DETAILS OF BUYING A FRANCHISE:

FRANCHISING REPORT & GUIDE BOOK

REALIZING YOUR DREAMS

Presented By

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FINANCIAL QUALIFICATIONS

In trying to qualify for a particular franchise, you'll need to do an evaluation of your capital. As mentioned in the section Determining Whether Franchising Is Right For You (p. 8), most franchisors have a minimum net worth and liquid capital requirement for their franchisees. Additionally, you'll have to figure in the initial franchise fee, startup costs, the time it will take your business to start making money, and living expenses you'll have during that time. Keep realistic expectations about the total investment the business will require and the total income it can produce.

QUALIFYING FOR A FRANCHISE? EVALUATE YOUR CAPITAL

In qualifying for a franchise, you must think beyond initial costs. Make sure that the total investment figures include adequate working capital amounts. Verify all the other investment estimates in the FDD with each franchisee you speak to during your due diligence. Determine what is realistic in terms of income and the time frame that it can be realized. How long does it normally take to reach break-even? How much income is realistic in year 1, 2, and 3? Thereafter? What is the most important thing a franchisee can do to influence these income figures?

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FINANCIAL OPTIONS

Even if you have enough cash to finance your franchise purchase, you may choose not to. To decide, weigh the “opportunity cost” of tying up your capital against the “hard cost” of another type of financing. While there are many options for financing a franchise besides using your own cash, one of your best sources of information on financing may come from the franchisor you are interested in joining, as they should be familiar with the costs involved in the loan and the likelihood of your obtaining financing from any particular source.

A SAMPLING OF COMMON FINANCING SOURCES

A LOAN FROM A FINANCIAL INSTITUTION IS CALLED DEBT FINANCING. The usual sources are banks, savings and loans or commercial finance companies, which require that you pay cash for a part of your business start-up costs—usually 25 to 35 percent.

THE GOVERNMENT HAS ESTABLISHED THROUGH THE SBA ITS OWN LOAN PROGRAM, the Small Business Investment Company Program (SBIC). The SBA does not make the loans but is primarily a guarantor of loans made by private and other institutions. You can learn about SBA offerings at http://www.sba.gov/financing/sbaloan/snapshot.html

EQUITY FINANCING. Equity financing requires that you sell someone an ownership interest in your business in exchange for capital. Investors are generally known as Venture Capitalists, and they are usually more interested in companies with great potential rather than a single unit/multi-unit/territory-based start-up franchise company.

RETIREMENT ACCOUNTS. You may be able to set up an account that allows you to use retirement funds for investing in a franchise without taking a taxable distribution or incurring penalties.

FRANCHISOR FINANCING. Some franchisors work directly with financial companies to provide loans for new and existing franchisees, often at low-interest rates.

FRIENDS AND RELATIVES. Partners, friends, and relatives who have confidence in your entrepreneurial abilities may be willing to loan you money as you begin your business venture.

FOR A MORE IN DEPTH LOOK AT FRANCHISE FINANCING OPTIONS, SEE BIT.LY/1UGW9TA.

HAVE YOU CONSIDERED THE FULL RANGE OF FINANCING OPTIONS FOR YOUR FRANCHISE BUSINESS?

- Bank loan
- SBA guaranteed loan
- Business loan
- Equipment loan
- Equity financing
- ERSOP/401K roll-over
- Home equity line of credit
- Franchisor financing
- Friends and family financing
- Partnerships and investors
- Retirement accounts
- Cash/stock

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DETERMINING A FRANCHISE'S POTENTIAL RETURN ON INVESMENT

Of course you're looking for a franchise investment that will bring good returns. However, a franchise is not like the stock market, where you expect that the more money you invest, the more you'll get back. Returns in franchising vary according to concept, industry, market and operator. In franchising, you invest a significant amount of your sweat equity and passion in the business in addition to your capital; therefore, you should therefore expect a much higher return on your investment than if you were only investing money. So how do you determine a particular franchise's ROI?

THERE ARE TWO WAYS:

ONE. The earnings claim. In the world of franchising, the only way to discuss earnings is to put them in the earnings claim, contained in the FDD, which you'll get from all the franchisors you're seriously studying. Read it. This will help you get an understanding of the potential Item 19 in the FDD is where the franchisee will make a claim.

TWO. The FDD itself (which we'll get into on p. 19). The Franchise Disclosure Document tends toward transparency and includes a list of all current franchisees and those that have left the system in the last 12 months and their contact information. Call them. Talk to them about the economics of each of their businesses, from financial performance to operating costs.

(SEE PP. 19-21 FOR DETAILED INFO ON THE FDD.)

"The most successful franchisees are those who decided to pursue business ownership as a way to better their lives — not to outrun a negative experience."