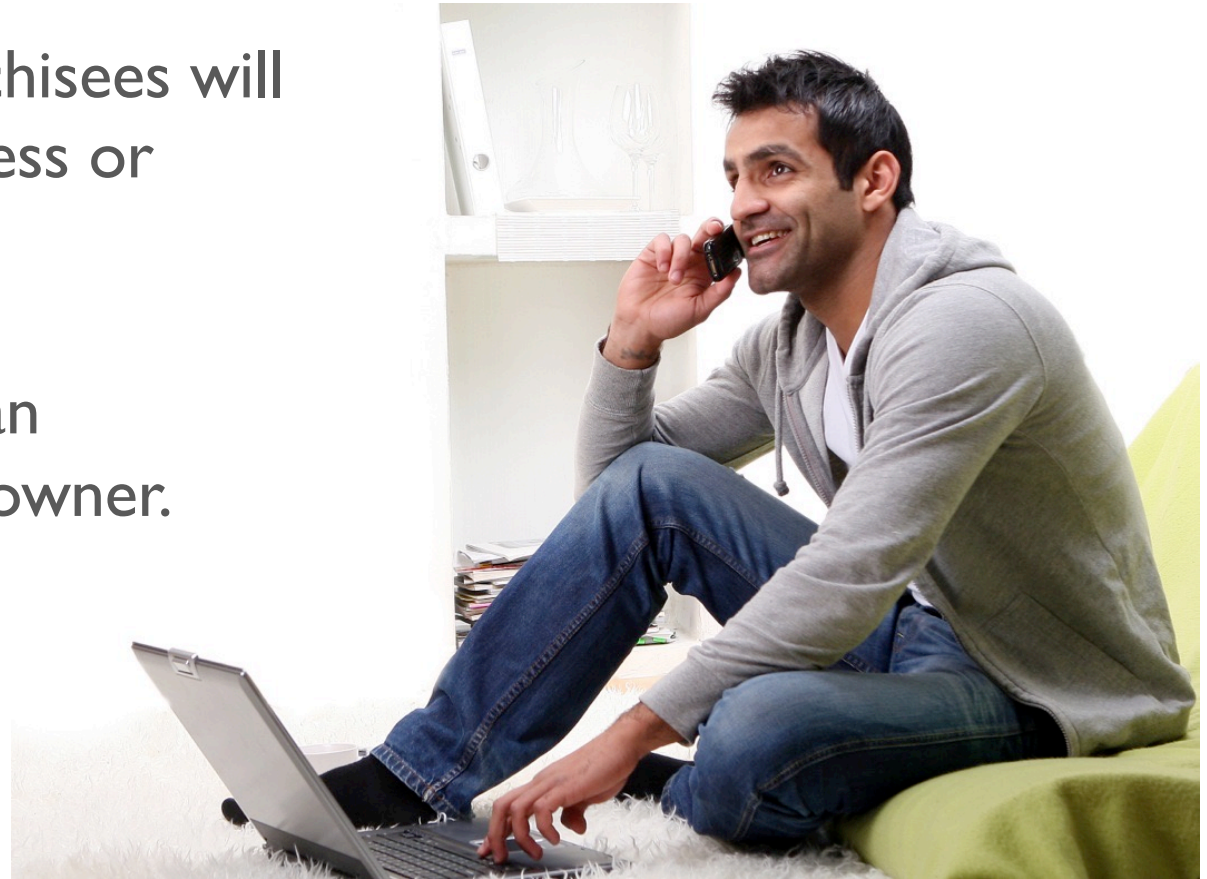
Government Disclosure: FDD

- 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 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 Systems:

- **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 trademarks and dress as per franchisor policy.

Questions?

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