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Franchising 101: Start a Business Through a Franchise

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FranNet of Virginia and DC is an affiliate of FranNet, a 38-year-old franchise advisory and development organization with offices throughout North America. Focusing primarily on the Washington, DC and Richmond, VA Metropolitan areas, *FranNet of Virginia and DC* leads franchise education workshops, provides coaching on making the transition from employee to entrepreneur, and offers guidance to individuals and investor groups who are researching active or semi-passive franchise options.

For more information,
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About SCORE

As a resource partner of the SBA, we help small businesses by:



Providing free
business advice and
mentoring



Offering low or
no-cost business
training



Sharing free business
templates and
resources

Request a **SCORE** mentor at www.score.org/find-mentor

Today's Presenter



- **Heather Rosen** is the President of FranNet of Virginia. Heather is a business owner, a former lawyer, and a franchisee herself (x2) who has been leading the franchise education workshops for SCORE DC for 15 years. In 2009, Heather quit her corporate job and went into business full-time through her first franchise. Then in 2022, she launched a second business through a franchise. Heather is also the founder of *Women Who Mean Business*, a not-for-profit networking group for female business owners.

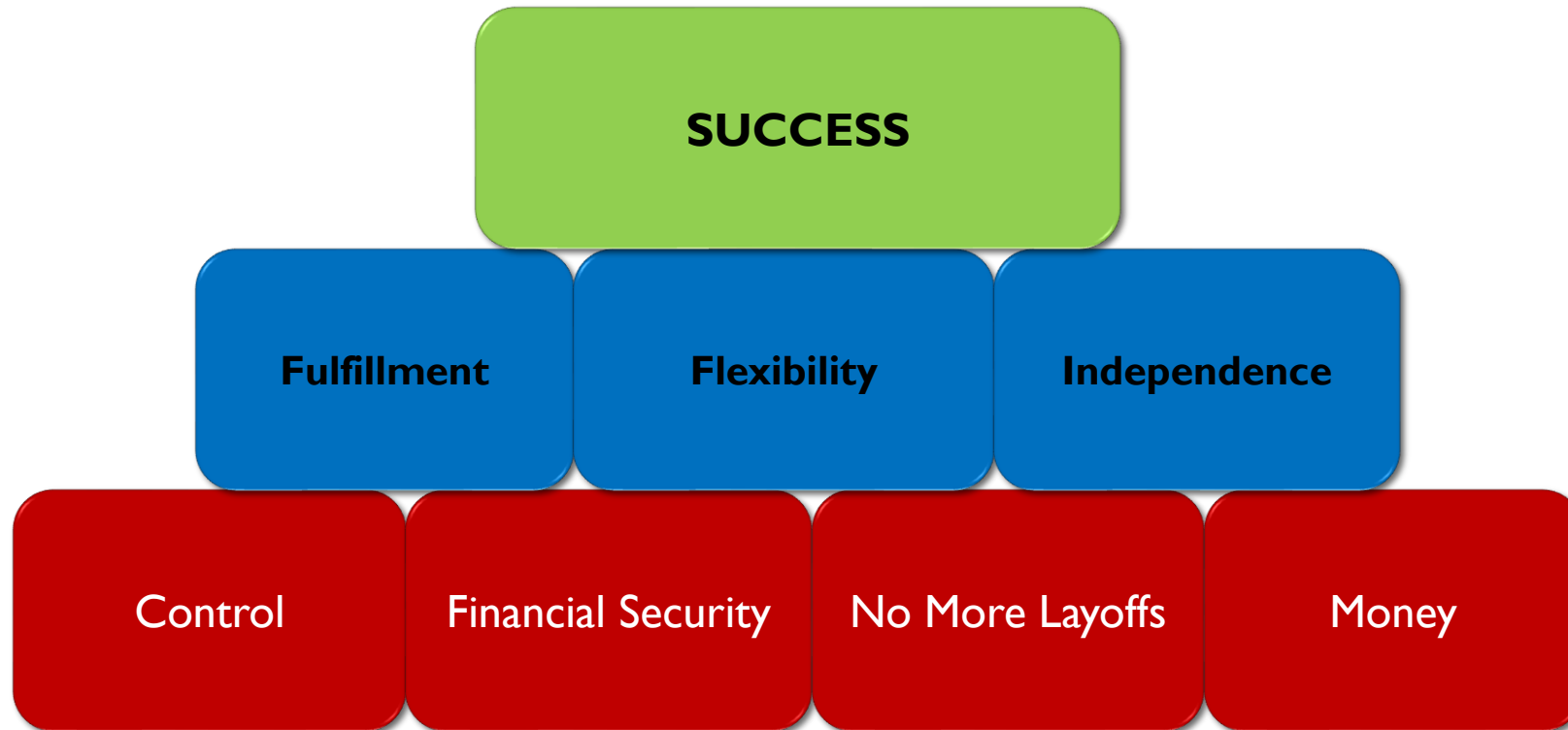
About FranNet

- Hosts the franchise webinars for SCORE nationally & publishes SCORE's ***Roadmap To Success*** booklet on things to consider when choosing a franchise
- Provides research and tools so we can match people who want to be business owners with a franchise that meets their needs
- **NO COST (Recruiter/Headhunter model)**

POLL

Step 1: Why own a business?

What are you hoping to achieve?



Step 2: How to launch?

1. Create a start-up business
2. Buy an existing business
3. Buy a franchise

Create a start-up business

Advantages

- **Total control**
- **Make all decisions**
- **Keep all profits**
- **Biggest upside**

Disadvantages

- **Must create systems**
- **No one to turn to for help**
- **Limited financing options**
- **Years before you make money**
- **Highest failure rate**

Buy an existing business

Advantages

- **Cash flow & good will**
- **Actual historical results**
- **Attractive to lenders**
- **Established location & customer base**
- **Employees in place**
- **Systems may be in place**
- **Owner financing**

Disadvantages

- **What is the real cash flow?**
- **What is the good will?**
- **Hidden seller motives**
- **Employee defection**
- **Higher Debt Service**
- **Poor training/support by the former owner**

Launch through a Franchise

Advantages

- Proven business model and product/service; Familiar brand
- Marketing/Sales/Ops support
- Quick start up
- Training, professional guidance; Experience
- Continued consulting relationship
- Access to other franchisees for help
- Regulated by the FTC

Disadvantages

- You have to follow the system to be successful – limited choices
- Usually annual sales goals - not completely your own boss
- Franchise fees and royalties in exchange for quicker ramp
- Protected territories = operational boundaries
- Binding contract
- Franchisor's problems are your problems

About royalties...

- **Good franchisors lose money in the short term on almost every franchisee**
 - Small royalty payments
 - Support costs are high
- **They make money in the long term**
 - Bigger royalty payments
 - Support costs are low

What to look for (what really matters)

- Proven, systematic approach to starting and staying in business
 - Experience
 - Simplicity
 - Initial Training & Ongoing Support
 - Name Recognition
 - Sales, Marketing & Operational Systems
 - Culture of Teamwork



Step 3: If a franchise, which type?

- Food
- Automotive
- Retail
- Business Services
- Home/ Personal Services
- Hotels

The facts

- **FACT:**

- Over 3,100 different franchise companies
- In approximately 300 industries
- With over 900,000 operating units

- **BUT:**

- Not all are available in your market
- Not all are possible to operate in your state
- Not all have a good track record (or any track record)
- Not all would allow you to achieve YOUR financial and personal goals

Minimize risk (and maximize ROI)

Formula:

Good system / track record \$\$

+ Can legally open in your market (registered, licenses available)

+ Available in your market

+ Product / service people need now and in foreseeable future

+ Good business for YOU

= Highest likelihood of success

Step 4: Choose an industry

- **Growing markets driven by demographics (Baby Boomers, Millennials)**
 - E.g.: Health and Wellness (including fitness), Residential Repairs, Interior and Exterior Cleaning, Estate Sales
- **Essentials**
 - E.g.: Salon Services, Automotive, Damage Restoration, Pet Care, Child Care, Senior Care, Building Essentials – Flooring, Window Coverings, Painting, Pest Control, HVAC
- **Businesses that help other small businesses thrive**
 - E.g.: Staffing and HR Services, Leadership Coaching, Sales Training, Marketing, Advertising, Commercial Cleaning, Building Management, Office Space, Safety Equipment, IT Services

**Lower your risk by
starting an
ESSENTIAL or
RECESSION-
RESISTANT business**

Other choices...

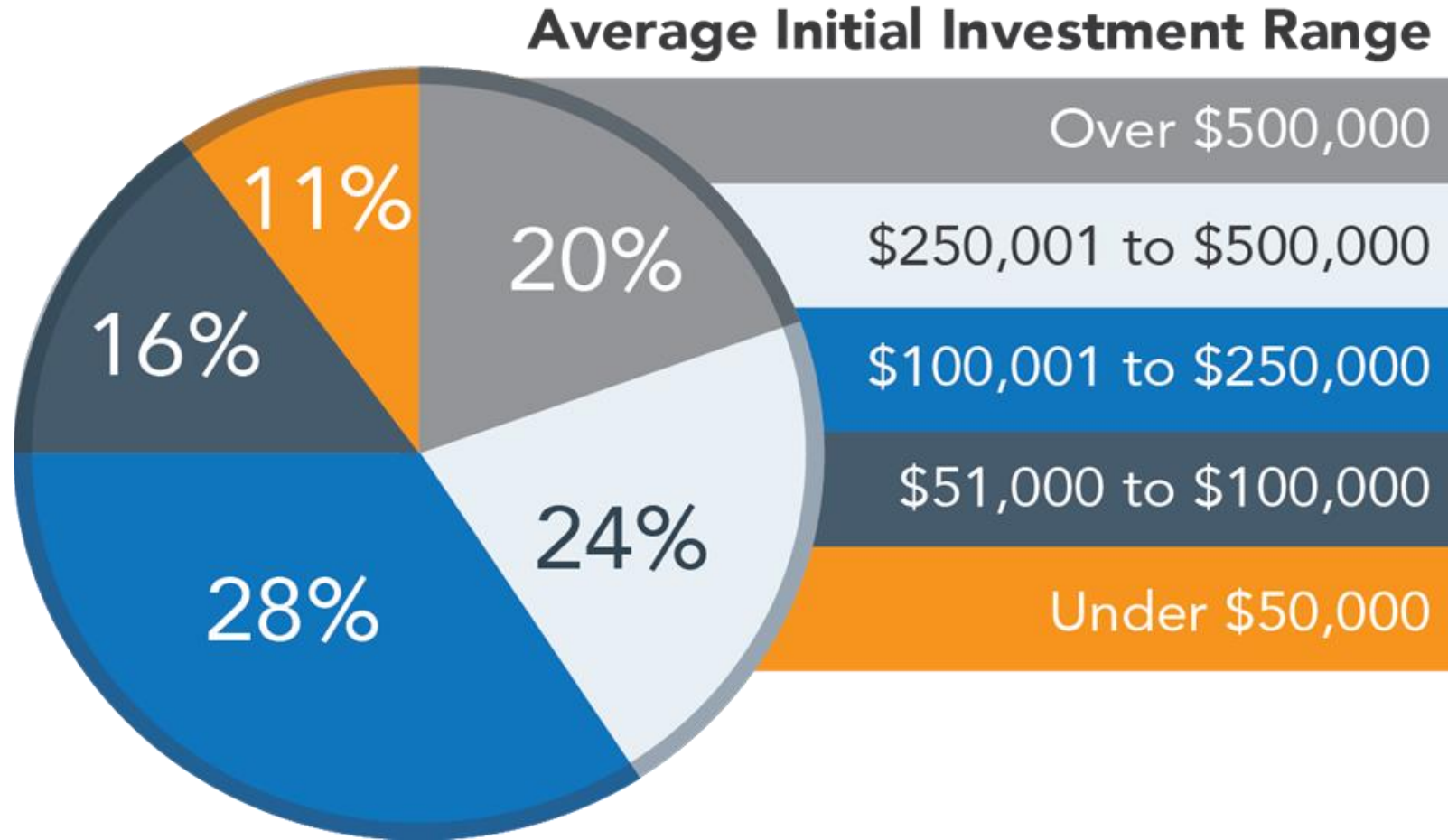
- Many Units vs. Fewer Units
- Older, well established vs. Newer
- Structured vs. Flexible Systems
- Expensive vs. Inexpensive
- Full-time vs. Semi-absentee vs. Master/Area

No one-size-fits-all

Considerations

- Determine your net worth
- Know your living expenses
- Establish your investment level
- Build your business model
- Research, Research, Research!
- Get advice from the right people
- Consult and use professional advisors

Start up cost range (including working capital)



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

Other considerations in building your business model

- **Financial & Lifestyle Goals:**

Where do I want to be in 5, 10, 20 years?

- **Transferable business skills?**

Sales

Management / operations

Customer service

Marketing

Other considerations in building your business model

Business Preferences?

- Employees
- Budget
- Business environment
- Full or Part-time & Hours
- Number of units
- Type of customers

What do I want out of my business?

- Control and balance?
- Income and equity?
- Time for family and interests?
- Challenge and recognition?
- Financial security?
- Be part of my community

Find the BEST fit

- Never settle for something that does not fit your business model
- Match your business model with franchisors who are looking for people with your characteristics, attributes, goals and business preferences.
- Interview at least 6 to 10 franchisees, the ones who are doing well and the failures. How are you the same? Or different?
- DO NOT pick a business because of your passion for the product or service. (Think like an investor.)

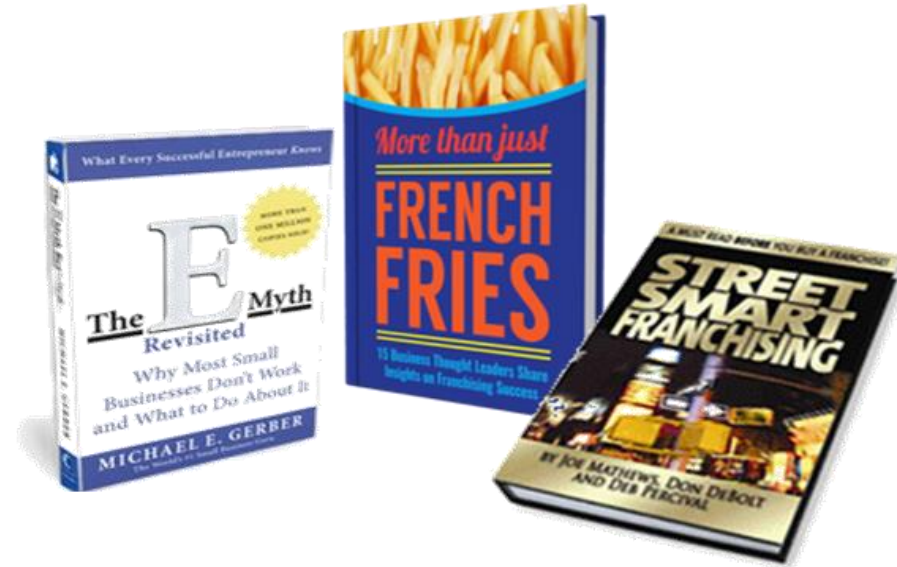
Resources

Professional Advisors:

- Franchise Consultant
- Franchise Attorney
- Accountant
- CPAs
- Business Coaches
- SBA
- SCORE
- Lending Sources

Suggested Reading:

- *More Than Just French Fries*
- *E-Myth Revisited*, by Michael Gerber
- *Street Smart Franchising*, by Joe Matthews



When to seek help?

- Are you committed to being in business within the next 3-6 months?
- At least \$50,000 liquid
- At least 6 months of personal living expenses
- Spouse attends meeting / calls
- Partnership agreement



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