

GET THE SCOOP ON . . .

What a franchise is and why you might want to operate one ■ The history of franchising ■ The types of franchising opportunities available ■ The benefits and drawbacks of operating a franchise

What's a Franchise, Anyway?

The American dream for many businesspeople and entrepreneurs involves launching a business that achieves an impressive level of success, provides at least some level of financial security, and allows them to become their own bosses. The goal of most business owners is to have independence, retain control over their professional futures, and be able to reap the financial benefits of their business ventures.

Launching a start-up business takes a tremendous amount of time, knowledge, capital, and business savvy. The business owner must simultaneously be able to handle a wide range of responsibilities and make many important decisions. Even for an experienced businessperson, owning and operating a business venture can be extremely risky. The fear of failure, inadequate capital, and/or a lack of core business knowledge often keep people from achieving their professional goals, especially when launching a successful business.

Chapter 1

To help eliminate fear, reduce the risk of failure, and provide the training that entrepreneurs need to successfully launch their businesses, one option is to operate a franchise. One of the benefits of operating a franchise is that most franchisees (that's you) are provided with a proven roadmap for how to operate the business, along with all the training needed to make the business successful.

A *franchise* is a proven business model developed by the *franchisor* (the company that has created the business and is making it available to franchisees through a Franchising Agreement), which allows the franchisee to utilize its established trademarks, proprietary business plan, and methods of doing business, in exchange for a recurring payment, which often involves a percentage of gross sales or gross profits, along with an annual fee. The franchisor usually provides its franchisees with training, a proven business model, a well known and well established brand name, and a wide range of other tools and resources to help ensure success. This support greatly reduces the time needed to open a business, and it eliminates the need to do a lot of preliminary research, like lining up suppliers, for example. In Chapter 2, you find out more about what you (as a franchisee) can and should expect from the franchisor you choose to work with. The support provided varies greatly, based on the type of franchise opportunity you're pursuing.



Watch Out!

An advertised "business opportunity" can be very different than a legitimate franchise opportunity. Multi-level marketing companies, opportunities in which you pay a lump sum for the rights to operate some type of business (such as a vending machines business), and even pyramid schemes (which are illegal) are considered business opportunities, not franchise opportunities. If the opportunity you're being offered involves selling other people that same business opportunity (in addition to, or instead of, selling the company's primary products or services), this is probably a multi-level marketing operation, not a legitimate franchise opportunity. Virtually all reputable franchisors are registered with the International Franchise Association (IFA).

Reviewing a brief history of franchising

Although the concept of franchising as a business model has been around since the 1850s, it wasn't until the 1930s that it became commonplace in America, thanks to franchise-based restaurants like Howard Johnson's. By the mid-1950s, with the proliferation of fast-food establishments like McDonalds, franchising became extremely popular and continues to grow to this day.

In fact, McDonald's now has over 2,400 individual franchisees (owners/operators) in the United States, and they collectively operate over 13,000 restaurants. But franchising isn't limited to fast food. Today, franchise opportunities are available in virtually every industry. How to choose the right opportunity given your personal and financial situation, is explored in Chapter 3.

Understanding how franchises work

A *franchise opportunity* is a formal business relationship between the franchisor and the franchisee. The franchise itself is an established business that has a name, along with products or services that it sells using a business model that's proven to be successful. The franchise follows an established method of doing business that often utilizes proprietary business models, practices, tools, and/or resources, including trademarks (such as a well known brand name and logo), all of which have allowed the business to achieve success and consumer recognition.

The franchisor and franchisee engage in an ongoing business relationship. The franchisee is typically the proprietor of his or her own business. However, the way in which the franchisee operates the business is often overseen and somewhat controlled by the franchisor. The franchisor provides the product(s) or service(s), or at least lines up suppliers and provides the entire system for operating that business. How the franchisee/franchisor relationship takes shape varies greatly, depending on the franchisor and type of business.

In exchange for the services, tools, and resources provided by the franchisor, the franchisee pays a variety of different fees. These are explained in greater detail in Chapter 3.

Determining whether you're a good fit for a franchise

People who own and operate franchises come from all walks of life. Franchise owners and operators in the United States and throughout the world include

- Businesspeople with an entrepreneurial spirit
- Homemakers and single mothers looking to break into the business world
- Retired people looking for a new source of income
- Married couples wanting more financial independence
- Working people looking to make a career change
- Recent graduates looking to launch their careers but also be self-employed

Chapter 2 focuses on what it takes to become a franchise owner and operator, in terms of the necessary business-related experience, training, and finances. It's important to understand right from the start, however, that the most successful franchisees all have several similarities, including the following.

- They're extremely excited and dedicated to the business opportunities they choose to pursue.
- They're willing to work hard and take on a tremendous amount of responsibility to operate their businesses.



Moneysaver

A growing number of franchise-based businesses are owned and operated by veterans. As you learn in Chapter 5, special financing opportunities are available to veterans through the International Franchise Association's Vet-Fran program (www.franchise.org), as well as the U.S. Department of Veterans Affairs (www.vetbiz.gov).

- They're willing to participate in training and education programs in order to obtain the business knowledge and skills needed to manage their businesses, while following the mandates and business practices outlined by the franchisor.
- They're willing to make an often significant financial investment in their businesses using savings, investments, a second mortgage on their homes, or a variety of different types of small business loans.
- They're able to work well with and develop ongoing positive relationships with the franchisor and suppliers/distributors, as well as with their own employees, customers, and the other vendors they need to do business on an ongoing basis.
- They're able to juggle a wide range of responsibilities simultaneously and are willing to dedicate the time necessary to meet those responsibilities, even when it requires working well beyond a traditional forty-hour work week.

If you believe you're able to meet these demands, the next step is to ensure you go into this new business venture with all of the resources you need at your disposal. Although you can typically assume the franchisor will provide training, few offer the core business education you'll probably need to successfully operate any type of business. Thus, in addition to the specialized skills and knowledge needed to operate the specific type of business, it also becomes your responsibility to learn a wide range of core business-related skills, including the following.

- Accounting, bookkeeping, recordkeeping, and money management
- Hiring, training, and managing employees
- Marketing, advertising, and public relations
- Developing and implementing top-notch customer service
- Inventory management (if applicable)
- Basic computer skills
- Time management and scheduling



Bright Idea

If you don't have the core business knowledge you determine will be required to successfully operate the type of franchise-based business opportunity you want to pursue, you have a couple of options. You can participate in college-level courses and other training programs, or you can take on a business partner who possesses the knowledge, skills, and experience you lack.

These skills can be obtained by participating in college-level courses or adult education programs, or they can be self-taught using books and other training materials. Having these skills before you attempt to start operating your own business definitely gives you an advantage and helps guarantee your success. Having a core business knowledge can also keep you from making common, yet costly mistakes.

Is it necessary to have graduated from an Ivy League college and have years of business experience under your belt in order to be a successful franchise owner and operator? In most cases, it's not. However, keep in mind that the core business knowledge your franchise will require varies greatly based on the type of opportunity you choose to pursue. By doing research about the specific franchise opportunity, the franchisor, and the industry you plan to work in, you should be able to develop a good assessment of what will be required of you, and then do what's necessary to acquire the necessary knowledge and skills.



Watch Out!

One way to develop specific types of skills and knowledge is to first become an employee for another franchisee in order to learn the business and gain valuable experience. After you've mastered the core skills you'll need to own and operate your own franchise, you can then take the next steps toward becoming a business owner. Never rush into a situation or take on responsibilities and financial obligations you're not fully prepared for.

Discovering the biggest misconceptions about franchises

Almost anyplace in the United States that you travel (and in many parts of the world, for that matter), you'll encounter countless franchise-based businesses. They're everywhere! With these businesses so prevalent in our everyday lives, it's easy to jump to the conclusion that they're extremely profitable, easy to operate, and guaranteed to be successful. That's not always the case. This section focuses on clearing up some of the most common misconceptions people have about franchises.

It's a get-rich-quick scenario

Despite what you're told by franchisors or other sources, owning and operating any type of franchise is *never* a get-rich-quick opportunity. You will not be able to simply make an initial investment to open the business, hire a bunch of minimum-wage employees to operate it on your behalf, and then become an absentee owner who enjoys the good life lounging on a beach somewhere. Some franchise owners are able to achieve this lifestyle, but only after successfully managing, building up, and expanding their businesses over many years. If this is your objective, think of it as a long-term goal, not a short-term one.

The vast majority of franchise owners and operators are married to their work, especially during the first few months or years, until their businesses becomes profitable. Not only will operating a successful business require a significant financial investment, but it will also require you to dedicate a tremendous amount of time and effort to your business on an ongoing basis. When almost any type of problem arises, it will be your responsibility, day or night, to pinpoint the problem and achieve a resolution.,.

Even the best-known and most successful types of franchises require time, dedication, and a financial commitment. In fact, even if you do absolutely everything correctly—have enough

financial capital on hand to launch your business, possess the core business knowledge and experience needed, and are selling a product or service that people in your geographic area want or need—don't expect to start generating huge profits overnight. It realistically takes months or years before your business becomes profitable, so plan accordingly. It'll ultimately be your responsibility to develop an operating budget for your business and make sure you have the financial resources necessary to sustain the business until it becomes profitable.

Good employees are a dime a dozen

Another common misconception is that finding, hiring, training, and managing reliable, dedicated, trustworthy, hard-working, and customer-service-oriented employees (who will most likely be crucial for the successful day-to-day operation of your business) will be easy. Chances are, it won't be easy and could become one of the biggest ongoing challenges you face as a business owner. See Chapter 9 for more on hiring employees.

Location doesn't matter

Yet another misconception is that location doesn't matter. Although a franchisor might offer assistance in choosing a location or site for your business, it's ultimately your responsibility to become extremely familiar with the area and ascertain for yourself whether the location where you plan to open your business is suitable. The location should be easily accessible and



Bright Idea

Don't just assume that if you build it, they will come. Just because a franchise opportunity has been successful in certain geographic areas doesn't guarantee success for the location where you choose to open your business. It's important to determine exactly who your target customers will be, and then determine whether an adequate customer base exists in the area where you plan to open your business. From a marketing, advertising, and promotional standpoint, you need to have a detailed plan in place to attract local customers to your business.

ideal for the type of business you're opening, plenty of parking should be available for customers, and the building or office must be adequate in terms of layout and size to meet your needs. Chapter 7 focuses on choosing a suitable location for your business.

You don't have to market your business

Although you can rely on the brand name and reputation of the franchise to initially attract some customers, and also expect that you'll benefit from the regional or national advertising done by the franchisor, you will ultimately need to handle marketing, advertising, and promotions on a local level for your business. This will become another of your important and ongoing responsibilities as a business owner/franchisee. See Chapter 12 for details.

Success is guaranteed

Finally, don't assume that just because you're buying into an established franchise, your business will automatically become successful. Throughout this book, you'll read about "franchise opportunities," not "franchise guarantees." As you start evaluating opportunities, you'll realize that not every available franchise represents a viable business venture. Your own experience, knowledge, the geographic area, the local economy, your available finances (start-up capital), the type(s) of products or services you'll be offering, who your customer base will be, the quality of training you'll receive from the franchisor, and the overall business plan and methodology offered by the franchisor all play vital roles in your potential for success.

After deciding on the type of franchise you'd like to open, one of the first steps is to develop a comprehensive business plan. By creating such a plan, you'll more easily be able to identify your proposed business's strengths and what pitfalls you're likely to encounter. Chapter 5 will help you create a detailed business plan.



Watch Out!

The sales pitch you receive from a franchisor will almost always provide you with the best-case scenario in terms of the opportunity's profit potential. Instead of relying exclusively on what the franchisor has to say, talk directly to several existing franchisees. It's important to develop realistic expectations about potential earnings and profit projections right from the start. This will help you plan your finances accordingly and predict how long it'll take to recoup your initial investment and begin generating a profit. Remember, if what you're being told sounds too good to be true, it probably is! Even the most carefully calculated projections are seldom totally accurate, so plan accordingly.

Recognizing the differences between a franchise and a traditional business

When you decide to launch your own business, you become your own boss. This means that you take ultimate control over your professional and financial future. If you open a traditional mom-and-pop business, it becomes your sole responsibility to plan and then manage all aspects of the business, with little or no outside support or guidance. You need to develop your own business plan; find your own location; handle all your own marketing, advertising, and promotions; train yourself and your employees; manage your own finances; establish relationships with distributors and supplies; and establish your company's reputation in the community in order to build awareness and customer loyalty.

The benefit to owning and operating a franchise is that some (although not all) of the preliminary research and planning is done for you. As a franchisee, you'll be starting off with a business model and plan that has already proven itself to be viable. You'll also be offered training and ongoing support, have access to suppliers and distributors (if applicable), and be able to capitalize on the name recognition and logo(s) of the franchise.

Although a potential customer probably has no clue what to expect from Joe's Burgers or Joe's Sub Shop, virtually everyone in

America knows when to expect when they step into a McDonald's restaurant or Subway sandwich shop. Whether you walk into a McDonald's in New York City or Houston, Texas, your experience as a customer will be virtually identical. This consistency is perhaps one of the biggest benefits of operating a franchise.

One potential drawback to operating a franchise (as opposed to an independent, stand-alone business) is that you must adhere to the guidelines and operating procedures outlined by the franchisor, whether or not you agree with them. You must also pay the required franchisor fees on an ongoing basis. In some situations, these fees make sense. In others, however, like when the brand name isn't well known and the national or regional advertising isn't helping your business, these ongoing fees may not make financial sense. In Chapter 3, we'll take a closer look at the fees associated with owning and operating a franchise.

Franchise opportunities vary greatly. Some franchisors offer single-unit business opportunities. This means you (as the franchisee) obtain the right to open one single location or unit. There are also multi-unit franchise opportunities that allow you to open several locations, often within a specific region or territory. This means that as the franchisee, you're given an exclusive territory or region. Some well established franchisors look only



Bright Idea

Every franchisor is required by the Federal Trade Commission to create and offer to prospective franchisees a detailed disclosure document. This document must contain details about more than twenty different aspects of the business opportunity, including the history of the business, its current financial statement(s), and the required fees and investment costs. Earnings claims for potential franchisees may or may not be included. Before pursuing any type of franchise opportunity, request a disclosure document from the franchisor and review it carefully. Franchisors are also required to be registered with most of the states in which it plans on doing business and to adhere to local laws and government regulations in those states, both in regards to franchisees and consumers.

for franchisees who will ultimately want and be able to open multiple units within a predetermined time period.

In some situations, the franchisor might offer you what's often referred to as a *Master Franchise*. This means that in addition to being the exclusive franchisee for a specific region or area, you have the right to sub-franchise (sell additional franchises) to other prospective franchisees, and thus benefit financially. When opening up discussions with a potential franchisor, make sure you fully understand the business arrangement and the type of franchise opportunity that's being offered.

As you begin negotiating with a potential franchisor, seriously consider hiring a lawyer who specializing in franchising to represent you (see more on lawyers in Chapter 10). Becoming a franchisee requires you to sign a variety of binding legal documents and engage yourself in a potentially long-term business relationship with the franchisor. It's vital that you understand what you're signing, know what you can expect from the franchisor, and understand what's expected of you. You can find referrals for experienced attorneys who specialize in franchising through the International Franchise Association (www.ifa.org) or through your state's bar association. Early on, develop a relationship with an attorney whom you can trust and who can guide you through the process of acquiring, opening, and then managing a franchise-based business.



Moneysaver

To help match up qualified potential franchisees with established franchisors, independent consulting companies, such as FranChoice, Inc. (800-678-2802; www.franchoice.com) exist. Operated by franchising specialists, these firms spend time carefully evaluating potential franchisees and help to match them up with suitable franchise opportunities. In many cases, this service is paid for by the franchisor and is offered free of charge to potential franchisees looking to explore various business opportunities. If you're having trouble deciding what type of franchise opportunity to pursue or have questions you'd like answered by an independent third-party that is knowledgeable about franchising, utilizing one of these services is a smart decision.

Choosing the best franchise for you

What most people don't realize is that there are literally thousands of franchise opportunities available in America. In fact, one out of every twelve businesses currently operating in America is a franchise. This translates to more than 550,000 franchised businesses generating more than \$900 billion in annual sales.

Although most people think of McDonald's or Dunkin' Donuts when they hear the word "franchise," there are more than 3,000 different franchise opportunities available in more than seventy-five industries, many of which go well beyond the realm of fast food. Chapters 3 and 4 introduce you to many different types of franchise opportunities.

As a consumer, companies you see in your neighborhood or at the mall and perhaps do business with on a daily basis may actually be franchises. For example, McDonald's, The UPS Store, H&R Block Tax Services, Dunkin' Donuts, Midas, General Nutrition Centers (GNC), Subway, 7 Eleven, Ramada hotels, 1-800-Flowers florists, Party America, ACE Hardware Stores, FastFrame, Minuteman Press, Payless Car Rental, Kumon Learning Centers, Curves Fitness Centers, Mrs. Fields Original Cookies, Dairy Queen, Pizza Hut, KFC, Taco Bell, Supercuts, Merry Maids, Pearl Vision Centers, Fast Signs, and Jenny Craig are a random selection of well known franchise-based businesses you're probably already familiar with and that may already be present in your community.

Ideally, what a franchise offers is the closest thing someone can get to a complete turnkey solution for achieving success when operating a business. For many people, opening a franchise is the added edge needed to become their own bosses and launch their own successful businesses, because much of the fear and some of the risk associated with this process is eliminated by the franchisor.

Sorting through the opportunities available today

As you can discover in Chapters 3 and 4, there are a wide range of franchise-based business opportunities available that extend beyond the fast food industry. Before you start evaluating specific franchise opportunities, it's important to consider the following.

- Where your interests lie and what type of business you're interested in operating
- What experience you already have that will prove beneficial
- What your current financial and credit situation is like
- What your long-term professional and financial goals are

Only by knowing this information can you accurately determine which of the thousands of franchise opportunities are best suited to meet your wants and needs. Unless you have access to hundreds of thousands of dollars to invest in your business (including funds available through loans) and still meet the prerequisites of the franchisor, chances are, opening a McDonald's or other high-profile and expensive franchise isn't a viable option. Even if you have the investment capital available, perhaps you have no interest in getting into the fast-food industry.

Chapter 4 shares profiles of twenty franchises available in the United States. These profiles give you an overview of what's available, but it's not a complete list of available opportunities. There are several comprehensive directories that profile hundreds or thousands of potential franchise opportunities, including the following.

- ***The Franchise Handbook:*** This is a quarterly publication published by Enterprise Magazines, Inc., that's distributed through newsstands nationwide. For more information, point your Web browser to: www.franchisehandbook.com.
- ***Franchise Opportunities Guide:*** This is the official directory published by the International Franchise Association

(800-543-1038; www.franchise.org). Thousands of franchise opportunities are profiled in each issue of this magazine, which is published semi-annually.

- ***Entrepreneur Magazine's Franchise 500:*** The publisher of *Entrepreneur* magazine offers an online database profiling the top 500 franchises in the United States. To access this Web site, point your browser to:
www.entrepreneur.com/franzone/listings/fran500/.
- ***Entrepreneur Magazine's Ultimate Book of Franchises:*** The Publishers of *Entrepreneur* magazine publish this soft-cover directory (\$23.95) describing over 1,000 franchise opportunities. It's available from bookstores everywhere or online at www.EntrepreneurPress.com.

Lining up your finances

The initial investment capital required to own and operate a franchise can be anywhere from a few thousand dollars to well over \$1 million, depending on the opportunity you pursue. In some cases, the franchisor will assist potential qualified franchisees in acquiring financing. However, you'll need to determine in advance your net worth, your credit potential (based on your credit rating and credit score), and the sources of financing that may be available to you. For first-time franchisees, some potential sources of financial capital, which are described in greater detail within Chapter 5, include the following.

- Personal savings and investments
- Borrowing from friends and family members
- Taking out a small business loan from a local bank or credit union
- Obtaining a second mortgage on your home
- Working with outside investors or investment capital firms
- Obtaining a loan from the U.S. Small Business Administration (SBA)

- Obtaining direct financing from the franchisor
- Utilizing government-supported programs available to minorities, veterans, and others who meet qualification guidelines

Additional considerations as you get started

As you begin to evaluate various franchise opportunities described in this book and elsewhere, focus on the following:

- Whether you have any interest in working in the type of business and industry in which the franchise opportunity is involved
- The costs involved, including the franchise fees, along with the continuing royalty fees, advertising fees, and other expenses
- The control you'll have over your business versus the control the franchisor maintains
- Your ability to either terminate the relationship with the franchisor or renew it
- Whether or not you have the knowledge, experience, and skills necessary to successfully operate the business
- Whether the franchise opportunity will ultimately allow you to meet or surpass your long-term personal, professional, and financial goals
- Whether there's a demand for the products and/or services you'll be offering after you open the franchise
- How much local competition you'll have and whether or not you'll be able to effectively compete in your geographic area
- How much value the franchise's name recognition, logo(s), and consumer awareness is worth
- The training and support offered by the franchisor
- What similar opportunities are available from other franchisors

I delve deeper into each of these considerations, discuss why they're important, and offer advice on how to deal with them throughout the rest of this book.

Just the facts

- A franchise is a proven business model, developed by the franchisor, that allows the franchisee to utilize its established trademarks, proprietary business plan, and operating methods, in exchange for a recurring payment (which often involves a percentage of gross sales or gross profits, along with an annual fee). The franchisor potentially provides its franchisees with training, a proven business model, a well known and well established brand name, and a wide range of other tools and resources to help ensure success.
- There are more than 3,000 different franchise opportunities available in more than seventy-five industries, many of which go well beyond the realm of fast food.
- The franchisor and franchisee engage in an ongoing business relationship. The franchisee is typically the proprietor of his or her own business. However, how the franchisee operates the business is often overseen and somewhat controlled by the franchisor.
- Franchisees come from all walks of life.
- Owning and operating a franchise-based business is rarely, if ever, a get-rich-quick business opportunity for the franchisee. It can take months or years before you recoup your investment and generate a profit.
- Never assume that just because you're buying into an established franchise that your business will automatically become successful. Achieving success will require you to invest a significant amount of time, hard work, dedication, and money.

