PROFITS ARE BETTER THAN WAGES

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SETH LEDERMAN

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AMERICA'S TOP FRANCHISE MATCHMAKER

Achieve the Life
of your Dreams
by being in Business
FOR YOURSELF
but NOT
BY YOURSELF

black card BOOKS

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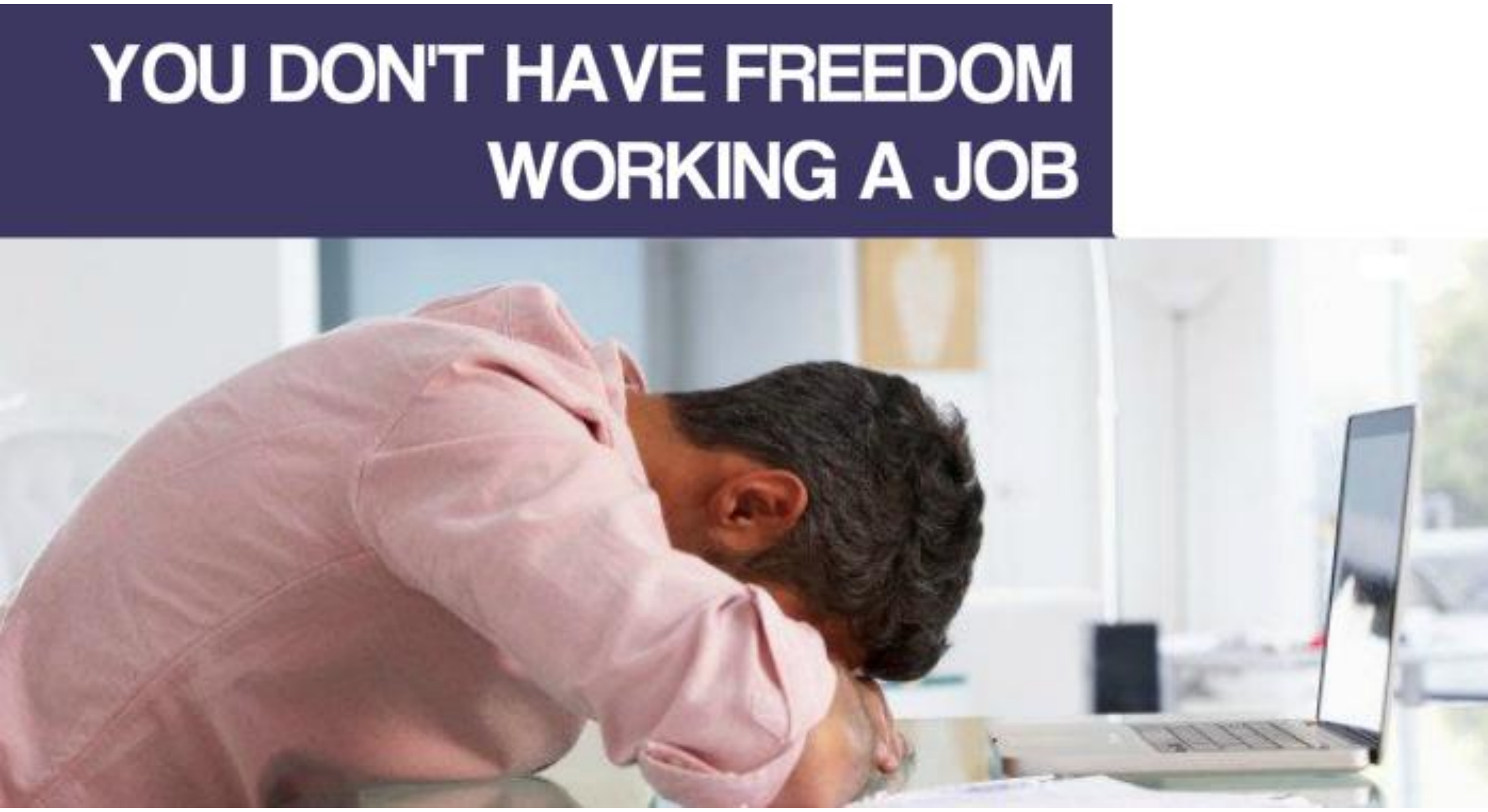


Dear freedom seeker,

Are you feeling stuck?

Is your job or current situation no longer satisfying? Maybe you have a boss who is making your life miserable?

Let me guess, you are tired of putting in hours of hard work while someone else reaps the benefits?

And you're ready to learn more about an investment opportunity and a better way to spend your retirement days.

You're also probably looking to do something that accommodates your lifestyle rather than having to tailor your lifestyle to accommodate your career. Correct?

If so, you are like most Americans.

You work more than 8.5 hours each workday. That is more time spent working than sleeping, and much more time working than doing the things you love, like spending time with family, friends or enjoying your hobbies (United States Department of Labor, 2011).

For a person that works a forty year career, from the age of 22 to the age of 62, the earliest age to retire and collect Social Security, 50 working weeks a year and the average 8.5 hour work days, the typical employed individual will work away 86,000 hours of their life.

An employee essentially rents a large portion of their life to their employer; the employer is reaping the rewards of the skills and services of the employee. This is a scenario that works well for an individual who enjoys their work and is satisfied with their pay and benefits, yet studies show employees are becoming increasingly dissatisfied with many aspects of their employment. Published today by the Conference Board, Job Satisfaction 2019 finds some 54 percent of U.S. workers satisfied with their employment. That number is up three points from 2018, making one of the largest single-year gains in the survey's history.

Amid a strong jobs market where individuals can more easily find new work, survey participants gave weak marks to the most important driver of job satisfaction: their current job's potential for future growth. In addition, over 60 percent feel dissatisfied with their organization's recognition practices, performance review process, and communication channels. Also noteworthy, men generally feel better than women about multiple financial components of their work, including wages and bonus plans.

"In today's strong jobs market, people are quitting their current positions at the fastest pace in over two decades," said Gad Levanon, PhD, an author of the report and The Conference Board Chief Economist for North America. "It's one of the many signs that illustrate improved opportunities for workers. They now have more leverage when it comes to increasing their paychecks and finding jobs that better align with their interests and skills."

Your Job

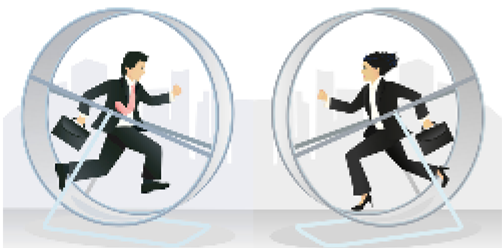
U.S. job satisfaction hits 22-year low

By Julianne Pepitone, staff reporter

NEW YORK (CNNMoney.com) -- Fewer than half of U.S. workers are satisfied with their jobs, the lowest level since record-keeping began 22 years ago, said a report released Tuesday.

The Conference Board's survey polled 5,000 households, and found that only 45% were satisfied in their jobs. That's down from 61.1% in 1987, the first year the survey was conducted.

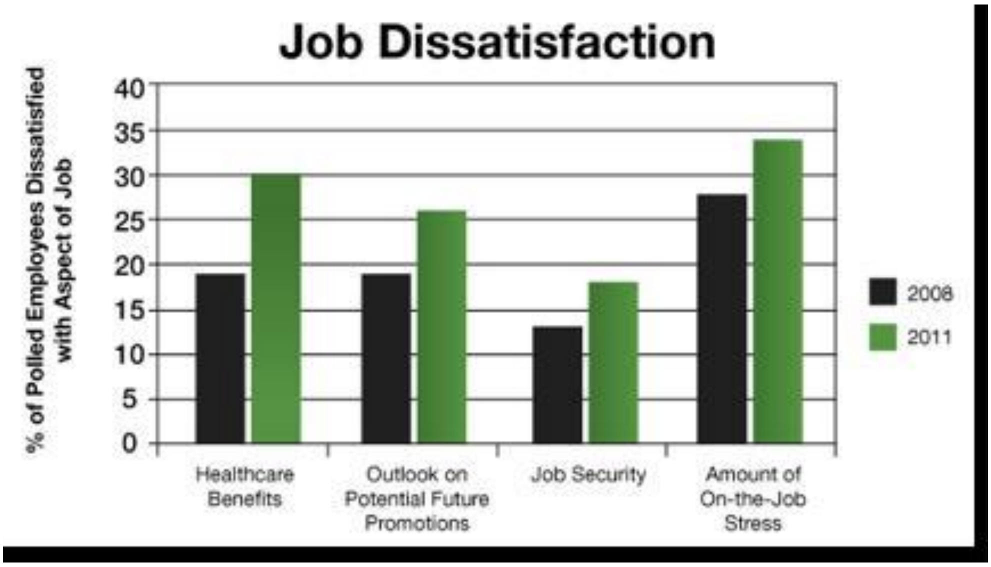
Even though one in 10 Americans is out of a job, those who are employed are increasingly dissatisfied.



"Through both economic boom and bust during the past two decades, our job satisfaction numbers have shown a consistent downward trend,"

said Lynn Franco, director of the Consumer Research Center of The Conference Board, in a prepared statement.

"[That] could spell trouble for the overall engagement of U.S. employees and ultimately employee productivity," she added.



"With more workers than jobs, workers who do have jobs may be staying in jobs that they are less satisfied with" (Morales, 2011, para. 5)

Since the recession hit in 2007/2008, it seems the lack of employment opportunities, risk of layoffs, long term unemployment outlook and competition in the workplace has led to higher stress on the job and a much lower satisfaction in the daily grind.

86,000 hours is a great deal of time spent being unhappy, stressed or dissatisfied.

It is not surprising that many who have realized these same issues and are unhappy with the state of the economy and their situations have considered business ownership. It's great for the economy and it's an excellent opportunity for the business owner.

One of the strongest things that pull people towards entrepreneurship is that they're tired of doing all the work while someone else reaps the rewards. According to a quarterly survey by Vista print, "the vast majority of micro business owners are optimistic about running their own business, with 78% reporting that they are either happy or very happy."

78%!!!!

Starting a business can replace lost or reduced income, replace an unhappy employment situation, or give a business owner flexibility in their work-life balance that they can't experience in a role as an employee.

There are many benefits to starting a business and they are going to vary depending on your individual situation.

If you crave the excitement that comes from waking up every morning ready to take on the world and you admire people like Steve Jobs, Bill Gates and Mark Zuckerberg, then I have the answer for you! Rather than continuing to "chase a ghost" looking for your next perfect boss, like the line from The Who song - "Meet the new boss, the same as the old boss..."

If you're currently unsatisfied, it's time to take control.

One of the things that make Americans unique is that all of us have a bit of entrepreneurial spirit. People like you, who were ready to open their own business and become the economic leaders of tomorrow, built our country. If you've decided you want to start thinking about being your own boss you need an idea about what type of business is right for you.

Businesses come in all shapes and sizes so figuring out what works for you is vital to choosing a successful one.

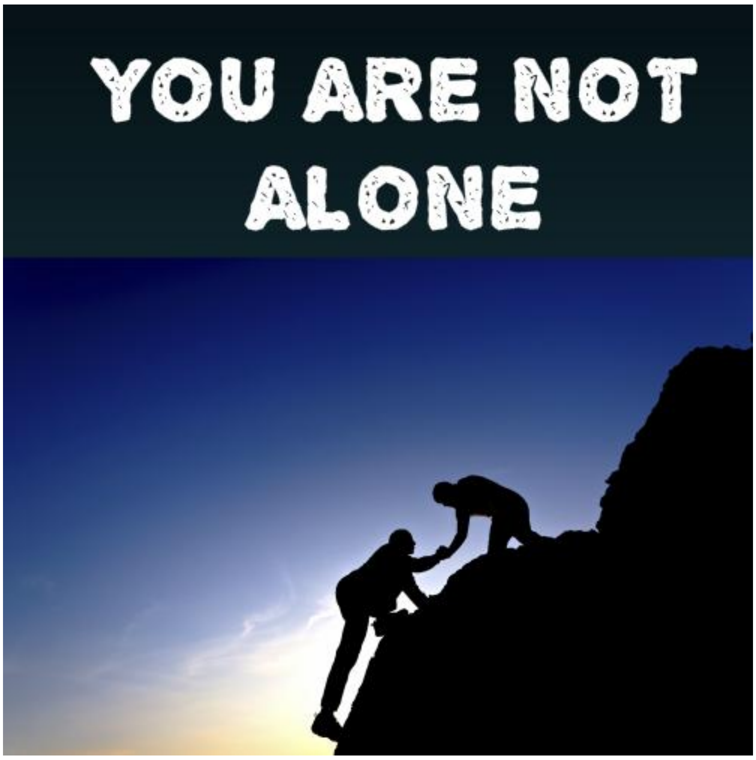
In the pages ahead I will provide you with the education and guidance I share with my clients interested in taking the leap from wage generated income to profit generated wealth.

They are probably like you, people who were tired of "spinning their wheels," whether their wheel spinning stemmed from the dissatisfaction of building someone else's dream, having hit a glass ceiling, or were just simply bored and uninspired.

Another common denominator is that they are overwhelmed in navigating the mountains of information available to them and the daunting task of sifting through it all in the minimal time available while they slave away at their 9:00 am – 9:00 pm job building someone else's dream, not their own.

They are from all different levels of the work force; they are front line, management, C-Suite, investors, and many are even retired and not ready to "throw in the towel." However, they all want the same things; freedom, independence, life balance, equity, better returns on time and money, as well as the sense of satisfaction and fulfillment that come with building something that's their own.

In the search to finding your perfect business, we will be with you every step of the way.



CHAPTER ONE

What's Your Path to Profit?

"MONEY IS NOT THE GOAL…MONEY HAS NO VALUE…THE VALUE COMES FROM THE DREAMS MONEY HELPS ACHIEVE." – Robert Kiyosaki

Many of my consulting clients come to me to explore business ownership for many reasons, some out of inspiration, and many, well, out of desperation. This is not surprising as people generally either move towards pleasure, or away from pain. Whatever your motivational driver, there are some important variables to consider when making this decision.

There are many paths to profit, which one is right for you?

These first two options use physical labor to achieve an income:

Employee

Most business seekers are currently employed building someone else's dream. As the owner of a job, your main objective, whether you know it or not is to earn the company you work for a profit. You basically rent your time in exchange for money. The employees' purpose is to make money for the company they do not own. Many employees spend what they earn and have little left over for investing. They typically invest their savings into a 401(K)'s and mutual funds they know little about. Mutual funds are not a recommended vehicle for acquiring wealth. In order for an employee to build wealth, they must add on an additional 20-40 work hours a week to build investments and assets. This is usually achieved with a second job, and/or some home-based hobby or interest turned into a micro home-based business. Employment should be used as a vehicle to obtain cash flow for assets and considered a temporary beginning step towards creating wealth.

Self-employed Business Owner

A self-employed business owner works very hard for money. Their labor is how the business generates income. When they not working hard the business becomes stagnant. This is because the business owner is the operator of the business, they are the business. They have to understand and facilitate every aspect of the business including marketing, production, sales, operations, bookkeeping, and even the office cleaning. Many professionals, i.e. doctors, lawyers, accountants, as well as most small businesses are in this category. Most self-employed individuals do not make much more than they spend. So while they have more control over their time and have greater independence, they typically do not bring any more "bacon." Many small businesses start off as a job but can be turned into system-based businesses and provide a platform to facilitate such a metamorphosis.

These next two options use leverage and labor to achieve income:

Business Owner

The business owner has systems work for them. They have built a business in which labor hours of employees and contractors are responsible for most of the revenue generated by the business. The owner's labor hours are still required, but they do not produce the majority of the revenue for the business. Purchasing an established and successful business model (i.e. a franchise) will not only eliminate the previous two phases but will also set you up for the next phase of success. At this stage, the business will continue run and create income for the owner even when they are away, allowing time and money freedom. This is the stage that experiences the best tax advantages.

The business is used to fund other investments such as the purchase of property, equipment, ownership in other companies and more.

Investor

An investor has money work for them. An investor is earning all of their income passively from the interest on invested money, real estate income, stock dividends and, of course, business income. In other words, the wealth that was built by their efforts is now generating enough annual passive income to live on without the requirement of daily labor hours.

When you work hard as a business owner, you can use the profits you earn to purchase other investments. Investors allow their assets to provide housing, to create jobs and to create opportunities for others. Investors spend their time managing their different investments and enjoying the world we live in; spending their time how they want to.

Benefits of Business Ownership vs. Being an Employee

Business Ownership

Business Ownership provides a significant amount of benefits to the owner. For starters, you are certainly the last one fired. Although it comes with a lot of responsibility, being a business owner allows you to see problems coming so you have a chance to react, although, you are in a better position to be proactive rather than reactive.

Being a business owner provides three income streams:

1. You pay yourself a salary.
2. You gain several tax savings.
3. You gain growth through equity.

As the first income stream is self-explanatory, let's dig a little deeper into #2. Many people do not realize the tax advantages of owning your own business. Let me illustrate this with an example. When you pay $100.00 for a cell phone, you have to have earned $130.00 in income to pay for that (assuming an average tax bracket). But when you own a business you can deduct all or a portion of that expense to the business.

So, if your business earns $130.00 and you deduct the $100.00 cell phone as a business expense, you only pay taxes on the remaining $30.00, around $10.00. That leaves you with $20.00 that you wouldn't have had by being an employee with a salary. A person that was making $100,000 with a job can have the same or better lifestyle making $70,000 with a business for this reason.

With Growth equity, #3, you can sell your business for an amount multiple times your investment. i.e. if you have a business that costs $50,000 up front but sell it in 7 years for 1.2 million, which equates to 24 times your original investment.

You profit from the growth of your company you invested in and contributed to.

You achieve wealth accumulation when you sell that business.

In addition, you gain equity on the property your business is on, should you own the real estate. You can sell the business and maintain property ownership that can continue to gain value over the years; thereby creating an asset that can remain in the family or be sold later for additional profit.

Owning a business provides you unlimited income potential on salary and earnings, you can take an owner's draw and pay fewer taxes. You also have the opportunity to be paid for passively running the business once it's in motion.

Owning a business provides many lifestyle benefits as well:

1. You are free to make your own schedule.
2. You are free to take vacations whenever you want.
3. You have the freedom to take care of your family's needs as they arise.
4. You pick the location and can move it as you move.
5. You are able to wear clothing that is comfortable for you.

6. You have pride and passion for what you do.

7. You make the rules, there is no boss to report to…YOU are the boss!

8. You choose the clients and co-workers you want to work with.

9. You improve the economy by creating jobs and opportunities.

10. Your sphere of influence is boosted; you can meet other business owners as a result of your mutual business ownership interests and expand your sphere.

Employee

Here are some of the shortcomings of being an employee:

1. You can be fired or laid off without a warning or chance to react.
2. Your contribution is rarely valued as an employee.
3. You have a single income stream; you're paid a salary.
4. As you age you become less valuable to the company.
5. Studies show that the typical worker stops receiving raises around the age of 40. These studies also show that workers in their 40's and 50's earn only about 10% more than similar workers in their 30's. (See the article The Insecurity of Job Security.)
6. Newest employees are the first to be let go.
7. Your future potential turn-over will increase.
    - *Example:* You were with your old company for 10 years and you were laid off. At the new company, where do you think you will be on the list when they need to do layoffs?
8. Not only will your income actually go down; you'll also have less job security.
9. You are usually capped on your pay.
10. You only get paid for work you have done, can never be passively earned.
11. You always have to consider where your employer is located and if it is a reasonable distance from your home.
12. You are essentially a subordinate.
13. You have to follow dress codes.
14. Employer's values may not align with your personal values.
    - *Example:* Thousands of Enron employees lost their jobs and retirement funds due to corporate malfeasance, accounting violations, and unethical business practices.

A Business Owner Thinks Differently

Making the leap from employee to owner of a business involves two dramatic shifts in your thinking:

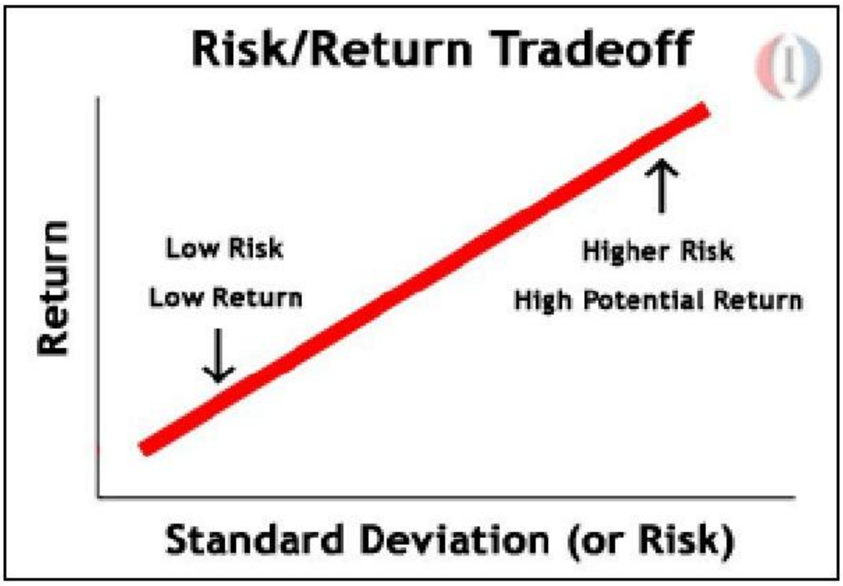
1. Shift from the “salary mentality” of an employee to the “cash flow and asset creation mentality” of an owner.
2. Your technical analysis of how much you make must be based on the complete picture of cost and benefits.

All employees whether front-line or CEO, sell their labor and skills to the owner of the business. The owner, in turn, rewards employees with compensation. No matter how high on the organizational chart, employees are essentially renting their time and skills to an owner. The owner is using the work and skills of the employee to build something of value that the owner can then grow and/or sell.

An employee has very little financial risk in their ability to retain the job and make future income. The employee does not risk their savings in a traditional employee/employer relationship. As you would expect, low risk generally limits your upside potential.

Business Owners take on more risk. They invest savings to create a business and risk the business not performing to the level they expect. But the owner also derives the majority of the benefit should the enterprise prove to be successful. Once the business is established, they gain security of cash flow, tax benefits, and asset creation.

Even though this is a basic risk/reward equation, it is the very foundation of wealth creation in a free market economy.



Source: Investopedia.com

The Insecurity of Job Security: Why Business Ownership May Be the Best Option – by Larry Carnell

"Over the last several decades we have looked backed to our grandparents, parents, and in many cases even our own life experiences and have been given the impression that a job means security and if we become better educated and work hard that our careers and incomes will continue to advance as we grow older. However, the changing trends and facts may be quite different that our perception.

For those of us who have been analyzing the facts… there seems to be definite growing signs of "ageism" and growing forms of age discrimination. Whatever our age, many are committed to believing those issues are happening to others or that occurs to people five years older from whatever age that we are currently at! The facts strongly suggest that's an unrealistic measurement tool. The real facts (according to at least two independent state studies) suggest that age starts at age 45! Much lower than what many are willing to admit. The consequence of not recognizing the trends can be and has become very costly for many.

Here are disturbing figures:

- *People past the age of 45 looking for a new job can often take as much as twice as long (or longer) to find a job versus younger age groups.*
- *Many employers are less likely to interview and hire people that are currently unemployed.*
- *There are often three people applying for every new job (often times those other candidates are younger).*

- *Length of replacement jobs are often shorter than previously held jobs (typical average is 2 ½ years for people past the age of 45). Once you lose that job… you are now even older and competing with even younger competitors for the next job.*
- *We are often seeing peak incomes declining once one passes the age of 45 (not unusual for many to see their income decrease 20-30% IF one finds a job). We are simply not seeing our incomes continue to rise as our experience grows. Often just the opposite is happening.*
- *One of an employer's biggest and fastest growing expenses are healthcare related costs. Those costs and risks are obviously higher as one grows older. A single major illness can significantly impact the operating costs of a small to midsize business owner. Owners are cautious about assuming those growing risks and associated cost.*

A company's healthcare cost is often directly related to the average age and gender of their employees. Men in particular live shorter lives – cost for insuring a male past the age of 45 can rise significantly compared with men in their 20's and 30's. Insurance companies are discouraging business owners from hiring older employees. SMART employers looking to decrease cost and improve profits are recognizing this!

One would think that knowledge and experience is extremely valuable and that years of experience would be worth acquiring and keeping... So why are the trends suggesting older experience employees are not as valued? The answer may be found in technology.

Why is this happening?

Simply stated… One is either an asset or a liability. Some assets provide a better return on investment and therefore are worth more. As that return on investment of the older asset decreases or other newer asset can replace that more expensive asset the value of the older asset diminishes.

***Illustrations**:*

- *The mature experience employee is now not the only source of information*
- *The mature experience employee was once the 'brains' of the business… now much of that information can be stored and accessed in a computer for $1000 versus hiring someone than may cost tens of thousands of dollars more*

- *Rather than hiring a full time experienced and expensive employee, employers can now outsource that resource needs and only pay for it when they need it and often at a fraction of the cost and without providing additional costly benefits such as insurance, vacation, etc.*
- *Information, seminars and answers are often available FREE via the Internet. Even the federal government has agencies (SCORE, SBDC, SBA) that will provide employers FREE consulting services to reduce the need and expense of keeping experience and more costly employees.*

How to regain control and better security:

- *Retrain – Reinvent yourself. This may be difficult or costly.*
- *Focus on careers where there is growing demand and shrinking personnel resources*
- *Consider business/franchise ownership*

The argument of business over franchise ownership:

Business ownership is one of the few areas where one can gain greater control of one's own destiny and provide greater 'long-term' security while not only providing an income stream but also providing equity and long-term income and wealth protection NOT provided with many J-O-Bs.

Business ownership does come with risks. However, one of the most difficult things for many to understand is that it's often virtually impossible to eliminate risk unless one also eliminates opportunity. For many approaching or passing the age of 4, the risk of business ownership may be less than the risk of job insecurity, declining lengths of employment, declining pay scales and other factors.

Franchising in particular can often be an excellent way to reduce one's risk of business ownership by carefully evaluating the options available and using professionals, such as franchise/business brokers, accountant, 'franchise' attorneys, and other professionals trained in helping one evaluate the options.

Successful entrepreneurs consistently often have one thing in common- they partner with experts that have track records of experience. In life, one can learn from one's own trials and mistakes (which can be VERY expensive) or learn through the trials, *errors and expenses of others. Obviously, it's less expensive to learn from other 's mistakes than one's own. Franchising, by its nature, allows one to use another's 'recipe'… that recipe can often be evaluated through the investigation of the company's Federal Disclosure Documents and interviews with their franchisees.*

One of the biggest challenges facing business ownership has been obtaining the necessary funding necessary to start one's own business. The finance community has numerous options but many of those can be expensive and require one's home or significant equity (non-borrowed funds) injection. An innovative program allows people to use their retirement funds tax, penalty and debt free. The short and long-term benefits of this program have now resulted in this becoming even more popular than SBA loans for funding franchises. As with any service, it's important to use experienced retirement "design" experts rather than simply finance companies to ensure that your plan it properly designed and maintained to avoid compliance issues that have resulted in significant tax, penalties and fines.

Real average earnings:

For someone making $75,000 per year that works 2 ½ years and then is laid off and takes a year+ to find a job (not unusual – even though many do not think that it will take that long)… one's average yearly income is really closer to $54,000.

With that being said, people are often fixed on not accepting jobs that pay them less… even though the market value of experience may be perceived as less valuable or deteriorating. One must accept that fact, re-invent themselves, or simply take their skills and knowledge and consider business ownership over the J-O-B.

Final Summation

The perception of control over a job, income and job security diminishes for many, as one grows older. As skills, types of jobs and industries continue to change job security will most likely continue to be difficult to maintain unless one owns a business. Technology is often accelerating those trends. One cannot expect an employer to have loyalty to one's employees over their own survival and interests.

To best control one's job security – find the right business. Become the guy that creates the job, which means becoming the employer versus the employee. You're always the last one fired.

Next Step: Complete the chart on the next page to asses if you're currently an ideal candidate for business ownership and if not, what you can do about it...

How Strongly Do You Agree with the Following Statements?

Mark your responses on the column to the right…

1 = Strongly Agree

2 = Slightly Disagree

3 = Undecided

4 = Agree

5 = Strongly Agree

1	***I am an agile learner***	
2	***I am an optimistic individual in the workplace and at home***	
3	***I am a self-starter/self-motivator***	
4	***I demonstrate strong and consistent work ethic***	
5	***I am a successful and effective communicator***	
6	***I am efficient in the workplace***	
7	***I am a team player***	
8	***I am a problem solver***	

9	*I am a hard worker*	
10	*I have advanced relationship skills*	
11.	*I am comfortable in asking for assistance from corporate*	
12.	*I make those around me feel at ease and comfortable within the workplace*	
13.	*I have any experience is sales*	
14.	*I have experience in marketing*	
15.	*I am able to appraise your own performance*	
16.	*I have experience in project management*	
17.	*I have management experience*	
18.	*I am not easily sidetracked*	
19.	*I allow colleagues the opportunity to ask questions and to give feedback*	
20.	*I take my business/work seriously*	
21.	*I can manage money and financials wisely*	
22.	*Everything you do in business must be customer focused, including your policies, warranties, payment options, operating hours, presentations, advertising and promotional campaigns and website*	

TOTAL SCORE: _______

Grab a calculator and add up the right column, if you score an 88 or higher, you are the ideal candidate for business ownership!

What if your score is not above 88?

It's time to change the way you think! That's the only thing that separates where you are today, to where you need to be to become a business owner. Here's a reminder…

Making the leap from employee to owner of a business involves two dramatic shifts in your thinking:

1. Shift from the "salary mentality" of an employee to the "cash flow and asset creation mentality" of an owner.
2. Your technical analysis of how much you make must be based on the complete picture of cost and benefits.

CHAPTER TWO

Should You Consider Owning a Traditional Business or Franchise?

YOU ARE FREE TO CHOOSE, BUT YOU ARE NOT FREE FROM THE CONSEQUENCE OF YOUR CHOICE – A UNIVERSAL PARADOX

When you decide to start a business of your own, it could be a tough task to choose from the different categories, types and business models available to you. In general, you may either want to start something completely of your own, which we can call as a traditional business model or alternately choose to buy a franchisee business option from an existing franchisor. Both these options have their own pros and cons.

Before answering that question of which direction to head, understanding the distinctions between a “mom and pop” traditional business, and a franchise would shed a lot of light on which path to profit to choose. Each has its benefits and disadvantages. What is considered a benefit or disadvantage, like beauty, is in the eye of the beholder. You emotional IQ, your experience, investment level, risk tolerance, etc. will help guide you in your decision-making.

Learning about these different business models is of utmost importance before you ring the bell and take that plunge. A traditional business may give you the complete right of ownership over your business and help you to get that emotional feed of satisfaction, however, along with the emotional satisfaction, it is the profits and business success that one needs to also see to sustain her or his business in the long term.

First, let's understand the distinctions and comparisons, and then we can discuss which path makes the most sense for you.

What is a Franchise? (*Source: IFA – International Franchise Association)*

Franchising is simply a method for expanding a business and distributing goods and services through a licensing relationship. In franchising, franchisors (a person or company that grants the license to a third party for the conducting of a business under their marks) not only specify the products and services that will be offered by the franchisees (a person or company who is granted the license to do business under the trademark and trade name by the franchisor), but also provide them with an operating system, brand and support. A brief separate glossary of franchising terms is available on the IFA's website at http://www.franchise.org/what-are-common-franchise-terms

Business Format Franchising

There are two different types of franchising relationships. Business Format Franchising is the type most identifiable to the average person. In a business format franchise relationship, 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. More than 120 diverse industries use franchising as their route to market including:

- Automotive
- Business Services

- Commercial and Residential Services
- Education
- Lodging
- Personal Services
- Quick Service Restaurants (fast food)
- Real Estate
- Retail Food
- Retail Products and Services
- Senior Care and Medical Services
- Table/Full-Service Restaurants

Traditional or Product Distribution

While less identified with franchising, traditional or product distribution franchising is actually larger in total sales than business format franchising. In a traditional franchise, the focus is not on the system of doing business, but mainly on the products manufactured or supplied by the franchisor to the franchisee. In most, but not in all situations, the manufactured products generally need pre-and post-sale service as found in the automobile industry. Examples of traditional or product distribution franchising can be found in the bottling, gasoline, automotive and other manufacturers.

The Advantages of Buying a Franchise

Franchising is Less Expensive

The mistakes, trial and error, and development of systems will cost much more than the franchise fee, which is typically the only difference in cost.

Support from the Franchisor

One of the most important reasons to join a franchise is the ongoing support. Franchisors provide ongoing training for you and your employees; they provide coaches, mentors, franchisee groups and training materials to keep you educated and profitable.

Strong Brand

Having a strong, prominent brand creates trust with your customers. The basis of a strong brand is consistency. Customers want to know what to expect when buying from you, the brand helps create a level of comfort before they do business with you. The brand's strength can be transferred into all new markets that the brand appears in.

Group Buying Discounts

Mom-and-Pop shops have a major disadvantage in this area. They are competing with a corporation that has 50 or more units buying the same products. Vendors of those products give the larger groups bulk-pricing discounts, advantages on delivery and more products to offer.

Power of Being a Business Owner

Franchising gives you the freedom of the American Dream of business ownership but protects your investment by limiting your risk.

Details of the Franchise Disclosure Document (FDD)

The FTC regulates franchising, because of that the franchisor must provide full disclosure of their earnings, financial position, background of the executives, current and former franchisees with full contact information, a copy of the operations manual's contents, a disclosure of all initial fees and all ongoing charges, a copy of the agreement, territory restrictions and more. This is extremely important as it allows you to know exactly how this franchise is doing. Are they stable? Are their franchisees successful? This information is available to those that understand how to read these documents. We will discuss this in more detail in Chapter 6.

Marketing Materials

The franchisor creates all branded and marketing materials to create a consistent message and take one more thing away from your workload as a franchisee.

Other Franchisees to Help You Grow

Having other franchisees in the system is an absolutely invaluable resource. This is a huge support group of individuals who are doing exactly what you are around the country. This group is always there and available to call on when you have questions. The franchisor is just one part of the total support system. The more qualified, talented people you have building your business, the faster you will grow.

Technology

Franchisors spend a great deal of time, energy and money on developing technology within their model to simplify the operations of the franchise. As a franchisee you benefit from these advancements every step of the way.

Research and Development

Franchisors allocate a portion of your franchise fee to research and development of new products, systems, marketing programs, competitive edge opportunities and public relations. These things allow your business to stay current while other businesses in the same industry struggle.

Proven System

Franchisors have developed a system that has not only been tested by them, but also by every single franchisee that has entered into their program. That means you have a tremendous advantage by opening a business with a proven and tested system. This reduces the learning curve, the breakeven point and the stress of opening a business.

Business Planning

Franchisors help you plan your growth and stick to that plan. It is extremely important to have objective and realistic ways of obtaining those goals by a certain date. This creates a sense of urgency, especially when you are reporting the information back to the franchisor. That adds the pressure you need to stay on target.

Higher Resale Value

We begin with the end in mind. When you start your business, set your goals and your exit strategy in advance. If you set a goal to sell your business in five years, your franchise will have grown in value by whatever your current annual income statement shows. This means for a $50,000 investment, if your annual gross revenue is $1,200,000, and you net $120,000 a year over 5 years, and then sell the business for 3x one-year earnings, then you can realize 20 times the initial investment you put into the business.

Franchises are also easier to resell than an independent start-up business. The reason is that franchisors are properly equipped with the sales team, marketing materials, support staff and success rate of their franchisees for the buyer to review. They provide a security and comfort level to the new business owner that a start-up simply cannot.

Equity in a Franchise

As your business pays off your equipment, cars, mortgages, and more the franchise adds equitable value. Your employees alone create equity in the business, growing your net worth substantially.

Sales Systems

Franchisors often help franchisees with the actual sales process. If you have a large client but are not comfortable approaching them with an offer, use your franchisor. They will get on a conference call to help you close the deal. They will help you plan a strategy to secure the client and keep that client coming back. Franchisors are your advisors, mentors, sales team, back-end support and more. Use the resources you have at your disposal within your franchised system and you will be glad you did.

Ownership Transfer

Franchising gives you the option to transfer ownership rights if you pass away, or you can assign the franchise to someone else in the event that you become disabled.

The Disadvantages of Buying a Franchise

It Can Feel Limiting

You have to adhere to the franchisor's terms and meet their standards. (If you think this could be an issue but know you want to run a franchise, pick an operation where you get as much freedom as possible.)

It May Be Frustrating

Not having complete authority over the services and products sold within a franchise may make you feel frustrated, since it must all be agreed by the franchisor. For that reason, it's not suited to people with loads of business ideas who like doing things their own way.

It Can Be Costly

You have to buy the rights to the franchise, which on average costs $40,000. But new franchisees are likely to need to borrow an average of $150,00 in total for initial investment, as you need to buy equipment, premises and so on. With a start-up you may feel more able to bootstrap.

You Have a Permanent Business Partner

You usually have to give a share of profits to the franchisor or pay an annual fee.

You Are Subject to the Behavior of Others

If other franchisees tarnish the brand, there's nothing you can do about it. You're also vulnerable to the state of the franchise operation as a whole.

Weighing The Pros And Cons Of Franchising vs. Traditional Business

by Eddy Goldberg

Going into business for yourself is a major life decision. One path is to start your own business or buy an existing one. Another is to choose the franchising model and buy into a proven system with a known brand name. Each path has its own promise, as well as perils. Once the choice is made, the question becomes what type of business to choose.

Passion and enthusiasm are key ingredients in steering a business from startup to success. Many customers of their favorite sub shop or pizza place think, "I'd love to own one of these!" That is, until they realize they're not cut out for retail, managing teenagers, or spending 60 or 70 hours a week in their new restaurant for a year or two... or three. Choosing a business - and a business model - should be a "business decision." After all, you're in it to make money, right?

Weighing the benefits and costs of franchising against those a traditional (non-franchised) business should begin with a self-assessment.

Are you able to follow a prescribed system, or do you need the freedom to innovate and experiment? Do you need total independence in every aspect, or can you follow a ready-made system 100 percent?

In terms of "cost/benefit," there is a price to pay for buying into a franchise system. But there also is a price to pay in starting your own business. The pros and cons, detailed below, must be weighed against the benefits, in terms of both investment and personal values and goals.

Brand Awareness

If you walk into any of the 30,000 Subways or McDonald's around the world, you're guaranteed your meal will be the same (or nearly) no matter where you are. That's the franchise proposition of uniformity and replicability. Customers know *this and seek out the reliability and familiarity of their favorite brands, which have been established over years or decades.*

Control / Autonomy

When you start your own business, you're in control over every detail, large and small. With a franchise business, you sign an agreement to follow the rules laid out by the franchisor. (Remember, franchisees don't "own" their franchise unit: they are awarded a license to use the franchisor's brand name, operating system, equipment, uniforms, etc. that have been fine-tuned and perfected over many years.) Yes, you control your franchise unit in terms of the culture and values you set, and whom you hire and fire, but you must follow the franchisor's operating system.

Operating System

Would you rather invent the wheel, or buy one ready-made? If you're the creative, innovative type, starting your own business is the way to go. A franchised business provides a complete, out-of-the-box business, ready to "plug and play." You have to follow the operating manual. If you can't, fly solo.

Equipment and Supplies

Outfitting your new business with everything you need to succeed means researching what equipment to buy, finding suppliers, and negotiating deals. You may buy a pizza oven that's too big or buy more fresh food than you need; or you may buy one that's too small and run short on capacity as your business grows, or run short on pepperoni on a busy evening or weekend. Franchisors can provide invaluable help in knowing both what and how much to buy - often at reduced prices.

Economies of Scale

If you're a sole entrepreneur, you have the buying power of one. If you're a franchisee, your franchisor can negotiate bulk rates and pass along the savings to you. Also, having the power of a recognized brand behind you often eases the mind of a supplier in extending credit: if a successful franchisor is willing to trust you, vendors are more likely to do so as well.

Legal Disclosure

Franchisors are required by law to disclose certain information about their business in documents regulated by federal and state law. If you're looking to buy an existing business from an individual, can you (and your attorney) trust the seller? And if the seller disappears, where's your recourse? Even if a franchisor opposes you in court, at least you have a fighting chance.

Financing

Starting your own business can cost less than buying a franchise, and many entrepreneurs have started on a shoestring budget and succeeded. But most new businesses require startup capital, especially for retail space and equipment. While most franchisors do not supply financing, many have relationships with lenders who will view that brand's referrals more favorably than an independent business owner just starting out.

Marketing

If you own and operate Joe's Pizza, you're on your own when it comes to marketing and advertising. If you're a Pizza Hut franchisee on the other hand, you have the power of the brand's multi-million-dollar national and regional marketing and advertising behind you. There's a price to pay for these benefits: a monthly contribution to a national advertising fund. But if you're Joe, every penny to market and advertise your business comes directly out of your bottom line.

Speed to Market

You can build the most beautiful retail store or buy the perfect van for your mobile business and fill both with the most expensive equipment. That takes time, as well as money. Or you can sign up with a franchisor who's done this hundreds of times and be handed a shopping list of exactly what you need to set up shop, allowing you to open for business more quickly than if you had to research it all on your own.

Faster ROI

No matter how grand your opening, when you start your own business it takes time to build a client base and local reputation. When you advertise a known *brand name in your new market, customers come ready-made, and the cash starts flowing faster.*

Training

You may be the best at what you do, but do you know how to manage a business, hire and train employees, market your product or service, keep the books, etc.? When you start your own business, you must learn all these things on your own, with "rookie mistakes" part of the learning curve. Franchisors provide new franchisees with extensive training in every aspect of their new business, from flipping burgers to which point-of-sale system to buy. And many offer advanced training to help you stay on top of your business as it grows.

Franchisor Support

Most entrepreneurs, franchised or not, love what they do. In fact, they'd rather do what they love, which can result in neglecting how they manage their business. Additionally, caught up in the day-to-day details of such "mundane details" as taxes and supplies, they fail to innovate and to develop as leaders and executives. Many franchisors provide field support specialists to help keep their franchisees on track, training them to become managers and leaders "working on the business, not in it."

Peer Support

If you own your business, you can join the Chamber of Commerce, Rotary, or other local business organizations, so you're not completely alone. As a franchisee, you receive ongoing support not only from your franchisor, but also from your fellow franchisees. This can be locally, regionally, at annual national conventions, through an online support network, or just by picking up the phone. Local business groups are invaluable for the networking connections they can provide, but who better to ask for help with your business than someone who's already solved the problem you're facing for the first time?

Product / Service Innovation

Introducing a new product or service that flops costs precious time and money. If you own a traditional business, it's your time and money down the drain.

Franchisors develop new products; try them in their company-owned stores or with other franchisees willing to test them. By the time McDonald's introduced its new line of coffees, the kinks had already been worked out. So while it may cost a franchisee some big money to install new equipment or introduce a new store design, the ROI is more likely than with your own new great idea.

Site Selection

There's a lot of competition out there in the retail sector. Setting up your coffee and breakfast business on the wrong side of the street can severely hurt sales. You can hire a site selection expert, but what do they know about your business? A franchisor can provide teams of real estate experts, advanced site selection software, and years of experience in finding the best sites for their brand. They also can provide expert assistance negotiating leases with landlords - an oft-ignored, yet critical component of profitability.

Culture / Fit

In your own business, the only person you have to get along with is yourself (and your customers and employees, if you want to have any). Many franchise experts describe the franchisor/franchisee relationship as a marriage. Unlike a marriage, you don't sign on for life (it's usually 5, 10, or 15 years), but you do need each other to succeed. That's why it's so important to ask if your values and goals align with those of the franchisor. They don't award a license and say "See you in 10 years. Be sure to send us a check every month." It's an ongoing, win-win proposition.

Exit Strategy / Resale Value

Selling an independent business can be very lucrative - but the pool of potential buyers is smaller than with a known brand. When faced with a choice between Carl's Jr. and Fred's Burger Boat, prospective business owners often opt for the safety and familiarity of a known brand over a private business, just as consumers do when looking for a burger. And in tough times if you need to sell you may have to do so at a bargain basement price - if you can find a buyer at all. With a franchise, there's always a buyer of last resort: the franchisor, who can always buy your unit and run it as a company store until they find a suitable buyer.

In line with these thoughts, this table explains how a franchisee model compares to traditional business and the benefits that the franchising model offers you as a franchisee.

With the pros and cons, industry growth and business potential for each of the business models, you should be able to choose the option that suits you based on your mindset, your goals and expectations and the one that would be comfortable for you to handle or manage.

12 Key Benefits of a Franchise

	Criteria	Franchise Business	Traditional Business
1	Opportunity & Concept	In a Franchisee Option, the Concept is already existing & proven in the marketplace.	In a Traditional Business, one needs to do trial and error – should have or develop an expertise in each & everything
2	Systems & Processes	Tried & tested systems and processes already in place and running.	All systems need to be newly created and processes designed
3	Support	Support would be available on going from the Company / Franchisor	Everything has to be managed and learnt by self. No external support at roadblocks
4	Marketing Materials and Designs	All the marketing designs, collateral will be provided by the company. Tested already. Just have to use them	All designs need to be newly designed and tested until it works effectively. Also expensive as many versions need to be tried
5	Time required to start	Can start the business operations immediately.	Needs lots of time to initially set up with lot of trials and coordinate for everything from materials to logistics to finance to recruitment to more.

	Criteria	Franchise Business	Traditional Business
6	Risk	Risk is mitigated with proven & working systems in multiple locations already.	Risk is relatively higher as no part of the business has been time tested. Everything has to be newly tried on assumptions and beliefs.
7	Regular Updates, development Upgrades & innovation.	The Company would provide regular Updates and also focus on regular R & D and innovation for new upgrades.	Everything needs to be handled by self. No other person or company would help with upgrades or updates
8	Business Plans, Projections, Marketing guidance, Training & more	Franchisee is provided complete hand-holding in all these by the Franchisor	One needs to completely device their own plans and discover marketing approaches or get trained separately
9	Investment – Need & clarity	Focused, planned & clearly aware of the initial and recurring investment as the same is already tried elsewhere.	No clear idea. Appears less initially, but can be much higher as there are lots of trials to be made and new vendors to associate with less volume
10	Wisdom from others experience, Feedback system, testimonials & evidence	Expert opinion and feedback shares along with testimonials from existing community of franchisees	No way to gather any feedback or wisdom from others nor expert opinion
11	Established brand recognition, ISO Processes, IP, Trademarks etc.	All franchisees can benefit from these processes, trademarks, IP and brand value provided by the franchisor.	As it would be an independent new entity, brand recognition would take few years along with confirming to Processes, trademarks, IP etc.
12	Challenges, Productivity & chances of success	Business & success systems and processes already being laid out, one focuses to improve potential & profits intrinsically and benefits from challenges solved by peer group. Existing and working model enhances chances of success.	Unforeseen, unanticipated, new challenges at every step. Can get into a roller-coaster ride, hence affecting productivity and bottom-line. Statistics prove, more than 90% of new businesses fail in the first couple of years.

CHAPTER THREE

Is Franchising Right For Me?

"THE DECISIONS YOU MAKE TODAY CAN AFFECT YOUR WAY OF LIFE TOMORROW, ALWAYS THINK CAREFULLY BEFORE MAKING ANY BIG DECISIONS." - Rashida Rowe

Strength in Franchising

The continual growth of franchising and its impact on the GDP is really remarkable. There is no question that owning a franchise as opposed to "going it alone" is a smart way to go into business. The amount of time and money that is saved by choosing a system that has a proven success rate, marketing, known brand, and support at setup and throughout are just a few of the factors why franchising is so popular. People want to be in business for themselves, not by themselves.

My purpose is not to sell you on anything, but to give you the facts about franchises: who they are for, who they are not for, and if they can fit into your career path, so that you at least will know if franchising is something you want to pursue.

To be honest, franchising is not for everyone. People who are looking to put their own personal stamp on a business may not like it. People who are not organized and systematic or aren't comfortable with managing others and helping them grow don't always find franchising as valuable as those who like a system and who like a reliable proven way to do business.

Of course, within the world of franchising there are many different options. Some are more structured and some are more flexible, but I do want you to know that it has been my experience that people need to understand how franchises really work, not the media stereotypes that you might read about but the reality of the daily business -- and it is my commitment in this industry to help people figure that out before they even look at any particular franchise.

Four reasons of why owning a franchise is even better:

1. ***Prestige Status***

People look up to business owners, and franchise owners have established brands. When you own a franchise, friends and family will see you as a successful business owner. (Start-up entrepreneurs often take years before they get this "status" among those closest to them.)

People rightfully respect franchise owner as community leaders. They create jobs (more about that shortly) and they have a positive impact on the local economy.

Franchises are often supported by national brand advertising. You can probably think of half a dozen well respected brands right off the bat that are franchises.

2. ***Lower Risk***

Seasoned business owners know that entrepreneurs are not risk takers but risk minimizers. A study by franchise expert Scott Shane found that franchises have nearly double the success rate in early years than new businesses that are not franchises.

The risk that most businesses take when they start from scratch ultimately boils down to one thing: untested concepts and practices. This is where franchises really shine.

One important quality of franchises is that they are based on tested aspects of every part of the business. Guesswork is reduced to a minimum, and the chance of lasting success and wealth creation is significantly increased.

3. Proven System

Every business that's successful eventually develops a system. You can do it by trial and error (the way many start-up entrepreneurs do), but with a franchise you don't have to. When you get a franchise, you have a proven system ready to go to work right away.

Here are just some of the proven business systems that come with a franchise:

- Operations systems
- Marketing systems
- Sales Systems
- Management systems
- Customer service systems
- Training systems for employees
- Customer loyalty and retention

4. More Money

Franchises are businesses that are proven to be successful.

Savvy franchise owners often view their franchise as an asset. Depending on how you staff and run your franchise, you can be the manager, or you can hire a manager and let the franchise make money for you without the responsibilities of day-to-day operations.

There are many reasons people get into franchising, but if the franchise didn't make money, they wouldn't stay very long. Yet as the figures you'll see in a minute, show franchises are a very important part of our economy.

Here are some interesting facts about franchises:

- There are 785,316 franchised establishments, which is roughly 3% of the total businesses in the country.
- However, that 3% produces a staggering $819 billion in output each year.
- Franchised establishments employ over 8.7 million people each year creating, on average, 11 jobs per franchise establishment.

Visit almost any town in America today, and on many streets, you will find franchised businesses.

One of the reasons that many franchises have been so successful is that, in franchising, a business synergy is created. Franchisees brought together under one trademark can achieve things that as individual businesspeople they could not do. Group advertising, buying power and the sharing of ideas are some examples of what can happen.

While there are many examples of successful franchises, buying a franchise is no guarantee of success.

Before buying a franchise, 10 important questions need to be carefully and thoughtfully answered:

1. ***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.

2. ***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 at least the next 10-15 years.

Determine your interests and types of businesses you might really enjoy. Visit https://letsfranchise.com/fastest-growing-franchises/ to learn more about some of the fastest growing franchises currently available and follow the next steps on the page to qualify for them.

3. ***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.

4. ***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.

5. ***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.

6. ***Have you carefully studied the legal documents?***

Franchisors are required to prepare a document called the Franchise disclosure document (FDD). This document will give you pertinent information about the franchise. It will also contain the Franchise Agreement (FA) 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.

7. ***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.

8. ***Are the franchisees generally happy and successful?***

The disclosure document will contain a listing of all of the franchise owners. It would be worth your time to contact a number 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? More about this when we cover the due diligence process.

9. ***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 number of years.

10. ***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.

Additional considerations to determine if franchising could be right for you:

- If you want to run your own business, but you don't have a business idea.
- It's also good for first-time business owners, as it offers support and training and for many networks you don't need any prior experience. Starting up solo can be much more daunting as it requires skills in every single area, from accounting to PR to sales.
- You don't have much of your own money to put into a business, as you're usually more likely to secure bank finance than you would if you were starting from scratch.
- But franchising isn't just for first timers. It can also be a great opportunity for more experienced businesspeople to make profit in a relatively secure set-up, providing the possibility of fast growth without all the risk involved with starting up.
- It's also a strong option if you want to get a business up and running quickly, as you can simply follow templates and already-tested working methods rather than spending months trying out different ideas and floundering about trying to get everything in place.
- It's a good way of getting into a sector you have no experience in, as your franchisor will give you training rather than entering it with no knowledge and resultantly risking failure.

In addition to your answers to these questions and considerations, I would highly recommend that you complete the **Zorakle Spot-On Entrepreneur Profile** by going to this link http://bit.ly/profile-quiz

This profile developed by Zorakle's founder Rebecca Monet, a research scientist who has studied the specific criteria that determine a successful franchisee, and also provides alignment for you with the appropriate franchise system based on these criteria.

In addition, completion of the Self–Efficacy Evaluation at the end of this chapter.

Former president of the American Psychological Association, Mihaly Csikszentmihalyi, the world's leading researcher on positive psychology, who developed this evaluation model, states the following …

"People will be more inclined to take on a task if they believe they can succeed. People generally avoid tasks where their self-efficacy is low, but will engage in tasks where their self-efficacy is high. People with a self-efficacy significantly beyond their actual ability often overestimate their ability to complete tasks, which can lead to difficulties. On the other hand, people with a self-efficacy significantly lower than their ability are unlikely to grow and expand their skills. Research shows that the 'optimum' level of self-efficacy is a little above ability, which encourages people to tackle challenging tasks and gain valuable experience."

Self –Efficacy Evaluation

Answer the following questions on a scale of 1 to 10 for each of these questions, marking your responses in the column to the right.

(1 is low, 10 is high)

1	*I can always manage to solve difficult problems if I try hard enough.*	
2	*If someone opposes me, I can find the means and ways to get what I want.*	
3	*It is easy for me to stick to my aims and accomplish my goals.*	
4	*I am confident that I could deal efficiently with unexpected events.*	
5	*Thanks to my resourcefulness, I know how to handle unforeseen situations.*	
6	*I can solve most problems if I invest the necessary effort.*	
7	*I can remain calm when facing difficulties because I can rely on my coping abilities.*	
8	*When I am confronted with a problem, I can usually find several solutions.*	
9	*If I am in trouble, I can usually think of something to do.*	
10	*No matter what comes my way, I'm usually able to handle it.*	

Your Total: ______

Where do you stand?

90-100 = High Self Efficacy
70-80 = Marginal Self Efficacy
<80 = Suggests the person would be well advised to learn a higher level of self-efficacy before buying a business.

How Do You Find The Right Franchise?

CHAPTER FOUR

How do You Find the Right Franchise?

"YOU CAN'T FIND WHAT YOU ARE LOOKING FOR IF YOU DON'T KNOW WHAT YOU'RE LOOKING FOR." – MATHEW E. FRYER

When considering any new investment, you probably have a million questions, and getting started in franchising is no exception. Your mind will be racing: What's the best franchise industry? What's the best business model? What are the start-up costs? How do I finance the investment? How much money can this franchise make? Will I have to manage people or can I be an absentee owner?

These are all fair and important questions to explore, and you'll certainly want to follow a Step-by-step plan to buying a franchise. But you can't run a race if you can't find the starting line, and the path to addressing all of these questions begins with the most fundamental question of all: How do I get started choosing the right franchise? The good news is that if you've done some initial research and believe that franchising could be the right approach for achieving your financial and personal goals, there are some proven steps you can follow to ensure you make an informed and intelligent decision.

Here are 5 steps to get you started off on the right foot:

- ***Step 1*****:** Set Your Priorities for Buying a Franchise
- ***Step 2*****:** Explore Your Options Online, in Trade Magazines, or at Franchise Shows
- ***Step 3*****:** Get professional help by digging into the key details. Setting up an appointment with a Franchise Consultant is the easiest way and it's free. You can apply here to qualify for free franchise consulting help from a Certified Franchise Consultant– https://letsfranchise.com/get-free-consulting/
- ***Step 4*****:** Speak with Current and Former Franchisees
- ***Step 5*****:** Conduct On-Site Due Diligence on the Franchise Opportunity

Let's go through these steps in some more detail…

Step 1: Set Your Priorities in Order to Narrow Your Focus

One of the very first things you need to do as a prospective franchise buyer is to form a list of your top priorities. The list doesn't have to be complete or final (chances are it will change at least somewhat as you learn more about the range of franchise opportunities available to you), but it should capture your top must-haves that will guide your initial franchise search.

Your priority list will cover things like:

- The type of business you'd like to be in (from general preferences like "I'd prefer to work with consumers" or "I'd like to be in a business to business franchise" to more specific criteria like "I want to invest in a pizza franchise" or "I want to get into a business consulting franchise")
- Whether you are looking for a large, established industry (e.g., general fast food) or a smaller but faster-growing space (e.g., healthy and organic food franchises)
- Whether you are looking for a large, established brand (e.g. SuperCuts, Meineke, or Chick-fil-A) or a rapidly growing, up-and-coming concept (e.g., Club Pilates or Temperature-Pro)
- How much training and ongoing support you'd like or expect to receive from your franchisor?
- Where you'd like to operate your franchise? (most franchises only target certain states for expansion in a given year)
- How much you can afford (or plan) to invest?
- Is the franchise or Industry congruent with your value structure?

These are just a few common examples -- there could be any number of different items that you would consider your top priorities because they reflect what's most important to you, which is what conducting a personalized franchise search is all about.

Once you've pulled your priority list together, you'll want to use that list as a filter to get an initial sense for the industries and individual franchises that could match your top priorities. This will help you narrow your area of research from thousands of franchise opportunities to perhaps a few dozen.

Take a master list of franchise opportunities (the Entrepreneur Franchise 500 published each January is the most comprehensive) and review it. To work through this process, you can start by browsing up and coming franchises, in the emerging sector by industry, by visiting https://letsfranchise.com/fastest-growing-franchises/ This internal search engine lets you filter by industry, and check for location availability, and to view the investment level for each concept investment level. Spend some time with this tool - it helps you answer your initial questions and narrow your focus to a "hit list" of the dozen or two companies that best meet your priorities. Those are the franchises you'll be exploring further.

Step 2: Explore Your Options at a Franchise Show

Once you've assembled your initial "franchise hit list" to explore further, it's time to ask some questions. Going through a detailed Q&A with several dozen franchises can be time consuming and impractical, you can't fly to every franchise's HQ to meet with their corporate staff, so you need a way to meet with as many franchise representatives as possible in a short window of time. Attending one or more franchise shows or franchise expos is a great way to accomplish this task (you can Google search franchise shows listed to find one coming to your area). Most franchise shows will feature anywhere from a few dozen to several hundred franchises gathered in a convention hall, with hundreds or even thousands of individuals just like you going from booth to booth to learn more about companies that pique their interest: think of these events as speed dating for the potential franchise owner! You won't learn everything there is to know about an interesting franchise at a franchise show, but you will learn enough to cross opportunities off of your list that don't truly meet your criteria.

When attending a franchise show, always keep two things in mind:

- First, make sure you are dealing with a true franchise (as opposed to a business opportunity or ("biz opp"). A real franchise has to file a franchise disclosure document (FDD), which is an FTC (Federal Trade Commission) mandated document that is supposed to be filed yearly and which explains, in detail, the terms of the franchise opportunity. If the system doesn't have an FDD filed in the state you're looking to operate in and they didn't receive a special exemption from that state permitting them to skip the filing requirement, it's unlikely you're dealing with a bona fide franchise.

- Second, don't just walk around the franchise convention floor collecting brochures, swag bags, and pamphlets. You should show up with a list of the companies you're most interested in exploring and should make a point to engage them in discussion. But how do you know which questions to ask? Take out the list of priorities that you created back in Step 1 (setting priorities) and start asking the representatives of the franchises you speak with whether their opportunity satisfies your most important criteria.

Step 3: Get professional Help and Dig into the Details

After reviewing the profiles of franchises of interest online and speaking with their representatives at a franchise show, you should have cut down your list of potential franchise opportunities to perhaps a half dozen or so. You can qualify to get free professional help from a certified franchise consultant at this time as well. This can be done by visiting https://letsfranchise.com/get-free-consulting/ to get help and dive down into the details! Get your hands on a copy of the FDD of the franchises you're most seriously considering. The Franchise Disclosure Document breaks down the details of the franchise offer, from a description of the business, to a breakdown of the expected costs of investing and running a location, to a discussion of the franchise's key executives, to a list of any ongoing litigation that may raise red flags for you as a prospective investor in a franchise, among many other crucial details. (See chapter 6 on the due diligence process for a greater explanation of the crucial FDD document)

With FDDs in hand, you can begin to:

- Compare expected start-up costs, ongoing expenses, and potential revenues of the franchises you're considering
- Understand the amount and style of initial training and ongoing support that will be offered
- Review various franchises' rates of expansion
- Compile a list of current and former franchisees (so you can ask them the really tough questions) of your target franchises (as well as similar lists for one or two of their closest competitors)

Estimating potential sales, cash flow, and profit for a franchise is a key element in choosing a profit-making franchise. This job isn't always as easy as it should be. Neither the Federal Trade Commission (FTC) nor any of the states require a franchisor to break down the performance of each individual franchisee in their system. However, franchisors are allowed to provide a voluntary written "earnings claim" or “financial performance representation" (otherwise known as Item 19 in the FDD) in their disclosure document. Roughly 1/2 of franchisors currently choose to make this voluntary disclosure of financial performance. The good news is that competitive pressures will certainly continue to increase the number of franchisors that include earnings claims, since savvy investors know that it is often a good sign if a franchisor is willing to share earnings claim figures. Make sure to take down notes on what you find , you'll be asking questions about it later.

One of the benefits of buying into a franchise system is the training and ongoing support that the franchisor should offer. The FDD will detail for you both the type and duration of training as well as more subtle information like the length of the franchise operating manual (which should detail the franchise's "secret sauce" business process step-by-step, like you would outline the steps to assembling a new entertainment center). Take note of what you find - you'll be asking investors in the system to give you their own take of what the franchise claims in their disclosure document.

Review the "List of Outlets and Franchisee Information" (Item 20 of the FDD) to find the tables that outline the total number of franchise unit openings and closings. These tables will list the actual franchise outlets at the start of the year, the total number at the end of the year, the number that were sold or transferred, and the number that were terminated. The franchisor should disclose this data going back several years.

With these basic figures you can easily determine how fast a franchise is expanding (or if they are actually contracting by closing more locations than they open in a given year). While the fastest-growing franchises aren't necessarily the best franchises (maybe they're not selective enough in awarding franchise licenses?), it's important to understand the trends among the franchises you're considering. Jot down any interesting data points or impressions you get from reading this FDD section for the franchises you're considering as well as their closest competitors.

While you're reviewing the FDD Item 20, make sure you also find and print out the list of current and former franchisees. This alone is an unbelievably rich resource -- you can actually find the name, address, and contact information (often a phone number or email address) of people who are actually currently invested in the franchise system you're considering (as well as the information of those who recently left the system or had their license terminated). From these tables you'll want to create a list of the names and addresses of franchisees that are close to you. You'll also want to create a separate list of current and former franchisees that are too far for you to visit. Finally, repeat this process for at least one of your target franchise's closest competitors. You'll be comparing answers from all these sources.

Step 4: Speak with Current and Former Franchisees

No amount of research can supplant the need to speak with current and former investors of a franchise for yourself. Taking the questions you developed from reviewing the FDDs -- questions about the business, questions about training and ongoing support, questions about the Item 19 (earnings claims) statements, questions about the expansion (or contraction) of the system -- and get them all in front of you in one place.

Now it's time to ask some tough questions of the world's experts -- the current and former franchisees themselves! Start emailing or calling the individuals found in the list of current and former franchisees you compiled in Step 3.

This is a critical piece of the due diligence puzzle, but for many prospective franchisees, it can be an intimidating step. After all, current (and former) franchisees must be very busy people, right?

This is true, but don't forget that current and former franchisees were once in your exact same position; if approached correctly, most would be happy to offer their opinions and advice.

So, how can you approach a current or former franchisee (in person, by phone, or by email, in decreasing order of preference) in such a way that they will be willing (even enthusiastic) to speak with you?

- First, let them know who you are and that you are seriously considering joining the franchise system they are now (or recently were) a part of;
- Second, let them know where you found their information (most likely the Franchise Disclosure Document);
- Third, make it clear that you've already done substantial research on the franchise industry and their particular franchise system (nobody wants to waste time speaking with someone who isn't serious enough to do their own homework);
- Finally, ask if they would be wiling to speak with you for 15-20 minutes in order to share their expertise and address a few lingering questions that will help you to make a truly informed decision.

At this point the vast majority of franchisees will say that they would be happy to speak with you, and you should feel free to go through your Q&A list with them.

This is your golden opportunity; feel free to go into details like:

- "Are you making as much money as you had anticipated and how long did it take your unit to become profitable (if it is)?"
- "Are you happy with the training and support provided by the franchisor?"
- "What kind of hours were you working in your first year in the business? In the second year?"
- "What do you know now that you wish you knew before you invested?"
- "What other franchises were you considering and why did you choose this franchise over the others?"

These questions may seem basic, but through the answers you receive you'll gain quite a bit of insight.

When speaking with franchisees, try to determine, as best you can, why some were more successful than others. Ask yourself: Is the franchisee taking full advantage of the system? Is the franchisee putting in the requisite time and effort to be successful? Perhaps the owner is absentee and not very involved. Perhaps the owner doesn't quite follow the franchise system's process. If you speak with a former (or current disgruntled) franchisee, try to ascertain if there were problems with the system or if the problems were caused by the specific franchisee.

Step 5: Visit Franchise Locations (and Competitors)

Even if you discover a great concept with seemingly happy franchisees, to get a really good understanding of what to expect you'll want to visit active franchise locations or meet face-to-face with several current franchisees. Again, working with the list of franchise outlets that you compiled from the FDD in Step 3, you should map out a dozen or so people whose locations you can visit and / or with whom you can meet face to face. Remember not to limit yourself to just talking to franchisees directly related to your own franchise of interest - you'll want to speak with competitors as well. The more variety you get, the better information you'll have.

Bonus Step 6: Accept That You Can't Know Everything

The most important thing a potential franchisee can do to ensure success is to know everything they possibly can about the company they're getting involved with before investing, but it's unrealistic to expect that you could ever know everything. What you can do is take the right steps to make sure that you know the most important things (and that alone will require quite an effort).

It may require months of research, from reviewing opportunities online to attending a franchise show to speaking with current and former franchisees, before you are ready to select and invest in your own franchise. There's no question it's a lot of work, but if you proceed diligently and intelligently through the steps outlined above, you'll have started down the right path to a decision that could pay back your efforts for years to come.

CHAPTER FIVE

How Do You Finance Your Franchise Purchase?

"ITS NOT THE MONEY THAT MATTERS, IT'S HOW YOU USE IT THAT DETERMINES IT'S TRUE VALUE"

My clients regularly ask me about what their options are when it comes to financing their franchise. So I put together list of some of the options out there for financing your new franchise.

In-House Financing

One of the most common financing options for franchisees is by going directly to the franchises themselves. Many franchises offer financing opportunities at some level that can help to seriously alleviate some of the financial burden of opening a franchise. The actual amount of financing available from a franchise varies greatly from franchise to franchise and what exactly they are willing to help out with also varies greatly. Some franchises will defer part of the franchise fee, offer temporarily reduced royalties, or help cover the costs of necessary equipment. While the interest rates on these forms of financing can be higher than traditional bank loans, they are also sometimes available without collateral requirements. The terms and conditions of these financing options vary from franchise to franchise so make sure you check with your franchise.

Commercial Bank Loans

Another common option is to use commercial bank loans, as if you were financing any other major purchase. Like financing from franchises themselves, the financing available from commercial banks can vary greatly based on the exact situation you are in. Oftentimes the franchise you are opening can play a big role in your ability to secure financing from a commercial bank. If you are looking to open a franchise with a more proven track record then the bank may be more likely to provide you with a loan, as they view it as a less risky move. The downside to this is that if you are looking to open a smaller franchise you may be required to provide additional collateral to secure the loan.

Small Business Administration (SBA)

There are also options out there to help you out if you need to use commercial bank loans. The US Small Business Administration can provide SBA loans to franchisees to help them out. SBA loans are an interesting situation because they aren't direct loans to franchisees normally. Instead these loans act as guarantees to the banks making it easier for franchisees to acquire traditional small business loans. These can be especially useful for franchisees that are looking to open smaller or lesser-known franchises that banks may be wary of taking on.

Retirement Account

Last, but certainly not least, a very popular funding strategy that is widely unknown is the legal use of your retirement account. This option although has a greater level of complexity and should be handled by experts in the financial service industry, can provide a tax-free and penalty free option for investing your own money into your own company. (See article below regarding this option.) Over the past five or six years, retirement funds have become one of the most popular ways of funding small businesses in America.

These are the four primary avenues for financing your franchise. There are other options out there, but these are probably the best places to start.

I interviewed Derrick Skogsberg, Chairman and CEO at Tenet Financial Group regarding this funding option. Tenet Financial Group is a very qualified and recommended Funding Solutions Company for franchise acquisitions. They help clients anywhere in the United States.

Here is an article authored by Tenet that does a great job of explaining what Derrick and I discussed during my interview with him.

Interested In Capital For A Business, But Are Short On Cash? - You can access retirement funds without taxes and penalty.

If you have retirement funds – i.e. IRA, 401K, 403b, 45t, annuities – you can access those funds without taxes and without penalties. Today many people are choosing to save their cash and obtain funding in other ways. One popular funding option is to access traditional IRAs or 401K funds (from a prior employer). If you have retirement funds and you have not yet paid taxes on those funds, you can use them towards the purchase of a business.

This can be for both a new business as well as for an existing business (for recapitalization). You are in control; you determine how much of your funds you would like to invest in your franchise or business.

We follow all the IRS guidelines regarding this funding option. Clients can use these funds for all or part of their total funding. There is no IRS minimum or maximum with regard to the amount of retirement funds you wish to use for this purpose. Typically, this is a beneficial option for people with $30,000 or more in retirement funds. This funding option is NOT a loan; these funds are actually used to buy stock in your business. Since you are using the funds to buy stock, and the funds are not a distribution to you personally, so there are no taxes or penalties. People are using this self-directed 401k funding option for all types of businesses. They are seeing this for service-based businesses (i.e., StraightSource and Pop-A-

Lock, for brick and mortar businesses (i.e., Best in Class, Project Walk, and Keyrenter) and even for vending/kiosks businesses (i.e., Naturals2Go).

Most often prospective franchisees did not know that they could access their 401K/ IRA funds, prior to a conversation with the franchisor or their franchise consultant. For storefront businesses, that tend to be more expense than service-based businesses, this has been very common for businesses like Jakes Hamburgers.

The majority of clients they have helped with funding use two financial strategies to start or expand their business. They have accessed some of their retirement funds (tax-free and penalty free) or they have obtained unsecured lines of credit. A number of people have also used a combination of funding options. Determining the strategy that is best for you depends entirely on your unique situation. You'll need to consider the amount of capital needed, the timing, your financial history, and how much capital you have available."

Use Your Retirement Funds – Tax Free

Over the past five or six years, retirement funds have become one of the most popular ways, if not the most popular way, of funding small businesses in America years ago there were other options that people turned to when starting a business, but due to the economy, the lending environment, unemployment, the housing market, and the large number of people that have left Corporate America, things have been different recently.

For people with retirement funds, whether they are traditional IRAs, 401K, 403b, 457, pensions, annuities, people are now learning that they can access Their Funds. It is an empowering feeling to know that you can be in control. When I speak with clients that weren't familiar with this topic and they learn the fundamentals of this funding option, the lights go on. It is an "ah ha" moment, and I know they are getting more excited about business ownership…without debt.

You may have heard the nickname Rollover over as a Business Start-up, or ROBS for short. This strategy is also commonly referred to as a Self-Directed 401(k).

If you have an Individual Retirement Account (IRA) or a 401(k) plan from a previous employer worth $30,000 or more, you can "rollover" the money as capital for your new business, without paying taxes or penalties on it.

You are allowed to access these funds with no taxes, no early-withdrawal penalties and no payback requirement, as long as you adhere to Internal Revenue Service Guidelines (IRS). We follow all of the IRS Guidelines very closely and monitor the plans carefully throughout the year.

The Flow of the Funds

Here's how it works: Form a Corporation (Tenet Financial Group will set this up for you and provide you with your Articles of Incorporation, your Federal tax id, and provide you with Corporate minutes and bylaws). Then we assist you in rolling funds from your old retirement account into a new 401K plan that we establish for your business. You then wire funds from your new 401K account to your corporate checking account.

Tenet helps our clients with each and every step of the process. It is key that all of the IRS guidelines are followed. People can't do this process on their own. They would need to enlist the help of a qualified plan specialist or a third-party administrator like Tenet Financial group to facilitate the process.

What if your IRA or old 401k doesn't have enough for your funding needs? Or if you don't have a retirement fund, or can't access it because it is held with your current employer; there may be another way…

Many people are looking at unsecured lines of credit for additional funding or working capital. The benefit of an unsecured line of credit is that you don't need to put collateral such as your home on the line, and no financials are required.

What you'll need to qualify:

- A credit score of 680+

- A good credit history with no liens or bankruptcies and no or very few late payments
- Reasonable credit use i.e. you aren’t carrying too much debt on other lines of credit

“The goal is to the get clients as much credit as possible by accessing multiple lines of credit. Usually, it is at a zero percent rate of interest for up to 18 months. This has been greatly advantageous for both new and existing franchisees with Best in Class, StraightSource, Pop-A-Lock, and Keyrenter.

Additionally, if you have a spouse or a partner in your business, you may be able to pool your resources and qualify for more.
This year a number of my clients have used a combination of both retirement fund and unsecured lines of credit to expand the possibilities and growth for their businesses.

Ultimately, the best funding option for each person has many variables. We strive to assist each of our clients with the most appropriate funding for their needs.”

What Are My Other Funding Options?

Personal Cash Funding
When exploring business funding and you ask successful business owners, it is usually recommended that you "preserve" your own cash (for emergency needs) and use someone else's money to invest in a business.

Borrowing from Friends & Family
When borrowing from friends and family, it changes the dynamics of the relationship and now you become a debtor to your friend(s) and family. Ask someone who has been the recipient and the lender, if they would recommend it.

Local Bank / Credit Union
Do you have a longstanding, positive relationship with a local bank? This may be an option but don't get discouraged if you get rejected. Rather than working

with one (local) bank, we have resources for multiple lending sources, so give us a call to assist you with your funding needs.

Caution: Too many inquiries on your credit report can prevent you from qualifying for a loan for six months until those inquiries can be removed from your report.

Retirement Funds

Today, your 401K/IRA money is invested in one or more companies. You have the opportunity and right to roll over your retirement money and invest it into "your company" by buying stock in your new company, tax-deferred, penalty-free, and potentially start your company debt-free.

- Secure funding FAST – typically 3-4 weeks
- Gain business equity and improved cash flow position from start
- Accelerate business profitability by managing the amount of debt your new business takes on
- Set aside tax-deductible retirement savings, up to $56,500 per year
- Tax deferred Exit Strategy Program when it comes time to sell your business
- Optimize business equity and value

Unsecured Line of Credit ($25K-$100K)

Do you need access to cash to get your venture up and running? We can help your business succeed by obtaining revolving business credit lines on your business's behalf. These lines are Unsecured Revolving Business Credit Accounts that for the most part do not report to your personal credit. Funding ranges between $25K-$100K with a pre-approval amount within 24 hours and funding, normally within 3-5 weeks.

- No cash infusion requirements
- No collateral requirements
- No pre-payment penalties
- Minimum FICO scores of 700 or better
- No recent or major derogatory items

- At least 5 years of credit history is preferred (Check your scores for free at https://creditkarma.com)

SBA Loan ($75K-$5M)

Government backed loans designed specifically for small businesses to help get their venture up and running quickly. We understand the qualifications needed to obtain SBA backed funding in this current economy.

- Personal Cash injection of 20%-30%
- Collateral (up to 100% of loan amount)
- Credit scores (680+)
- Repayment ability
- Industry experience (2-5 years)
- Business Plan
- No Prepayment Penalty
- Dividends paid direct to client

Unsecured Loan Program

- No Cash Infusion Requirements
- No Collateral Requirements
- No Pre-Payment Penalties

Complete the following checklist:

1	*Discuss your financial resources with a funding consultant or your franchise consultant FIRST to determine what type of funding/resource options are available for your particular needs – BEFORE submitting applications.*	
2	*Obtain two months worth of bank statements.*	
3	*Obtain tax returns for last three years. You can request returns at http:// www.irs.gov/pub/ irs-pdf/f4506.pdf. They cost $57 each.*	
4	*Go to www.Creditkarma.com Obtain credit score & report. If your score is below Note: This will be lower than your actual FICO score – but it is free and usually close. Sign up and cancel within 7 days to avoid being charged. MyFICO.com is more accurate but does require payment.*	
5	*Review your credit report – check for any delinquencies or late payments. Challenge the "Creditor" in writing to produce evidence of the delinquency in writing for anything you feel is not justified. If they cannot, then file a complaint with the reporting agency (EquiFax, Experian, TransUnion).*	
6	*Collect two months worth of paycheck stubs (including your most recent). Also include any alimony/child support payments received.*	
7	*Make a list of monthly expenses.*	
8	*Make a list of any other assets: CDs, statement from brokerage house for any securities (stocks, bonds, etc.) that are not part of a retirement plan, and other real estate (with legal description and location).*	
9	*Collect statement(s) of 401k/ IRA or other retirement funds (including spouses).*	
10	*Pay down credit card balances to increase available credit – below 50% is good, below 35% is great.*	
11	*Make sure you are not late on any payments.*	
12	*Consider checking the credit score for your spouse (female credit scores tend to be higher).*	
13	*AGAIN - Talk to a funding specialist or a franchise consultant BEFORE applying for a loan.*	

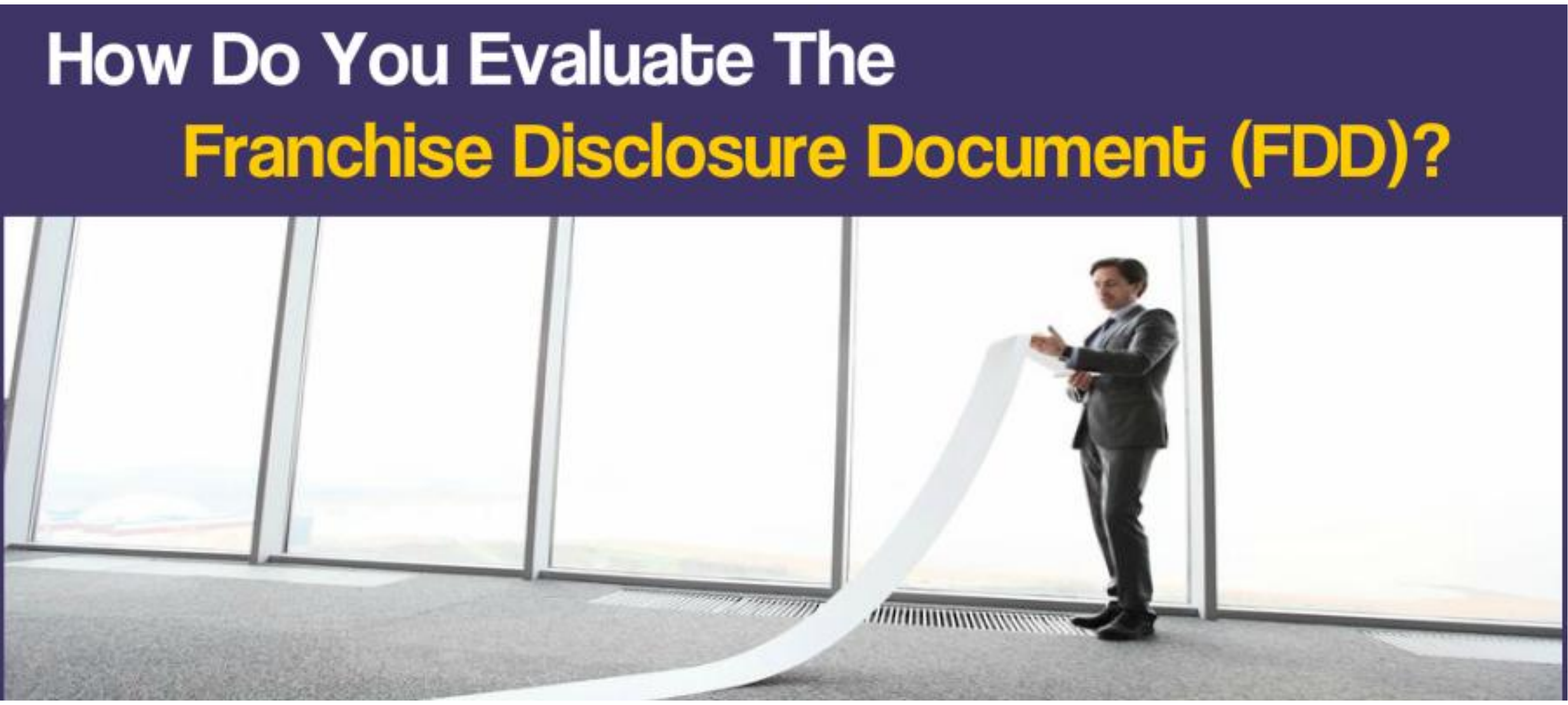
Do not do the following:

1	*Do not cancel any credit cards.*	
2	*Never cancel older credit cards – credit cards held for many years improve credit.*	
3	*Do not make loan or credit card applications – excessive inquiries may lower your credit rating.*	
4	*Do not co-sign on any loans.*	
5	*Do not go to a bank for funding advice – they will try to get you to fill out an application that will spur an inquiry.*	

CHAPTER SIX

How Do You Properly Evaluate The Franchise Disclosure Document?

"TRUE GENIUS RESIDES IN THE CAPACITY FOR EVALUATION OF UNCERTAIN, HAZARDOUS, AND CONFLICTING INFORMATION" – WINSTON CHURCHILL



The Franchise Disclosure Document

The Franchise Disclosure Document, commonly referred to as the FDD, is a legal document that the Federal Trade Commission (FTC) requires franchisors to provide to franchise candidates, at least 14 days prior to a sale. The FDD is presented to prospective buyers of franchises in the pre-sale disclosure process in the United States. All franchise buyers should use information contained in the FDD in their franchise research. The document discloses extensive information about the franchisor and the franchise organization, which is intended to give the potential franchisee enough information to make educated decisions about their investments. The information is divided into a cover page, table of contents and 23 categories called "Items."

Twenty-one of the items contain information primarily pertaining to the franchisor but, unfortunately, only two of the items contain information pertaining to the performance of the franchise, itself, that is being offered for sale.

One of these items, Item 19, "Earnings Claims" is an optional disclosure under the FTC Rule and State FDDs even though the performance of the franchise in terms of unit "earnings" are material facts that should be disclosed to new buyers by the seller of the franchise, who profits from the sale.

The other, Item 20, provides a current accounting of the number of units that comprise the systems and reports the terminations and sale-transfers that have been applied to report the total number of units that comprise the system. Item 20 also provides the names and contact information of franchisees, current and ex-franchisees, who may be contacted for information in the due diligence process to be conducted by prospective buyers of the franchises offered for sale. Unfortunately, due diligence conducted with Item 20 references is not always reliable because, of course, these references have no legal duty to disclose the performance statistics of their independent businesses to new buyers of franchises. Also, the information in Item 20 does not disclose that the transfer/sales can be transfers and sales that resulted in gains OR losses for the franchisees who have transferred or sold their units.

With this understanding, here are some critical elements of the Franchise Disclosure Document that would be imperative to personally review with a “fine tooth comb,” prior to, and when consulting with a franchisor attorney.

Ensuring That the Franchisor is Solvent

There are many franchisors that have never turned a profit, are deeply in debt and are frankly insolvent. You should know how to read a financial statement in order to determine these things. The information is provided for you in the Franchise Disclosure Document, which every franchisor must provide to you before you purchase the franchise. We can provide free accounting support and consultation to review the financial statements of the franchisor.

Hidden and Ongoing Fees

It is important to know exactly what fees you will be responsible for paying once you are in the franchise system. Sometimes the fees are not clear or are hidden inside things like mandatory equipment purchases. The royalty must remain the same once the agreement is signed, however, advertising fees, technology fees and equipment fees are subject to fluctuation. You can have protections written into your agreement to ensure a limit as to what the franchisor can change after you are in the system. We provide one hour of complimentary legal counsel to discuss this.

Competition from Corporate

At no point in time should the corporate operations on a franchise be permitted to directly compete with you, the franchisee. This can and will destroy your business. You will want a clause included in your franchise agreement indicating that the franchisor is not allowed to conduct business within your defined territory.

Restrictions on Purchasing Equipment, Products & Materials

Some franchisors require that you purchase their over-inflated equipment, supplies and materials. This can be their primary revenue source. Add a clause in your franchise agreement that says you will pay fair market value for products and services, and any requirement of equipment purchases will be subject to cost review based on the current market.

Misleading or Confusing Information (also Contained in the FDD and Franchise Agreement)

Franchisors are very good at hiding information in the Franchise Disclosure Document. There are certain areas where this is more prevalent, one area that is commonly deceptive is the number of failures a franchise has had. They may lose 10 franchises in a year but they sold 12 more so it appears to be a gain of two franchises. It is important to dig deep into the facts and numbers to ensure you are getting the most accurate picture.

Unnecessary Requirements from Franchisor

In some instances, franchisors will require unnecessary expenses, requirements and restrictions. They usually do this for uniformity, but some can take it too far. Ask what alternatives they would be willing to accept and see if you can negotiate an agreement. It is always easier to negotiate before you purchase the franchise rather than after.

Protected Territories

Ensure that you have a protected territory (if your franchise operates that way) that is large enough and has enough business prospects to make a viable business. Some larger franchises split their territories up so small that it becomes difficult for an individual franchisee to make any real money within that market area. Protected territories ensure you will not have to compete with other franchisees of your system in a too small area.

Insure against the Franchisor's Successor(s)

Who buys franchisors? They are purchased by competitors and/or holding companies that own multiple brands. Therefore, we understand and preserve the right of the franchisor to purchase competitive systems and to be purchased by competitive systems. Often, business owners (the franchisor) go into business with an exit strategy in mind - to sell the business and make a profit. Therefore, if the franchisor has a successor, you need to ensure you are protected in the franchise agreement against any changes the successor might make that are unfavorable to you (the franchisee).

Get Franchisee Successor(s) Terms

Franchisees always want to be in business for a long period of time to eventually pass along their business to their children and/or spouse. Many franchisees that make provisions to franchise agreements (with the use of an attorney) ask for 30-40 years of renewal terms, keeping their successor(s) in mind for the renewal. If the franchisor disagrees with the renewal and/or successor terms, you must investigate to determine the legitimacy of this business interest made by the franchisor and if your best interest is at- hand.

Matters That Can be Negotiated

Territory size, additional training, changes in requirements, exit clauses, and first right of refusal for additional territories are all things that can be negotiated. You cannot negotiate the franchise fee because the fee must be disclosed to the Federal Trade Commission and individual states per their requirements. If one fee is changed, the franchisor is required to resubmit all of their pertinent disclosures, which is a lengthy and costly process.

Preserve Resale

We are all working to stop working; we are only working now so we do not have to work in the future. As a franchisee, you will eventually want to sell your business for a profit. You must insure that the franchisor gives you the opportunity to legitimately sell your business.

Personal Liability

Personal liability can be a major concern to an individual. However, if you sign the franchise agreement using your corporation or LLC you can often be alleviated of personal liability. Sometimes, franchisees only include the name of the franchise they are purchasing on the franchise agreement and exclude their corporation or LLC. By including your corporation or LLC, you limit the amount of personal liability and are now considered a "member" of this corporation or LLC. This ensures that you are not signing as an individual; you are signing as a corporation, and therefore are not held liable as an individual. Individuals who purchase a franchise concept and fail to include the name of their corporation in the contract (by using only the name of the franchise) can be held personally liable for issues such as debt, because they had not disclosed to the other side that they were signing in a corporate capacity.

Preserve Transfer to Family Members

In the event of death or injury, ask for provisions and/or modifications to include your successors (spouse and children) as the transferee of the business. If your children are not of age to become the business owner, include a provision to have the business placed in a trust until your children are of age. If you would like your spouse to be the successor of your business, you will need a trained manager on staff to run the business for a time period specified by the franchisor.

Franchising - What's So Different About It?

By Eric Reiss, ESQ of Lathrop & Gage, LLP

"People new to franchising often believe that it's something extremely foreign and complex. True, there are qualities and benefits of and from franchising that set it apart from traditional business. However, after you purchase your franchise and train at the franchisor's corporate location; as you sit inside your franchised restaurant or in the parking lot of your soon to open service franchise; you quickly realize that you're going to sink or swim based upon your ability to follow the franchisor's system and then deal with issues that every other small business deals with. Finding the right location; hiring the right contractor and the right employees (and firing the wrong ones); purchasing the right advertisement in the right amounts; managing your inventory; maintaining product and service quality; keeping your employees (and yourself) motivated; controlling your costs; doing your books; and reconciling your business bank account (etc.); are operational issues that every business owner faces. As the owner of a franchised business; that's what you'll be doing too. So why do prospective franchisees feel before purchasing a franchise that they are about to embark on a magical mystery tour? It starts with the fact that the Federal government is involved in the process.

The U.S. government requires franchisors to sell franchises using a document called the Franchise Disclosure Document or "FDD". The FDD contains a series of disclosures about, among other things, the franchisor, the franchisor's owners and officers, the franchised business, the franchisees that have purchased before you, the costs associated with the franchise, and a set of documents including the franchise agreement and; depending upon the franchise you're buying; other agreements like a non-compete, a confidentiality agreement, a non-solicitation agreement and a personal guaranty. If the franchisor fails to timely provide a legally compliant (and in some States, registered) FDD to a prospective franchisee, the franchisor not only violates Federal law but also may be violating applicable State law and exposing itself and its officers and owners to various criminal and civil liabilities.

The intent of the government in requiring an FDD was a good one (i.e., to protect prospective franchisees). Like in so many instances of government involvement, however, the solution to achieve the legitimate goal was not so great. The FDD contains so many disclosures, cross reference tables and summaries that, in some cases, the FDD exceeds four hundred pages! It's no wonder why prospective franchisees are confused by the time they finish reading an FDD (assuming they're still awake).

In representing prospective franchisees, I typically review three to four hundred-page FDDs that could have said the same thing in half that length. In representing franchisors (I represent nearly one hundred of them), I pride myself in preparing relatively short, plain English, saleable (yet legally compliant) FDDs while protecting my franchisor clients from the risks that are most likely to occur in franchising their system. The difference between me and many other franchise lawyers who draft FDDs is my ability to understand and prioritize those risks and weigh them against the understood benefits of growth and proper, strategic management of a franchise system.

When the person who drafted the FDD or the franchisor is unable to do that, confusion on all sides (confusion of the franchisor's attorney, the franchisor, the prospective franchisee and the prospective franchisee's attorney) understandably sets in. To make sense of it all, when I am drafting FDD provisions for a franchisor client, reviewing FDD provisions for an existing franchisor in order to make the FDD more saleable to prospective franchisees or reviewing FDD provisions for a prospective franchisee, I constantly ask myself three questions about those provisions: (1) Is the one-sidedness of this provision reasonably related to achieving brand value? (2) Does this provision permit the franchisee to achieve his/ her/its reasonable business goals? And (3) Is the provision otherwise fair in the context of franchising?

Are franchising documents supposed to be one sided? Of course they are. The sad fact is, however, that many FDD scriveners and many franchisors can't articulate why that is.

The s h o r t a n s w e r t o t h e q u e s t i o n i s….

"McDonald's"

Go into a McDonald's® in New York City and one in San Diego. What do you notice? Among other things, you notice that they look the same, smell the same, the food tastes the same, they are generally priced the same and a "number 2" in New York is two cheeseburgers, French-fries and a drink just like it is in San Diego. That's brand uniformity.

Brand uniformity creates brand value. Brand value is good for both the franchisor and each franchisee within the McDonald's ® system. McDonald's® maintains that brand uniformity by maintaining control over its franchised system through its franchise agreements. That's the number one reason why franchise documents are one sided, favoring the franchisor.

So what do provisions like ""Franchisor reserves the right to use franchisee's otherwise confidential information to compete with franchisee within franchisee's protected territory so long as franchisor uses a different brand to do it"; and "Franchisor reserves the right to be unreasonable in the exercise of its discretion" have to do with brand uniformity and brand value? Those provisions have nothing to do with either brand uniformity or value. They are simply one-sided in favor of the franchisor.

Further, a franchisor that would do such things may be a franchisor that a prospective franchisee wants to avoid. Over protection by the franchisor's attorney and a lack of understanding and prioritization of the legitimate business goals and risks of all parties are often behind provisions like this. They become, at best, extremely confusing to the prospective franchisee and at worst, roadblocks to franchise sales and therefore, roadblocks to a franchisor's growth.

When pointing out such provisions to franchisors, I often hear things like "I didn't even know that was in our FDD"; and "I didn't know that that's what that provision meant." I suppose with the length of and confusion contained within many FDDs, even franchisors get tired of reading their own (often under a mistaken assumption that since the FDD was written by their lawyer, it must be right). If the franchisor is baffled by its own FDD, however, think about how perplexed the prospective franchisee is going to be. So, in reviewing the provisions of an FDD, we make a special notation next to the one-sided ones that we believe are not reasonably related to creating brand value.

For question number two, we have to know what the prospective franchisee's reasonable business goals are. Here are a few: (1) the franchisee may want to develop a business which creates a lucrative annuity for the franchisee for years to come; (2) the franchisee may want to build value in the franchised business and sell it to another person one day (so that the franchisee can go sit on a beach somewhere or buy another company); and (3) if something happens to the franchisee, the franchisee may want to leave the value of the franchisee's hard work to the franchisee's loved ones. Each of these goals is reasonable and normal.

So what does the franchise agreement provide as to renewal of the franchise agreement? Can the franchisee expect to own a well-performing franchised business for a long period of time? How about transfers of the franchised business? Are the provisions regarding same too burdensome? Is the transfer fee reasonable? Is an otherwise approved transferee going to be buying the actual business of the transferring franchisee or one that may materially differ from that business (say, for example, because the transferee's protected territory post-acquisition will be different than the one the transferring franchisee operated in)?

What about transfers upon death? Shouldn't those transfers be seamless? What about termination provisions? Is the franchisor really going to terminate a multi-million-dollar franchised location because the franchisee has committed two breaches of the franchise agreement no matter how material and no matter if they have been cured or not? A lack of understanding of why a franchise agreement should be one-sided combined with a lack of understanding of the reasonable goals of a franchisee (and how permitting a franchisee to achieve them will be helpful to franchise sales and to the overall health of a franchised system) and the real risks to a franchisor, often result in provisions which kill franchise deals without the franchisor ever knowing why the prospective franchisee walked away. In reviewing the provisions of an FDD, we make a notation next to the ones that do not permit the franchisee to achieve the franchisee's reasonable and normal business goals.

Finally, we need to ask ourselves "Is a provision fair in a franchising context?" In other words, even though we understand the one-sidedness of franchising and understand and can prioritize the goals and risks of and to all parties, does a provision simply strike us as unfair? An example would be an affirmative duty of a franchisee to indemnify a franchisor for its own negligence. Is such a provision fair? Does it make sense that a franchisor is given the right to be negligent and have the franchisee pay for it? Of course, that's not fair, whether in or out of franchising. People are supposed to be responsible for their own negligence and intentional wrongdoing. At least that's the way it was when I grew up! In reviewing an FDD, we make a notation next to the provisions, which are simply not fair.

After we've identified the troublesome provisions by our three-question analysis, the question remains as to what do we do with our notes? A prospective franchisee will find that some franchisors are willing to negotiate their franchise agreements (i . e . , enter into amendments) in order to make the prospective franchisee comfortable with the deal (by amending the troublesome provisions and thereby alleviating the fears that the prospective franchisee has concerning same). While there is no legal prohibition to negotiation, not all franchisors elect to do it. That doesn't make them "bad" franchisors. Some franchisors simply don't want hundreds of different versions of their franchise agreements *with the attendant burden of having to treat all franchisees differently. Some franchisors simply don't have to negotiate their franchise agreements in order to get a deal done (i.e., if this prospect won't sign the franchise agreement, the next one will).*

Whether or not a franchisor chooses to negotiate its franchise agreements is a personal one. One thing is for certain, however: All franchisors must explain the business reasons behind each troubling provision. Answers, which tell the prospective franchisee the "whys" behind each troubling provision, must satisfy the prospective franchisee in both the brain and in the gut. This is simply part of the franchisee's due diligence and a healthy franchisor welcomes a prospect's analysis, due diligence and questions regarding same. The only satisfactory answer from a franchisor is one that satisfies the franchisee. If the franchisor cannot explain the "whys" behind a troublesome provision, it may be time for the franchisor to re-think that provision.

In addition to understanding the necessary and beneficial one-sidedness of franchising and the "three question analysis" approach to FDD review, prospective franchisees need to understand that franchisors' attorneys are very good at scaring their clients and themselves into believing that every risk is a priority and that even the most bizarre franchising disaster is right around the corner unless the attorney repeatedly deals with it from every angle in the FDD in a non-strategic one-side fashion always favoring the franchisor. This attitude can result in an FDD that is the length and weight of the average size phone book but far less fun to read. Apparently, many FDD scriveners see them too or convince themselves and their clients that they are a real possibility and should be protected against. The good news is that with a reasonable, strategic and methodical approach that takes into account both sides of the transaction, franchisors can understand where prospective franchisees are most likely to have questions and franchise deals can get done as a result of the prospective franchisee's satisfaction with the franchisor's well-reasoned answers to those questions."

Visit this link for a helpful document to assist you in reviewing the FDD:
https://letsfranchise.com/how-to-read-a-franchise-disclosure-ducment/

CHAPTER SEVEN

How Do You Make Your Final Franchise Selection?

"WHEN YOU NEED TO MAKE A DECISION, DON'T LET YOUR EMOTIONS VOTE" – JOYCE MEYER

With over 3000 thousand franchise opportunities available, narrowing down your options can be a daunting task. They're many extrinsic and intrinsic factors at play and in need of significant evaluation and consideration. There are critical; I would consider almost mandatory elements of an astute and pragmatic franchise vetting process. This vetting process for intrinsic factors may require an enormous amount of Due Diligence.

Due Diligence

The term Due Diligence is used very often and loosely in the franchise industry. It might be beneficial to know its definition. Due Diligence is the reasonable steps taken by a person in order to satisfy a legal requirement, especially in buying or selling something; a comprehensive appraisal of a business undertaken by a prospective buyer, especially to establish its assets and liabilities and evaluate its commercial potential.

There are many criteria and variables to consider when evaluating and comparing franchise opportunities, but none as important than franchisee validation. What existing franchisees have to say about the franchise provides contextual reality to what you see on a website, promotional material, and in an FDD.

Jeff Johnson, Founder and CEO of the Franchise Research Institute (FRI). The Franchise Research Institute was founded in 2002 to study and promote excellence in franchising, performing franchisee satisfaction research throughout the US and internationally. Jeff says, “We listen to franchisees, and are able to pinpoint the opportunities that really work, for both the franchisor and the franchise owner.”

Jeff recommends before making any serious business decision, a series of due diligence steps must be completed.

- As an “active” investment, franchising requires not only a substantial financial commitment, but also the investment of time, energy, credit, entrepreneurial talent, and emotional reserves.
- A thorough review of the company’s FDD and licensing contracts are necessary but will only give you part of what you need to know.
- Prior to devoting your resources to investigating a franchise opportunity, make use of the work that has already been done, i.e. an FRI research report.
- Ideally an independent assessment of franchisee opinions will tell whether or not the franchise opportunity being considered has the enthusiastic endorsement of its own franchisees.

Focus on Franchisee Success

FRI research has shown repeatedly that the greatest predictor of a franchisee’s success is the quality of their interdependent relationship with the franchise company.

- The franchisee depends upon the franchisor to provide not only an end product, but also expert guidance and assistance in setting up and running their franchise business.
- The more effective a franchisor is at sharing knowledge and lending support, the greater the likelihood that a franchisee will be successful.
- The best franchise systems make franchisee success a priority.

The fundamental questions that should be sought to answer during your franchise selection due diligence are:

1. ***What separates the best from the rest?***
2. ***How can you quantify the difference?***

The Franchise Score Card, provided by FRI, will provide you with a set of criteria to evaluate on any and all of the franchise concepts you are considering purchasing.

This Franchise Score Card examines 10 Important Items to assessing a franchise.

10 Important Items To Assessing a Franchise:

1. Number of Franchises Sold in the Last 12 Months

This shows the growth of the franchise system. We like franchises that are in the growth mode. We also like to see additional units being purchased by existing franchisees. This may indicate franchisee satisfaction within the system. The growth of a system must be balanced, of course, against things like number of franchised locations actually opened. Franchise growth without openings may be a sign that the system is growing too quickly.

2. *Number of Franchises in the System*

Every franchise needs to start with one franchise sold. If a franchise has a number of operating units, however, it may show that the franchisor has the capacity to support those units and their franchisee owners. Further, it provides additional franchisees through which a prospective franchisee may conduct his/her due diligence.

3. *Validation – Franchisee Satisfaction*

We want to hear from the people who are currently operating a unit franchise under the franchise brand. Prospective franchisees can ask important questions about their experiences with the system. FRI conducts an independent study of the franchise system. We survey franchisees within the franchise systems. We ask a series of questions relating to the support, opportunity, satisfaction, franchise staff attitude, and more. Having a score of 70% or higher when it comes to satisfaction, experience, and opportunity is a favorable score. A sample of that report is included at the end of this chapter.

There are 2 options for verifying the score:

a. Franchise Research Institute Report with a passing score
b. Twenty franchisee validations from our team using a 19-question survey

A prospective franchisee should never, of course, solely rely on any person or entity to conduct that prospective franchisee's due diligence. The prospective franchisee should always conduct his/her own due diligence. I have included questions that would be prudent to ask the existing franchisees within the system when you are making calls to them as part of your evaluation process. These questions will provide you with a framework to utilize so that you may keep the conversation structured and consistent with all of the franchisees you contact. In addition, here are a list of questions to ask the franchisor or their representative during your due diligence. Visit this link to get the 30 questions you should ask a Franchisor >> https://letsfranchise.com/questions-to-ask-franchisor/

4. SBA Loan Default Report

The Small Business Administration produces a report on the failure rates of loans given over a 7-year period. The report comes out two years behind the current year. For example, if the current year is 2013, the most recent report will be for 2011. As with other factors, the SBA loan default report only shows part of the story. Very large and successful franchisors (e.g., McDonald's) have been known to have high loan failure rates.

5. FDD: Bankruptcies / Judgments / Financial actions from a bank in the last 10 years

We look for franchises that have a good financial background and have no pending liabilities that could affect their ability to support the franchisees in the system. Officers of the franchise must report personal bankruptcies. If the officers of the franchise have a poor personal financial picture, it could reflect negatively on how they manage the finances of the franchise. If there is a bankruptcy, the buyer will need to decide if the information has an impact on the ability of the franchisor to operate and support the franchisee.

6. Years in Operation

There are no hard-and-fast rules with regard to a franchise's years in operation. However, longevity of an underlying business that has franchised may show that the franchisor has beaten the odds of many businesses in the marketplace. Gene Marks, author of The Small Business Desk Reference, says a small business' average lifespan is about eight-and-a-half years. When a business has succeeded past that point, it may indicate a business model that is established and stable.

7. *Years in Franchise*

Length in franchising may be an indication of a franchise system's strength. A franchisor that has had franchisees renew their franchise agreement is an indicator of franchisee satisfaction. With that said, every franchisor must start somewhere, and length in franchising is not a sole indicator upon which to rely.

8. *Termination and Unit Closures of Other Reasons in the Past 2 Years*

Franchisees that have left the system can provide valuable information. High attrition in the system may be indicative of a system problem. A system where

20% or more of the franchisees have left or have been terminated may be unacceptable.

9. Franchisor Support Personnel

A franchisor must have the people to support its franchisees. Much can be learned from support questions poised to existing franchisees. If a franchisor has less than one full-time support personnel for every 50 franchisees, the franchisor may be under-staffed.

10. Financial Trends Positive

We look for franchises that have an upward trajectory of gross and net income over the last two years. While this is not the total picture of the franchise's financial health, it does provide us information on growth of the franchise system. The franchise system's financials are audited and, therefore, are attested to as being accurate.

Franchise Brand Strength Score Card

	Qualification Criteria	Grade	Grader
1.a	Number of Franchises Sold in 2018		*Looking for 6 or more*
1.b	Number of Franchises Sold in 2019		*Looking for 6 or more*
1.c	How many multi-unit operators do you have?		*1/3 or higher is best*
2	Number of Franchise Units in the System		*Looking for 100 or higher*
3	Validation of Franchisee Satisfaction with System		*Must be a 70% or higher rating*
4.a	SBA Loan Default Report Number		*Must be below 30%*
4.b	SBA Loan Charge off as Bad Debt Number		*Must be below 10%*
5	Number of Bankruptcies, Judgments, Financial Actions from a Bank in the last 10 Years		*Provide supporting details for any. (None is preferred)*
6	Years in Operation		*At least 10*
7	Years in Franchising		*At least 10*
8	Number of Terminations and Closures in Past 2 Years		*Must have less than 20% attrition*
9	Ratio of Support Staff per Franchisees		*Minimum 1 per every 50 franchisees, more is better*
10	Financial Trend Over Last 2 Years (State Loss or Gain in Gross and Net Income)		*Looking for positive financial trajectory*

FranSurvey 2.1

Q1	In general, how would you rate the overall quality of your franchisor?			
Excellent	Very Good	Good	Average	Poor

Q2a	Knowing what you know now, and if you had it to do over again, would you:			
Definitely buy this franchise	Very likely buy this franchise	Probably buy this franchise	Probably not buy this franchise	Definitely not buy this franchise

Q3a	Would you recommend this franchise to a prospective franchisee?			
Definitely would recommend	Very likely would recommend	Probably would recommend	Probably not would recommend	Definitely not would recommend

Q4 Assigning an "A" - "F" grade, how would you rate your franchisor in the following areas:						
	A	B	C	D	E	Don't Know
The initial training supplied by the franchisor						
The initial opening support provided by the franchisor						
The ongoing training and support supplied by the franchisor						
The helpfulness of the franchisor's field representatives						
The helpfulness and communication between fellow franchisees						

Q5 Do you agree or disagree with the following statements?					
	Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
My franchisor responds in a timely way to my questions and minor problems					
My franchisor understands that if I am successful, they will be successful					
My franchisor and I are committed to a positive, long-term relationship					
My franchisor encourages high standards of quality performance throughout the organization					
My franchisor is a competent, skillful organization, which I can rely on for help					
I am able to communicate directly and effectively with senior management					
My franchisor is effective in resolving disagreements with franchisees					

Q6 Do you agree or disagree with the following statements?					
	Strongly Agree	Agree	Disagree	Strongly Disagree	Don’t Know
My franchisor-sponsored advertising, promotional and marketing programs help improve my sales and profits					
My franchisor effectively uses social media to help me promote my business					
My franchisor effectively uses technology to help me manage and improve my business					
My franchisor maintains a helpful and useful public website					
My franchisor maintains a helpful and useful internal website					
My franchisor’s research and development (innovation) efforts help us to be competitive in the marketplace					
The vendor programs facilitated by my franchisor are valuable to my business					
My franchisor cares about franchisee profitability and succes					

For a copy of the complete Franchise Score Card go to:

https://letsfranchise.com/franchise-score-card/

During your Due Diligence, in addition to this questionnaire (especially if there is not an Item 19 in the FDD,) it would be advisable to complete the franchisee financial template accessible via this link: https://letsfranchise.com/franchisee-financial-template/

Top Priorities For Your Franchise Acquisition Process

In summary, here are the recommended priorities in your franchise acquisition process:

Priority 1 - Apply to Get Free Professional Help

The team at Frannexus offer free professional help for qualified individuals. This is the easiest way for you to cut your learning curve and suffer from information overload through the difficult process of finding a franchise. By speaking to a Certified Franchise Consultant, you can also increase your probability of success by getting help to qualify for franchises that can meet you and your families personal and financial needs and goals.

Option 1: Start with the Free Quiz to Find the Perfect Franchise in 5 Minutes or Less - https://letsfranchise.com/quiz

Option 2: Apply for Free Consulting - https://letsfranchise.com/get-free-consulting/

Priority 2 - Self-Evaluation

Ask yourself what you really want to achieve by owning a business. Things like, what hours you want to work, what kinds of things are you good at and like to do, how much money can you afford to invest and what returns will you need to produce from the business? Where you want to live and operate your business, as well as what your exit plans are in the future.

Priority 3 - Financing

Do you have a clear idea of how much money will be available to you? Unless you're sitting on a mountain of cash, start this process early on because the answers can be quite different from what they were just a few months ago, perhaps even from when you first started reading this book!

Priority 4 - Evaluate industry categories

Focus on industry groups or categories. Based on your impression of each of these segments, ask yourself if it appears to meet the desired criteria you identified in Step 1; If it doesn't, cross it off. You'll end up with a list of possible industry segments.

Priority 5 - Look for recession-resistant segments

Take your list of possible industry segments and ask yourself a simple question: "Do I believe this is a business that will continue to do well regardless of the state of the economy?" This will be true of businesses like damage restoration, fast food, senior care or hair cutting, but it may not be true of others like optional expensive services businesses or upscale retail. Cross off industry segments if you believe that they're not recession resistant so you give yourself the best possible chance for a successful decision.

Priority 6 - Start identifying individual franchise companies

Once you've narrowed down the list, look at individual companies and pick one that you think is representative of the category. Try to select companies that will have territories available in your desired area. From this list of companies, pick a few that seem most interesting or attractive to you based on your criteria identified in Step 1.

Priority 7 - Request preliminary information from franchisors

After selecting a few companies that match with you, contact the companies and request basic franchise information. This might be on a website or in brochures, videos or other materials they may send you after you visit with one of their development staff. Review the preliminary information from each company to determine if, based on this further information, the company still appears to meet your criteria and is worth spending more time on.

Priority 7 - Study the FDD

After your initial contacts and the submission of a qualification questionnaire, the franchisor will typically provide you with its Franchisor Disclosure Document (FDD), an FTC-mandated disclosure document. The FDD contains extensive information about the franchise, including the history of the executives, any litigation the company has experienced, the names and contact information for the current franchisees, and a copy of the franchise contract. Review this information carefully and get any questions you have answered before you proceed to the next step.

Priority 8 - Call existing franchisees

The best source of information for any franchise system is the existing franchisees. Contact franchisees and ask them all about the business, their lives as franchisees, and what they think of the company. This is a good tool for evaluating how well a franchisor supports its franchisees, whether the startup cost projections are realistic and how effective the provided marketing materials are.

Priority 9 - Visit the franchisor

Assuming everything else checks out, your second-to-last step is usually a visit to franchisor headquarters. This is a great time to get any final questions answered and to meet the people who will be helping you get your business up and running. Though this may seem like a formality, it's a vital check-and-balance to make sure you are completely comfortable and confident in the company you are about to enter into business with. Also, keep in mind that they will be carefully evaluating you as a potential franchisee at the same time, so this final judgment is a two-way street.

Priority 10 - Make your decision

Once you've completed your Due Diligence on all of your final franchise opportunities under consideration, it's time to make your final decision.

You can be sure that you've made your choice for all of the right reasons, that this franchise opportunity does all of the following:

- Matches your financial resources
- Provides you with the lifestyle you imagined
- Uses your particular skills and experience
- Provides a recession-resistant product or service
- Has a majority of happy and successful franchisees
- Employs an experienced and enthusiastic staff of personnel who will help you achieve your dreams of business ownership success.

CHAPTER EIGHT

What Are The Benefits of Using a Franchise Consultant?

"COME TO THE EDGE, HE SAID. WE ARE AFRAID, THEY SAID. COME TO THE EDGE, HE SAID. THEY CAME TO THE EDGE, HE PUSHED THEM AND THEY FLEW" – GUILLIAME APPOLLINAIRE

The Most Effective Way To Learn More About Franchising

The tremendous variety of franchises is both a benefit and a challenge. It's a benefit because almost everyone can find a franchise that fits their preferences.

But it's a challenge because, with literally thousands of franchises and business opportunities available, how do you know which one would be right for you?

Information Overload

Once you have decided to venture out on your own and be your own boss, you find that there is a lot of work to do and many decisions to be made. It is easy to get overwhelmed in the process. While it is true that you can do a lot of research on your own, the shear amount of information on the Internet and elsewhere is daunting. You can spend hours and hours looking at companies and still not feel like you have enough information to know what to do next. You may also spend a lot of time filling out online applications that are entered into databases with hundreds of other people waiting for information. You are often a little fish in a big pond when you are on your own in this process.

If you are looking into the possibility of buying a franchise, consultants can be extremely helpful. As consultants, our goal is to help people interested in getting a franchise - find the one that's right for them. While we do have a business relationship with franchises, we would never want to set anyone up with the wrong business.

That wouldn't be good for anyone.

So, what happens when you talk to a franchise consultant? We ask you a series of questions. We like to get to know you. We like to find out what is important to you.

We know all the franchises, and after we get to know you, we are able to suggest some appropriate options. Or, we can help you do your research more quickly. We can even do your research for you, if you like.

The benefits of using a franchise consultant are great and will save you time and many…as well as frustration. Let's look at just of few of these benefits in more detail.

By the nature of what we do and our professional training, we are very accommodating to your style. We fully realize and accept that people have different styles. That's why your comfort level and confidence is of primary importance to us.

Franchise ownership is more than purchasing a business. Franchising is a path to independence. Being a Franchise owner is a solid and tested career change. It's an investment in yourself with the peace of mind that comes from knowing you're not alone and great support is readily available.

The key is finding the right opportunity for your unique situation, interests, and experience. That's how franchise consultants help. We utilize our experience as industry professionals to sort through the options and find what works best for your personal goals.

As Franchise consultants, we have access to information that you don't. We have direct contacts to franchise companies and can take you to the front of the line for consideration. You save time in your research, get information that is relevant and often unavailable otherwise, and direct access to key personnel at the franchise companies.

Here are just some of the benefits of using a properly trained franchise consultant:

- Accurate Insider Information
- Much Shorter Research Time
- Get Prepared with the Right Questions
- Understand the Terminology and Processes
- Get a Better Deal on Your Franchise
- Information on Your Chance of Being Awarded the Franchise
- Work with Highly Trained Professionals within a Professional Organization
- Edify You on the Most Profitable and Sustainable Franchise Opportunities
- Using a Franchise Consultant is Typically at No Charge to the Client
- Franchise Consultants Can Locate Red Flags in a Franchise
- Franchise Consultants Research Franchises Every Day
- Franchise Consultants Can Help You Find Funding

Understanding The Process

The core process of working with a consultant goes like this: You schedule a time to discuss your goals with your consultant. After this call they are armed with what is really important to you and can utilize the tools, knowledge, and experience to present you with several options. Consultants are equipped with several great tools to help you compare all your options quickly and easily. After you narrow down your focus the consultant will prepare you with the right questions to ask and assist you along the way to help make sure the Franchisor sees you as a qualified candidate for their system.

Understanding Your Options

Purchasing a franchise is often one of the largest expenses and important decisions a family will make. The challenge is that there are thousands of opportunities out there! And the right choices to match your personal and financial goals are typically not the franchise brands you are thinking about. A lot of the established brands are over-saturated, very expensive, and don't give you the ROI you think that they would.

So how do you discover what are the best options for you and get the real information so that you can make an informed decision? The answer really is simple. You use a Franchise Consultant. Just as you would use a Realtor when purchasing a house, a Franchise Consultant is uniquely trained, researched, and experienced with how to best serve you. Best of all, this is a free service to you; you will pay the same amount for your franchise and there is no obligation. They are compensated by the franchisor and paid only when they bring them qualified candidates who become franchisees; when you are a good fit, are confident enough in your decision, and are awarded the franchise. The fee they are paid does not impact the purchase price of the franchise. You would pay the same whether you worked with the Franchise Consultant or not. The success fee or commission paid to the consultant is budgeted within the franchise's sales and marketing expense.

A good Franchise Consultant will have direct relationships with hundreds of franchises in all industry sectors.

Consultants Have Unique Benefits

Of course, there are many other ways that a consultant assists you in finding your dream franchise. Everything from helping you find which funding option is best for you, to demographics research, helping to discover "red flags" in the FDD, negotiating a better deal, and simply being an advocate for you throughout the entire process.

Just by working with a consultant you can’t be assured that an associate of the highest character will assist you. Consultants in the industry, like any industry, come in many “shapes and sizes.” My personal training was through The Franchise Training Institute, a franchise education and training firm. During my initial tenure in the industry, I was a consultant member of the Franchise Brokers Association (FBA), and was nominated for Franchise Consultant of the Year for the three years (2014-2016) I was a member.

Since then, I've been with the prestigious Franchise Consulting Company (FCC) and awarded as one of the Top 10 Consultant for my first 2 years (2017 -2019) and one of the Top 3 Consultant in 2019. Consultants accepted into The Franchise Franchise Consulting Company must have extensive experience, success, and industry involvement in franchising. FCC consultants are given background checks and are personally vetted by the management at the FCC. In addition, each consultant must abide by a code of conduct. The FCC stands as the beacon of integrity and the hub for knowledge, professionalism, and growth within the Franchise Industry and we expect nothing less from their consultant network

I was also recently selected as CV Magazine’s Franchise Consultant for 2020, and elected to the prestiogous Forbes Business Council. In addition, I had the unique privilege to have worked with the NFL, and their Bridge to Success Program, where I worked with retiring players who were needing assistance in navigating franchise ownership as their next chapter.

Each type of franchise business has its merits and strengths. There are opportunities in nearly every business category, and many have financing options to fit your needs. All consultants, however, want you to succeed as an independent entrepreneur.

Let me Find the Right Business for You

One of the greatest benefits of using a franchise consultant is that you will truly have help to find the perfect opportunity for you. It is in my best interest to help you find the best match and the best opportunity for success.

Everyone wins when you find the perfect business for you. The franchisor gets a great franchisee, I get a commission and a great reference for future business, and you get to live your dream! You avoid making mistakes due to lack of knowledge of the franchise process and you get professional and knowledgeable advice from an industry expert.

All at no additional charge to you!

It is a win- win-win situation.

As you search for the right business to buy, it’s important to us that you have what you need: the right tools to assess a business, credible information, and a team that cares about you, not just in buying the business but also succeeding in it.

We know that you have many options for advice and support as you go through this process. Our team has hundreds of years in franchising experience and we are happy to share that experience with you because an educated buyer is a happy buyer.

We look forward to partnering with you to find the right business.

Now that you know a little more about franchising and franchise consultants, let’s talk.

To take the next step, send me an email at seth@frannexus.com or call 1-800-319-5956 x101.

Let’s start to explore franchising and see how good a fit this really is for you.

CHAPTER NINE

You Bought a Franchise, Now What?

"TO BE SUCCESSFUL, YOU HAVE TO HAVE YOUR HEART IN YOUR BUSINESS, AND YOUR BUSINESS IN YOUR HEART" – THOMAS WATSON, SR.

10 Tips for Franchise Success

Why do some franchise outlets thrive while others end up with a 'closed for business' sign in the window? Sometimes the franchise concept or location determines success, but a lot of it has to do with you, the franchisee.

Making smart choices every step of the way— and avoiding certain pitfalls—can make a big difference to your bottom line and your franchise's viability. Read on to find out 10 ways to improve your odds for franchise success.

1. <u>Choose the right business for you</u>

Franchisees whose skills are a good match for the business tend to do better than those who are not in their element, but how do you know if the concept you're buying is right for you? It's really quite simple: ask yourself what you like to do.

For example, if you love kids, find a franchise that allows you to work with them. If you have a passion for technology, seek out a computer-related franchise concept. However, don't just think about the product or service, but what your actual daily tasks will be. You may love to cook, but owning a restaurant will be about more than just food. In fact, your primary tasks will involve managing, hiring, training and firing staff. In addition, make sure your skill set matches what the franchise will require of you. Do you like building long-term relationships with customers? If so, a postal franchise might be right for you because customers come back regularly. However, if too much routine bores you silly, a postal unit would be your worst nightmare.

2. <u>Follow the system</u>

Part of the reason you choose a particular franchise is because it has a successful system. In order to be successful, you have to learn that system. Don't just 'get by' during your initial training; absorb everything they can teach you. Continue to read the manuals and work with other franchisees up to and after your opening day. Don't listen when franchisees try to tell you they have a better way than the franchisor's— you are purchasing a tried-and-true system, and you owe it to yourself to follow every element of that system until you understand it completely.

If you implement changes on your own, particularly in the early days, you could put your franchise at risk or run into unforeseen consequences that the franchisor already has anticipated. Don't try to be a rebel – only make changes after speaking about your concerns at length with your field representative. By taking this approach, you can avoid making a rash error (and possibly save your franchise).

3. <u>Improve your business skills</u>

While franchisors will teach you their system to help you build a successful outlet, most also expect you to bring some basic business skills to the table. If you don't know accounting basics, how to read and work with financial documents or how to hire and fire employees, you're going to encounter trouble.

If your sales skills are rusty, your knowledge of business taxation is a bit shaky or you're not up to date on Internet marketing, consider taking a class to improve your skills. Continue to upgrade your knowledge annually. These classes are often available at a local school; there are even one-day seminars and webinars (Internet-based seminars) that take less time and monetary investment.

4. <u>Have a business plan</u>

While the thought of putting together a business plan might be intimidating to a franchising novice, it doesn't have to be. It can be as simple as setting some goals and doing a financial projection for the next year or detailed enough to take to the bank for cash. When in doubt, ask you franchisor or fellow franchisees for advice on how to proceed.

5. <u>Play well with others</u>

A friend of mine named John opened a quick-service restaurant (QSR) franchise when the company was relatively new to franchising (it was a recognized brand, but had previously relied on corporate-store expansion). As such, there were some glitches in the franchisor's dealing with new franchisees versus corporate unit managers. Some franchisees started playing political games—they formed groups, talked incessantly, complained about the marketing, objected to the rules and generally whined—but John kept out of it.

When the company's field rep walked in, John treated him with respect. He listened carefully, asked questions and maintained a positive attitude. When a new policy came out from corporate, he implemented it without complaint. He refrained from gossip and spent time with like-minded franchisees, discussing what a great opportunity they had in this business. In return, the franchisor treated him with respect. Guess who got first choice when a unit became available?

Corporate employees are dedicated people who are doing everything they can to make franchisees successful, but first and foremost, they are people. Your efforts to respect and listen to them will pay dividends for you. (The end of the story: When John sold his multiple units, he banked a huge profit!)

6. Take control

Part of the appeal of a franchise system is the support a franchisor can provide. However, the ultimate success or failure of your franchise is largely your responsibility. Yes, your franchisor is going to train you on its system and give you the tools to build a business—but you will be on your own to run the day-to-day operations of your outlet. You can call the franchisor with questions, but the decisions will ultimately be yours. Embrace and enjoy this freedom—it's part of the appeal of entrepreneurship.

7. Never stop marketing

As a franchisee, your job, first and foremost, is the sales and marketing of your product or service. Don't wait for your franchisor to remind you—get your marketing out there all the time, analyze the effectiveness of each method and share effective techniques with your fellow franchisees. If you're busy working on your computer or handling other administrative tasks over marketing initiatives, you are limiting your success.

If you can't sell, hire someone who can

Simply put, some people just hate to sell. They just aren't comfortable picking up the phone or working a room. However, sales are an inevitable part of almost any franchised business. If you don't feel comfortable handling this task, you need to find someone who will.

Ask for help from your franchisor and fellow franchisees who have effective salespeople on staff. Instead of hiring someone just like yourself because you like them so much, recognize that as a business owner, you're going to need to leave your comfort zone and hire someone with a different personality and skill set. A highly successful friend of mine puts it this way: "Hire people smarter than you—that's the key to forming a great team."

9. Avoid credit cards

The incredibly high rates on this expensive form of credit can slowly eat away your profits and cause you stress. Real financing at a reasonable rate is hard to get, but not impossible—unless you wait too long and you're in financial trouble. Make sure you have plenty of cash before you launch your business, and seek financing immediately if you see a downturn in your future.

10.<u>Learn your industry</u>

Once your franchise is up and running, learn as much you can about your new industry (in addition to what you learned during your franchise research). Almost every sector has associations and meetings where business owners gather and share ideas. Trade associations and local boards of trade bring together new and established businesspeople, providing a great forum for learning and networking. Your fellow franchisees can also offer great insight into your industry; don't ignore this valuable network.

Cheri Carroll has 30 years of franchise experience as a franchise executive and independent franchise developer and consultant.

Written by Cheri Carroll

CHAPTER TEN

Frequently Asked Questions in Franchising

"HE WHO ASKS QUESTIONS CANNOT AVOID THE ANSWERS" – CAMEROON PROVERB

- *How much up-front money is required to start a franchise?*

There is a wide range of franchise options available to someone that is shopping for a franchise.

__Retail__

If you are looking for a retail location, you will want to have at least 30% of the total cost available in cash for the purchase. An average retail location begins at approximately $300,000 and goes up from there. There are many options in the $400,000 to $500,000 range including clothing stores, restaurants, digital stores, office service stores, light manufacturing and equipment stores. For a large location or a stand-alone building, the average price is over $1,000,000.

__Service__

There are many service franchises that start at $75,000 and go up to around $250,000. These types of businesses can be ideal for first time business owners or business owners that are looking to invest a smaller amount of capital. We encourage fiscal responsibility in managing cash flow and initial investment cost; therefore, service businesses can be an ideal option for many franchise owners. These types of franchises include business services, professional training services, construction related services, pet care services, cost reduction services, child development and senior care, just to name a few.

- *When will I achieve a return on my investment?*

It is different for everyone and every business. Franchising is a unique system whereby the franchisor can assist you with a marketing plan that will show you the production you will need to achieve at each step, in order to obtain the financial goals you set for yourself. There are some franchises that have a very quick return on investment, estimated at only a couple months, and others that estimate several years to have a return on the investment.

- *How much can I earn as a franchisee?*

This is variable depending on your willingness to follow the system, the franchise system's realistic earning capabilities, and the focus that has been placed on marketing and sales. Some franchises earn $60,000 – $80,000 a year and others earn $1,000,000 a year. There is a very wide variance between the different systems. The goal with a franchise is not only to earn a profit from the daily business activities, but to have the franchise business finance other investments and assets like real estate, equipment, and other business ventures. A franchise can be a tool to help you take advantage of major tax savings, work as a vehicle to purchase assets and, in many cases, create ongoing passive income streams once the business is set up and functional. Therefore, there are many income streams available to a franchisee that go beyond the day-to-day activities of the business.

- *How do I find out how much other franchisees earn?*

We can provide you with an evaluation tool that will help you to ask the questions needed to evaluate the earnings of franchisees currently in the system. There are simple ways to obtain these numbers, to understand what the total royalties being collected are as well as how much an individual franchisee earns. You are always allowed to ask a franchisor for all cost information. They are required by the Federal Trade Commission to provide you with all of this information. They are allowed to disclose earnings information ONLY if they have properly disclosed that information in their Franchise Disclosure Document. Earnings can therefore be more challenging to obtain without the knowledge of how to read the financial statements and what to ask the franchisees. We can provide you with tools to help.

- *What type of support is included?*

This is a very important question for a franchisee to ask. There was a study reported in Franchise Times, conducted by professors at Florida State University and the University of Illinois at Urbana-Champaign; the study surveyed 100 franchise concepts to determine the one factor that made some franchise systems more successful than others. They concluded that the amount of initial and ongoing training was directly proportionate to the success level of the franchisees in the system. Therefore, we believe that solid and lengthy training programs properly prepare a franchisee for success. There are so many facets to business and it takes more than a week to learn all of them. We encourage prospects to look for franchise systems that have a minimum of two weeks of initial training, a library of past trainings for on-the-job reference, and a very strong ongoing coaching and support program. We also encourage franchisees to use the resources available to them because it will make a dramatic difference to the financial success they will experience.

- *How do I obtain funding?*

There are many funding programs available.

Retirement Plan Rollovers

The most common and widely used funding option currently is 401k and retirement plan rollovers. The reason why so many new franchisees choose this option is because they can take a salary from day one, eliminating any paycheck phobia.

They can reinvest up to a larger percentage of their earnings as pre-taxed dollars and the government encourages rollovers by not taxing the money when it is used in an investment like a business or a franchise.

Unsecured Lines of Credit

These are available to individuals that would like to leverage their entire investment. There is little money required down and an individual can borrow up to $150,000.

There are considerable fees that are tacked onto the amount borrowed and the interest rate is around 12%. This can be a great option for someone that does not want to use their cash, but wants to get started. If you take this approach, we encourage you to be very conservative with your initial purchase and choose a low-cost franchise system.

SBA & Traditional Loans

In order to qualify for an SBA or traditional bank loan you must have a credit score equal to or above 700. The owners must have management experience in the same or similar field. The lender will require franchise documentation. They must verify the owner’s equity investment of 30%-50% up-front. They must also verify exactly what needs to be funded with the loan. You must be specific, very exact, and include a well thought out breakdown. The final requirement is a very detailed and believable monthly financial projection for years 1, 2 and 3.

- *How much should I spend on a franchise without risking all of my investment?*

Leverage your investment with borrowed funds if you do not have a 401k. We recommend no more than 70% of your investment amount should be spent for business set-up fees.

For those that are extra conservative, 50% is a good safe number to work from. It may take a little longer than expected to get everything up and running, so having that extra cushion for working capital is a responsible way to approach the business.

- *How much should be allocated for ongoing costs (including living expenses)?*

Many business owners will have one spouse keep their current job while the other one starts the business. This allows for cash flow to continue coming into the household while the business is being set up. Many franchises will also allow a franchisee to start on a part-time basis. This way they can build the business while maintaining their current cash flow. We recommend that you have six months to one-year worth of living expenses set aside while purchasing a franchise. This will allow you to comfortably transition into the business and build it to replace your former income.

- *What is the difference between a biz opp and franchise?*

Franchising is the practice of using another business's successful business model. For the franchisor, the franchise is an alternative to building "chain stores" to distribute goods. The franchisor's success depends on the success of the franchisees. The franchisee is said to have a greater incentive than a direct employee because he or she has a direct stake in the business. A business opportunity (or biz opp) is the sale or lease of any product, service, equipment, etc. that will allow the purchaser-licensee to begin a business. The licensor (or seller) of a business opportunity usually states that it will acquire or assist the buyer in finding a suitable location or provide the product to the purchaser-licensee. This is different from the sale of an independent business, in which there is no continued relationship required by the seller.

- *What Can a Franchise do for me that I can't do for myself?*

Purchasing a franchise ensures that you are buying into a functioning and proven business model. There is a considerably lower rate of failure for franchisees than for entrepreneurs with original business concepts in a start-up business. Additionally, many franchises profit because the items/services they sell already have a name and a reputation behind them.

Franchisors provide bulk purchasing power (much like wholesaling) which you would not have without the franchise system. Because all of the franchisees in a system contribute to the expense of creating the software, systems, tools, etc., the quality of those resources is superlative to resources provided to non-franchises businesses. If one tried to recreate those distributables, the expense would be far more than what one had invested in the franchise fee and the quality would be sub-par.

- *How does the franchisor make money?*

Characteristically, a franchisor sells the right to a franchise for an initial flat fee called the "franchise fee." This fee is in addition to the actual costs associated with opening a franchise unit in one's local market. Some franchisors will often receive ongoing payments, such as royalty fees, taken as a percentage of sales. In exchange for these payments, the Franchisor will often work as a "back office" or provide other services that eliminate the need for additional support and administrative assistance. Many franchisors will also sell supplies and/or services to their franchises.

- *Are there any current trends in franchising?*

There are a plethora of trends in the franchise arena. Green businesses are swiftly growing in today's economy; these franchise concepts focus on energy-reduction services for homes and businesses. Fitness, health and personal care will continue to expand due to childhood obesity problems, baby boomers looking to "get fit" and nutritional programs for those living healthy lifestyles. Recession-proof brands are understandably popular in today's economy.

Many people who buy a franchise concept do so because they have been laid-off due to the declining economy. With that in mind, many want to ensure they are purchasing a business that will not be affected by the economy in the event of another recession.

Congratulations!

You are now ready to continue the exciting journey of Franchise Ownership.

Choose your next step:

1. Qualify for Franchise ownership here:

Submit an application to get Free Franchise Consulting Services from a Certified Franchise Consultant who can help you with every step of the process.

Or click this link: https://letsfranchise.com/get-free-consulting/

2. Still trying to decide which type of franchise would be a good fit for you?

Take the Franchise Quiz to get matched with the perfect Franchise in 5 minutes or less:

Or click this link: https://letsfranchise.com/quiz/

3. Not ready yet but want to get more information on different types of franchises available?

View the list of the fastest growing franchises this year!

Or click this link: https://letsfranchise.com/fastest-growing-franchises/