

# FRANCHISING 101

By

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The Entrepreneur's Source

THE **ENTREPRENEUR'S**  
 **SOURCE**®

*"Your success is our only business"*

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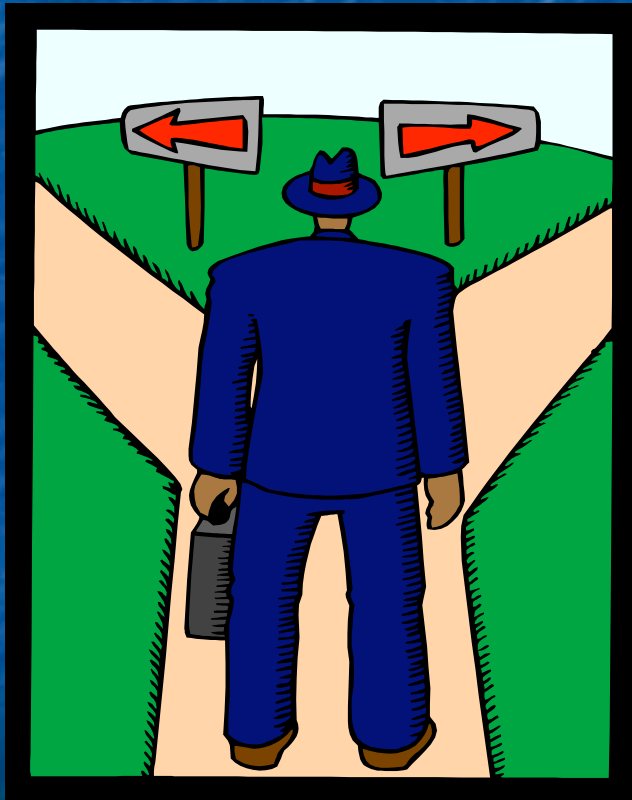
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# Goal of today's presentation

- Educate you about the basics of franchising, so you'll be a more informed consumer
- Help you to build your selection criteria
- Help you to understand how a Coach & other professional resources can help you explore franchising & self employment

# Franchising 101: Beyond McDonalds



## ■ AGENDA

- What is Franchising?
- Just the Facts/Regulations
- Advantages/Disadvantages
- What is the E-Myth?
- Show Me the \$/Financing
- The Inside-Out Approach

# What is Franchising?



- Franchising is NOT a business or an industry.
- It is a method of distributing products & services to consumers.
- It utilizes a network of local owners ("locally owned & operated") operating under a shared brand.
- Franchisees pay the franchisor for the right to do business under that name, and operate under a specified, controlled business method or format.
- Franchisors provide significant initial and continuing services and support.

# Elements and Vocabulary

- **Basics:**
  - A replicable business format
  - License of a Brand Name / Trademark
  - Interdependent win-win Franchisor / Franchisee relationship
  - Awards process vs. sales process
- **Details**
  - Fees
  - Royalties
  - Regulations, etc.



# Franchise Terminology

- **Franchise Fee (one-time fee at time of signing agreement)**
- **Total Investment (amt. you'll spend including FF to open on day # 1)**
- **Royalties (% of gross or flat fee)**
- **Ad Fund (% of gross or flat fee)**
- **Term (# years of agreement)**
- **Renewal (terms in agreement)**
- **License Transfer (selling your unit)**



# If you think franchises don't count...

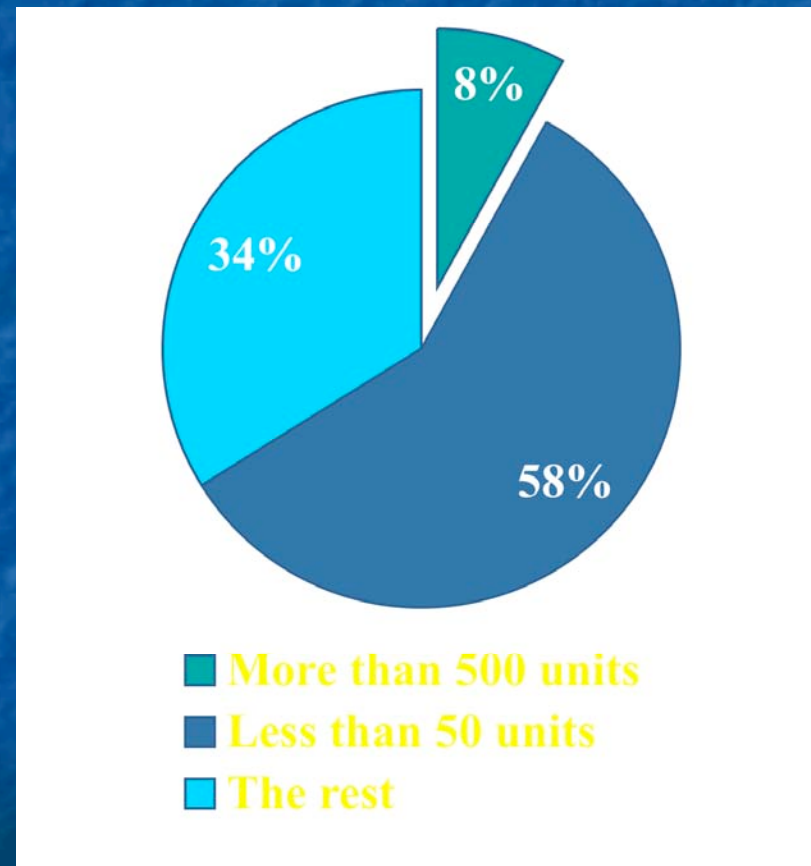
- In 2008, franchises accounted for:
  - Over 1.6 trillion dollars in sales
  - 775,000 business units
  - 9.9 million jobs
  - 41% of U.S. Retail Sales

# Why Would a Business Franchise?

- Its generally about growth
  - They may not have the finances to support the initial investment or overhead required for significant growth
- Owner vs. Manager
  - Many businesses find that businesses perform better with a local owner vs. a manager

# How big are franchise systems?

- 8% of franchises have over 500 units
- 34% of franchises have 50-500 units
- 58% of franchises have less than 50 units



# Franchise options & role of owner

## ■ Ownership Options

- Single Unit
- Multi Units
- Area Developer
- Master Developer
- Co-Brand

## ■ Owner Roles

- Owner Operator
- Manager
- Manager & Developer
- Recruiter, Manager, Trainer, Mini-Franchisor
- Own & Manage several brands

# Territory

(defined in franchise agreement)

- “Exclusive” or “Non –Exclusive” access to a market or geographic area
- May be based upon:
  - Population
  - Current market revenues
  - Registered # of vehicles, number of “qualified households”, or other indicator of potential business base
  - Varies depending on company & industry



# Government Involvement

## Federal Trade Commission Rule

- Governs the registration of Franchisors
- Requires franchisors to provide prospective owners with specific information
- A comprehensive disclosure document = Franchise Disclosure Document (FDD)

## Individual State Regulations

- Registration in ~15 states
- Controlled process for updates / changes to agreements



# Franchise Disclosure Document

- Required by Federal Trade Commission
- Contains information ranging from start up costs to terms to sell or transfer your agreement
- Franchise Disclosure Document (FDD) includes:
  - A copy of the franchisor's standard franchise agreement
  - The franchisor's audited financial statements
  - Agreements that the franchisor would require to be executed
  - Any arbitration or litigation
  - Includes a list of the current franchisees and franchisees who have left the system (in the last 12 months)
  - You need to submit an application to obtain an FDD
- Some have an 'Earnings Claim' – Item 19

# Pros and Cons of Franchising

- Franchisor Perspective
- Franchisee Perspective



# Pros: Franchisor Perspective

- Potential for quicker growth, capture of market share
- Owners are “Motivated Managers”
- Sharing of risk
- Focus on business and future, not daily operations
- Revenue streams other than unit sales

# Cons: Franchisor Perspective

- Lack of control
  - Over Franchisee
  - Growth based on investment of individuals
- Disparity in performance of units
- Finding quality candidate owners
- Geographic / International differences
- Regulations
- Litigation/Arbitration

# Pros: Franchisee Perspective

- Access to information – “pre-investment”
- Cooperative buying power
- Instantaneous Goodwill
- Proven formula
- Quick “turn-key” operations
- On-going support
- Networking with other owners



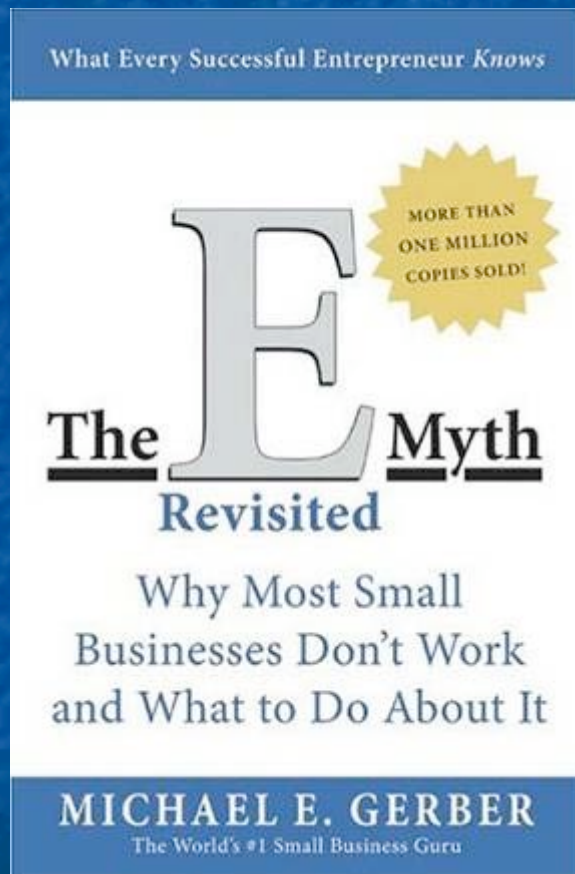
# Cons: Franchisee Perspective

- Not a “Partnership”
  - Royalties based on revenue, not profits
- Long term agreements may not reflect market trends
- Franchisor management vision may change or may not be in synch with market trends and demands
- Overall reputation is a reflection of customer experience at any (other) unit
- Less control and independence than independent business ownership

Why would an entrepreneur consider a franchise model?

Couldn't you start a business on your own?

# Why Do Independent Businesses Fail?



## The E Myth

- Doing what you know, love and enjoy will bring success
- Being "a technician" versus being an "entrepreneur"
- Working "in" the business versus. working "on" the business

# The Reality of Small Independent Businesses

- 2005 research from the U.S. Bureau of Labor Statistics shows that, across all sectors, 45% percent of new independent business failures happen within 2 years of their birth
- **According to the SBA, approximately 50 percent of all small to midsize businesses fail due to lack of revenues and cash reserves**

"I-Had-No-Idea-How-Hard-It-Would-Be" survival rates of businesses according to M.I.T. business expert David Birch:

Year	% of businesses that survive
1ST YEAR	85%
2ND YEAR	70%
3RD YEAR	62%
4TH YEAR	55%
5TH YEAR	50%
6TH YEAR	47%
7TH YEAR	44%
8TH YEAR	41%
9TH YEAR	38%
10TH YEAR	35%

Source: [www.chapmanspira.com](http://www.chapmanspira.com), 2005.

# Definition of Insanity



- Doing the same thing over and over again and expecting different results
- Leaving a job only to become self-employed in the same field but expecting a different result

# Franchising vs. Independent Businesses

Why is Franchising so Successful?

- A proven system
- Training and ongoing support
- Being in business for yourself, but not by yourself
- Win-win relationship ... starts with mutual benefits and grows from there



# How do I finance my franchise?

- Typically 25% down payment (liquid assets)
- Financing Options
  - Home Equity (HELOC)
  - Family, Partners, Angel Investors
  - Stocks and Bonds
  - SBA Loans
  - Signature Loans
  - 401K or Pension Conversion (info available)



\*We can help you find companies that specialize in franchise financing

# SBA Financing

- **Small Business Administration**  
[www.sba.gov](http://www.sba.gov)
- Provides listing of the SBA approved lenders in the NJ
- Start with the "preferred lenders", since they have pre-approval for the amount of the client loan without going to the SBA for prior review approval

# The Franchise Registry

- [www.franchiseregistry.com](http://www.franchiseregistry.com)
- (802) 295-251
- The Franchise Registry will help SBA and its participating lenders make consistent eligibility decisions, speed access to SBA financial assistance, streamline processing and recognize industry-specific factors during the loan review process. The Registry enables lenders and SBA local offices to verify a franchise system's lending eligibility through the Internet. This reduces red tape, time and costs for all concerned

# *ERISA BASED 401K/IRA ROLLOVERS*

- **Benetrends**
- [www.benetrends.com](http://www.benetrends.com)
- 866-423-6387 toll free Candice Conway
  
- **Guidant Financial Group**
- [www.guidantfinancial.com](http://www.guidantfinancial.com)
- 425-289-3200 x3207 Scott Hurley

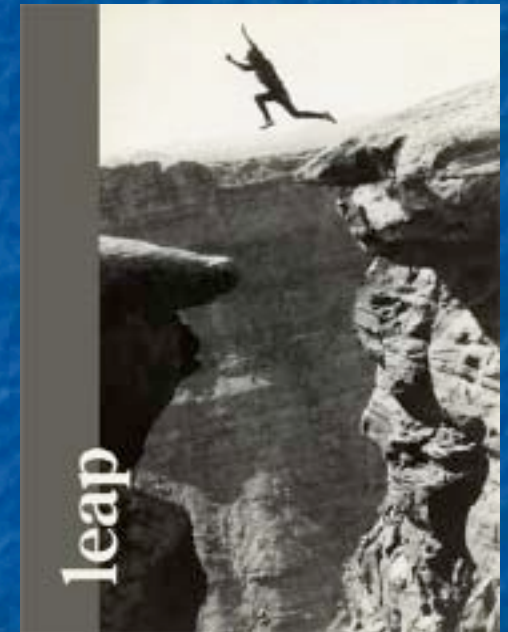
# *LOAN BROKERS*

- **Business Resource Store**
- [www.businessresourcestore.com](http://www.businessresourcestore.com)
- Contact Don Steele
- (800) 221-9391
  
- **Diamond Financial Services**
- [www.diamondfs.com](http://www.diamondfs.com)
- 888-238-0952

# Concerned about taking the “Big Leap”?

**Apprehensive?**

**If that’s how you’re feeling,  
you’re right where you’re  
suppose to be!**



# Americans' Desire to be Self Sufficient

75% of the adult U.S. population have a strong desire to be self sufficient

Only 5% ever make it  
(often due to lack of confidence & information)



# How do I find “the right franchise business”?

Franchising is counter-intuitive – it is not like getting a job, or starting a new company

- Most franchises DO NOT require industry experience – they will train & support you
- Franchisors want franchisees to market & manage the business (no technicians please!)

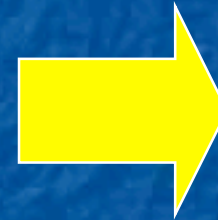
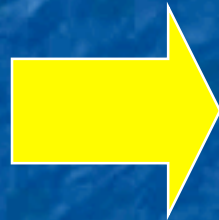
# What are your motivators for wanting to get into business?

- Frustrated with your career
- Downsized or expecting to be
- Looking for more out of life than your current career can provide-control and financial security
- Always had a burning desire to be your own boss
- Curious about what might be out there

# Mindset: Use the business as a vehicle to get where *you* want to go

## *Inputs:*

- Experience
- Skills
- Time
- Energy
- Personality
- \$ Resources



## *Outputs:*

- Income
- Lifestyle
- Wealth Building
- Equity
- Personal & Professional Satisfaction

# The “Inside Out” Approach

**#1 Establish your goals, needs and expectations  
– what you want your life to look like - ILWE**

**#2 Determine what you really want to get from  
owning a business – in areas of lifestyle,  
earnings, day-to-day activities, professional  
satisfaction**

**#3 Identify your transferable skills, and be honest  
with yourself about your strengths,  
weaknesses, & circumstances**

# The “Inside Out” Approach

## **#4 Get out of buying mode and into learning and discovery mode –**

- **Gather the critical information (earnings, ramp-up time, actual results, lifestyle, relationship between franchisor & franchisees)**
- **Do this through structured, inside research; conversations, interviews, fact gathering, visits to franchise locations, & Discovery Day visits**

# So.....don't be a "Midnight Surfer"! (or the dreaded Outside-In Approach)

Many people make the mistake of being a "Midnight Surfer".....searching the internet for franchises, or walking through franchise shows, looking for an industry they already have experience in, or looking for a business to jump out and grab them.

*"I'll know it when I see it!"*

# Questions for Franchisors/Franchisees

Researching franchises & business opportunities is all about having conversations & asking questions

- Ask Franchisor – support, training, history, territory, advertising, site selection, role of owner
- Ask Franchisees – why they chose that biz, earnings, ramp-up time, lifestyle, relationship with franchisor, lessons learned

# Getting the most out of your Franchise research

- Keep an open mind – don't limit your options
- Don't worry about industry experience
- Newer companies have value, too (higher upside, ability to select territory, lower price)
- Competition isn't always a bad thing – indicates that a large demand exists
- Be a savvy consumer & ask good questions

# Use a Coach or Mentor

- You need someone who:
  - Understands your goals
  - Helps you make fact based decisions, not emotion based
  - Can provide objectivity
  - Has YOUR best interest in mind
  - Has experience in business



# What can a coach do for you?

- Writing down a goal statistically results in a **40%** probability of you doing it
- Creating a plan to achieve that goal raises your chance of following through to **60%**
- Telling someone about your goal elevates your likelihood of success to **65%**
- Establishing a date to report back to that person brings your success level to **95%**

Source- The American Society of Training and Development

# Use Other professionals

- SBA, SBDC, SCORE
- Attorney
- Accountant
- Financial Advisor
- Lenders

BTW: Get your spouse & family on board!

# Other Web Resources

- [www.franchise.org](http://www.franchise.org) – VetFran list
- [www.sba.org](http://www.sba.org) –Patriot Express Loans
- [www.veteranscorp.org](http://www.veteranscorp.org) – Assessment Tool
- [www.TheEsource.com/NCohron](http://www.TheEsource.com/NCohron)

# Are you ready to learn more?

- Do you know what your next step is?
- Now is a good time to ask questions!

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