

INSIDER'S GUIDE

TO FRANCHISE OWNERSHIP



Presented by
The Franchise Brokers Association

INSIDER'S GUIDE TO FRANCHISE OWNERSHIP

01

The Path to Riches: Which One Are You?

02

Benefits of Business Ownership

03

Benefits of Franchising

04

Pitfalls of Franchise Businesses

05

Benefits of Using an FBA Consultant

06

Buying a Franchise: FAQs

07

Franchise Funding Options

08

Franchise Vocabulary

These materials discuss franchising generally. They should not be relied upon to make a specific franchise purchase. Any franchise purchase should only be made with the assistance of an attorney or other professional advisor and after a complete investigation of the franchisor, its franchise system and franchisees and its Franchise Disclosure Document.

01

THE PATH TO RICHES: WHICH ONE ARE YOU?



Exploring Different Options

THESE USE PHYSICAL LABOR TO ACHIEVE AN INCOME



Employee: Job Earns the Company a Profit

An employee is taxed at the highest rate possible. They rent their time in exchange for money. The employee's 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 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. Employment should be used as a vehicle to obtain cash flow for assets and considered a temporary beginning step towards creating wealth.



Small Business Owner: Owner/Operator

A self-employed small business owner works very hard for money. Their labor is how the business generates income. When they are not working hard the business is stagnant. Many doctors, lawyers, accountants, and most small businesses are in this category. Most self-employed individuals do not make more than they spend. They have to understand and facilitate every aspect of the business including marketing, production, sales, operations, bookkeeping and even the office cleaning. 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 USE FISCAL LABOR TO ACHIEVE INCOME



Business Owner: Has Systems Work for Them

The business owner has 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 (ie. 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 to run and create income for the owner even when they are away. 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: 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 franchise 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 opportunity for others. Investors spend their time managing their different investments and enjoying the world we live in; spending their time how they want to.

PATH TO RICHES

01

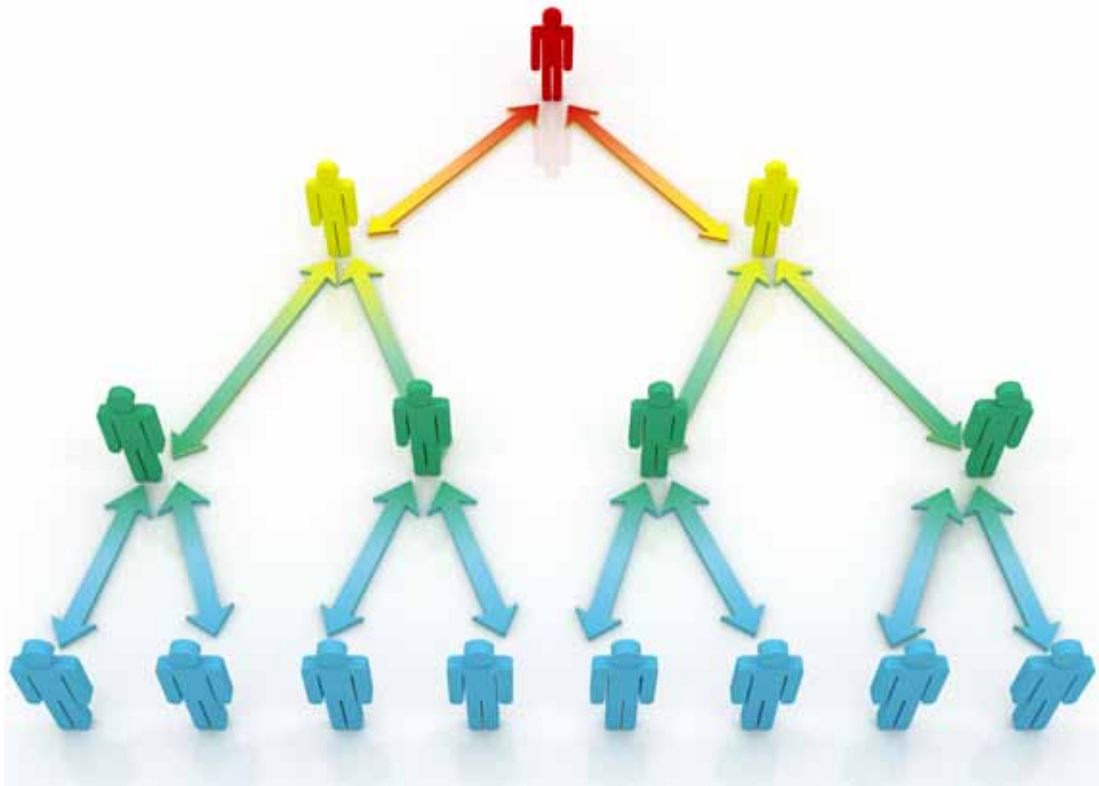
How Strongly Do You Agree With the Following Statements?

1=Strongly Disagree 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 some experience in sales.	
14. I have experience in marketing.	
15. I am able to appraise my 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.	

**ADD UP THE RIGHT COLUMN, IF YOU SCORE AN 88 OR HIGHER,
YOU ARE THE IDEAL CANDIDATE FOR BUSINESS OWNERSHIP!**

02

BENEFITS OF BUSINESS OWNERSHIP



Business Ownership
vs
Being an Employee

Business Ownership

- You are the last one fired
- You see problems coming so you have a chance to react
- Three income streams:
 1. Paid a salary
 2. Tax savings
 - a. When you pay \$100 for a cell phone you have to have \$130 in income to pay for that. But when you own a business you can deduct all or a portion of those expense to the business.
 - b. A person that was making \$100,000 with a job can have the same or a better lifestyle making \$70,000 with a business for this reason.
 3. Growth equity
 - a. You can sell your business for an amount multiple times your investment. i.e. If you have a business that cost \$50,000 up front but sell in 7 years for \$1.2 million, that equals 24 times your original investment.
 - b. You profit from the growth of the company you invested in and contributed to.
 - c. You achieve wealth accumulation when you sell that business.
- Lifestyle
 1. Free to make your own schedule
 2. Free to take vacations whenever you want
 3. Freedom to take care of your family needs as they arise
- Unlimited potential on salary and earnings, you can take an owner's draw and pay less taxes
- Opportunity to be paid for passively running the business once it is in motion
- You pick the location and can move it as you move
- You make the rules
 1. There is no boss to report to, you are the boss
- Able to wear the clothing that is comfortable to you
- Pride of ownership
- Property and equipment equity
- You choose the clients and co-workers you want to work with
- Sphere of influence is boosted, you can meet prominent figures as a result of your mutual business and expand your sphere
- Passion for what you do
- You improve the economy by creating jobs and opportunities

Employee

- Can be fired or laid off without a warning or chance to react
- Contribution not as valued as an employee
- Single income stream: paid a salary
- As you age, you become less valuable to the company
- Studies show that the typical worker stops receiving raises around the age of 40. These studies also show that workers in their 40s and 50s earn only about 10% more than similar workers in their 30s.
- Newest employees are the first to be let go
- Your 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?

- Not only will your income actually go down; you also have less job security
- Capped on your pay
- Always get paid for work done, can never be passive
- You always have to consider where your employer is located and if it is a reasonable distance from your home
- You are a subordinate
- Must follow dress codes
- 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.



Franchising: A Recipe for Success

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.

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 break-even 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 then current annual income statement shows. This means for a \$50,000 investment, if your annual gross revenue at the time of sale is \$1,200,000 then you can earn 24 times your initial investment.

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.



**Information You Should Be
Aware of BEFORE
Purchasing a Franchise**

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 times, business owners (the franchisor) go into business with an exit strategy in mind - to sell the business and make a profit. Therefore, in the event that 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 who 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.

05










BENEFITS OF USING AN FBA CONSULTANT



**List of Advantages to Choosing
an FBA Franchise Consultant
For Your Franchise Purchase**




FBA CONSULTANT BENEFITS

05

SERVICE	FBA	NON FBA	BENEFIT TO THE CLIENT
Researches Franchises that Fit Your Interests and Investment Level			Franchise brokers take you through an interview process to identify what franchises you will qualify for, which franchises match your long-term and financial goals, and which franchises are available in your market.
Introduce You to the Right People at the Franchise			Franchise brokers have special contacts with the franchisor that allows them to get you in front of the right person at the franchise quickly.
Answer Questions for You as You Do Your Due Diligence			Franchise brokers are there to help you through the process and answer any questions you have along the way. They spend all of their time researching franchises so they have great information on franchise systems.
Funding			Franchise brokers can help clients obtain funding. This is important considering the normal options are not as readily available as they were in the past. There are many funding options and we work with all of them. The good news is we get franchises funded all the time.
Questions to Ask the Franchisor		Small % of	These questions help you to be informed when speaking with the franchisor and to ask the right questions that will lead you to proper due diligence.





FBA CONSULTANT BENEFITS

05

SERVICE	FBA	NON FBA	BENEFIT TO THE CLIENT
Demographics Studies			Every market is different and the number one item to cover when starting a franchise should be: Is this a viable business for the market that I am in? Do you have a large enough population, the right demographic profile for the franchise, and how heavy is the competition? FBA brokers and consultants can pull demographics studies to help you determine this.
Franchisee Satisfaction Reports			FBA consultants can give you reports (when available) on how the franchisees of a franchised system rate their franchisor. This is information that comes directly from the franchisees out in the field doing exactly what you will do. This means that you can see a snapshot of their success and comfort level with the franchisor, making your due diligence much easier.
Monthly Sales and Small Business Training			FBA consultants are not only committed to your success in finding a franchise, we are committed to your success once you become a franchisee. That is why we provide webinar trainings every month where you and your employees can learn about ways to work with your franchisor, how to take advantage of what is provided for you, business development, economic issues, sales training, hiring knowledge, strategic planning, open mentoring and more.






FBA CONSULTANT BENEFITS

05

SERVICE	FBA	NON FBA	BENEFIT TO THE CLIENT
1 Hour of Free Legal Consultation			If you have questions on the entity type, partnership agreements, the Franchise Disclosure Document, your exit strategy, or anything else, you can discuss those questions in a one hour complimentary session that we provide you with to speak to one of our franchise attorneys. Our attorneys negotiate better terms for your franchise agreement, they protect you and focus on creating a better situation for you going into the franchise.
SBA Loan Default Review			Do you know which franchises have the majority of defaulted loans through the SBA? We do! FBA consultants have access to default reports to ensure that your franchise does not have a high failure rate. This is important information to know, especially if you are applying for a loan.
Franchisee Validation Support			FBA consultants will help you with your franchisee validation calls. This can be a challenging part of the process because of the personal nature of your questions. By using an FBA consultant to guide you, you can delicately obtain the information you need to make an educated decision on the franchise and form valuable partnerships along the way.
1 Hour of Free Accounting Consultation			Have our franchise accountant help you review the franchisor's financial statements to uncover the strengths and weaknesses of the franchise. Our accountants are also available to assist you in setting up your business appropriately.



FBA CONSULTANT BENEFITS

05

SERVICE	FBA	NON FBA	BENEFIT TO THE CLIENT
Business Plan Template			Though we are unable to draw up a business plan for you, we can point you in the direction of helpful tools and resources to outline and produce a proper business plan. The template that we make available is extremely easy to use, is thorough and creates an excellent blueprint for your goals.
Comparison Grids			FBA consultants can provide you with a comparison grid that allows you to see franchises side-by-side and how they compare to each other. It is a very popular and useful tool for choosing the franchise that is right for you.
Press Release Assistance			FBA consultants can provide you with guidance and templates for writing press releases. Press releases can help you achieve publicity, media coverage and recognition in your area.
Read the FDD with You			FBA consultants know how to read an FDD and we read it with you. We do not advise on the FDD, but we do compose a series of questions to go over with the franchisor and the franchise attorney. We know what to look for and can detect if a franchise is struggling by reading this document.
Negotiate a Better Franchise Territory			FBA consultants are excellent negotiators and can often get our clients additional territory, better territories and first right of refusal on surrounding territories. This creates a business with more equity and opportunity for you.

FBA CONSULTANT BENEFITS

05

SERVICE	FBA	NON FBA	BENEFIT TO THE CLIENT
Pro Forma to Determine Break-Even and Profitability Points			FBA consultants provide you with a pro forma, which is a spreadsheet to help you calculate your profitability point and break-even point. The unique part of our pro forma is that it is designed to work with the franchisee data that we collect while on the validation calls. This makes it simple to create a realistic projection for your particular franchise.
Financial Performance Representation Quick Search			FBA consultants are provided with a Financial Performance Representation (Item 19) search tool. This valuable information can quickly narrow the research time and place you in the right franchise, allowing you to start earning an income faster, rather than having research impede the process.

Press Release

Franchise Sales Compliance Training and Certification Now Available for Franchise Brokers

Industry Association Offering Compliance Program for Franchise Brokers, Consultants and Sales Professionals

Orlando, Fla. – February 13, 2012 – The Franchise Brokers Association (FBA), an Orlando-based membership association for franchise brokers, franchise companies and franchise industry vendors, announced it is offering a Franchise Sales Compliance Training and Certification course. This is the first certification of sales compliance that is offered to franchise brokers, consultants and franchise sales professionals.

The course is taught by prominent franchise legal advisor, Eric R. Riess of Greensfelder, Hemker & Gale. Students learn state registration laws, disclosure regulations, and how to properly relay information to the prospective franchisee, such as financial and earnings information. The course is administered to educate the sales professionals on FTC rules and regulations, and how to remain compliant.

“The purpose of the Sales Compliance course and certification is to provide a standardized training program,” said FBA Executive Director, Sabrina Wall. “We want to provide franchise sales professionals with all of the information they need to protect themselves, the franchise concepts and their clients throughout the award process. We offered this to the members of FBA in 2011 and it was very well received, that made us realize how much this program was needed industry-wide.”

Certification is available for any franchise broker, franchise consultant or franchise sales professional, and is earned once the course is attended and an examination on course materials is completed and passed. The Franchise Sales Compliance Certification is awarded by the Franchise Brokers Association and is a third party, independent verification of a sales person’s compliance education and training.

About Franchise Brokers Association™

Franchise Brokers Association is an Orlando, Fla. based trade organization. The FBA supports all members of the franchise community, franchise brokers, consultants, franchise companies and service providers, and can facilitate all steps in the franchise process, from franchise development to unit sale. The FBA’s purpose is to provide support for its members and improve the industry standards for franchise investment, development and sales.



Common Questions We Hear From Our Clients

How much money is required up front 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 30-50% of the total cost available in cash for the purchase. The cost of an average retail location begins at approximately \$80,000. There are many options in the \$150,000 to \$250,000 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 million dollars.

Service:

There are many service franchises that start at \$30,000 and go up to around \$150,000. 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 \$40,000 a year and others earn 1 million dollars 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 collect 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, that 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 401(k) 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 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 401(k). 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 amount 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 a 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 they have 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.

Both models are different from the sale of an independent business, in which there is no continued relationship between the buyer and 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 or services they sell already have a name and a reputation behind them.

Franchisors provide bulk purchasing power (much like wholesale) 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-franchised 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 franchisees.

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.

07

FRANCHISE FUNDING OPTIONS



Funding Solutions & Financial Checklist

Retirement Plan Design and Admin

- Your retirement funds can be structured as an investment in your business – **you'll be DEBT FREE**
- Utilize funds from Retirement Accounts including IRAs, 401(k)s, 403(b)s, Keoghs, SEPs, Annuities, and Pension Funds
- Allows you to rollover your existing pre-tax Retirement Funds **without tax penalties**
- You can consider larger acquisitions **(A Multi-Unit Franchise or an Existing Business)**

Secured Loan Program

- Ability to work with IRAs and 401(k)s Rollover Plans
- **Revolving Lines of Credit**
- **Low Interest Rates**
- **No Prepayment Penalty**
- **Dividends paid directly to you**

Unsecured Loan Program

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

SBA Loans

- **Cash Injection 30%**
- **Personal Credit Score (700+)**
- **Collateral up to 100%**
- **Industry Experience (2 years)**
- **Business Plan**

Contact your Franchise Advisor for more information and to assist with a funding plan that works best for you.

Funding Checklist

Include Spouse and/or Other Partner

Complete The Following Checklist

- ☐ 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.
- ☐ Obtain two months worth of bank statements.
- ☐ Obtain tax returns for the last three years. You can request returns at <http://www.irs.gov/pub/irs-pdf/f4506.pdf>. They cost \$57 each.
- ☐ Go to www.CreditCheckTotal.com to obtain your credit score and report. If your score is below 680, consider a credit repair agency.
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.
- ☐ 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, Sperion, TransUnion).
- ☐ Collect two months worth of your most recent paycheck stubs. Also include any alimony/child support payments received.
- ☐ Make a list of monthly expenses.
- ☐ Make a list of any other assets: CDs, statements from brokerage houses for any securities (stocks, bonds, etc.) that are not part of a retirement plan, and real estate (with legal description and location).
- ☐ Collect statement(s) of 401(k), IRA or other retirement funds (including spouse’s).
- ☐ Pay down credit card balances to increase available credit – below 50% is good, below 35% is great.

- ☐ Make sure you are not late on any payments.
- ☐ Consider checking the credit score for your spouse (female credit scores tend to be higher).
- ☐ AGAIN - Talk to a funding specialist or a franchise consultant BEFORE applying for a loan.

Do Not Do The Following

- Do not cancel any credit cards.
- Never cancel older credit cards – credit cards held for many years improve credit.
- Do not make loan or credit card applications – excessive inquiries may lower your credit rating.
- Do not co-sign on any loans.
- 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.



The Terms You Need to Know

Area Development Franchise

Under an area development franchise, a franchisee has the right to open more than one unit during a specific time, within a specified area. The franchisor grants the franchisee exclusive rights for the development of that territory.

Business Opportunity (or Biz Opp)

Involves the sale or lease of any product, service, equipment, etc. that will enable the purchaser-licensee to begin a business. The licensor or seller of a business opportunity usually declares that it will secure or assist the buyer in finding a suitable location or provide the product to the purchaser-licensee.

Franchise

A license that describes the relationship between the franchisor and franchisee, including use of trademarks, fees, support and control.

Franchise Agreement

The legal, written contract between the franchisor and franchisee which tells each party what is required of them.

Franchisee (Zee)

the person or company that gets the rights from the franchisor to do business under the franchisor's trademark or trade name.

Franchise Disclosure Document (FDD)

also known as the Uniform Franchise Disclosure Document (UFDD), is the disclosure document which provides information about the franchisor and franchise system to the prospective franchisee.

Franchising

A method of business expansion characterized by a trademark license, payment of fees, and significant assistance and/or control.

Franchisor (Zor)

The person or company that grants the franchisee the right to do business under their trademark or trade name.

Master Franchise

A master franchise agreement gives the franchisee more rights than an area development agreement. The master franchisee has the right to sell franchises to other people within the territory, known as sub-franchises. Therefore, the master franchisee takes over many of the tasks, duties and benefits of the franchisor, such as providing support and training, as well as receiving fees and royalties.

Multi-Unit Franchise

A multi-unit franchise is an agreement where the franchisor grants a franchisee the rights to open and operate more than one unit.

Net Worth

The difference between the assets and liabilities of an individual or an entity. If an investor owns stocks, bonds, a house, and other assets worth \$2 million and has liabilities of \$500,000 (including mortgage amounts and accrued taxes on appreciated assets stated at fair market value), then the investor has a net worth of \$1.5 million. Similarly, if a company owns land, buildings, computers, and other tangible and intangible assets with a cost basis for financial statement purposes of \$10 million and has liabilities of \$9 million, then the company has a net worth of \$1 million.

Royalty

The regular payment made by the franchisee to the franchisor, usually based on a percentage of the franchisee's gross sales.

Small Business Administration (SBA)

An agency of the United States government that protects the interests of small businesses and ensures that they receive a fair share of government contracts.

Trademark

The franchisor's identifying marks, brand name and logo that are licensed to the franchisee.