

BUYING A FRANCHISE

A Quick Start Guide

FranchiseBusiness**REVIEW**[™]

www.franchisebusinessreview.com

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WHY FRANCHISING?

When it comes to opening a business, most aspiring entrepreneurs consider the three main options—starting an original business from scratch, buying an existing business or franchise, or buying a new franchise territory. This eBook will provide information and insights that can help you choose the right path for you.

The International Franchise Association (IFA) describes franchising as: “A method of distributing products or services involving a franchisor, who establishes the brand’s trademark or trade name and a business system, and a franchisee, who pays a royalty and often an initial fee for the right to do business under the franchisor’s name and system.”

A big part of a franchise business’s success is due in part to its robust systems. These systems are in place for good reason!



This business found me at a time when I was very unsatisfied with corporate America and looking for a career that I was ultimately in control of.



Ken Helmuth
Right at Home Franchise Owner

WHY FRANCHISING?

When we think about the most recognized franchises, we have a certain expectation of our experience with that brand.

Replicating a product or service ensures a consistent customer experience which is essential for brand recognition and customer loyalty.

When entrepreneurs buy a franchise, they are investing in an established brand that is sought out by consumers.

The franchisor's vision, business model, proven processes, training, and support systems provide the foundation for franchise system strength and a clear roadmap for entrepreneurs launching their new businesses.

Franchisors have a vested interest in their franchisees' success. A franchise system cannot be successful without a thriving franchisee network.



My favorite part of this experience has been building a highly-functional team that enjoys collaborating and finding solutions to positively impact other people's lives.



Natalie Watts
A Place at Home Franchise Owner

PROS AND CONS OF FRANCHISING

Here are some common pros and cons when considering whether to buy a franchise or start an independent business.

Franchising Pros

- Reduced risk
- Franchisor support
- Proven business model
- Easier to obtain financing
- Franchisee support system
- Start-up assistance & support
- Ongoing training and support
- Brand recognition & brand loyalty
- Advertising & marketing support
- Established supplier relationships

Franchising Cons

- Higher start-up costs
- Lower profit margins
- Lack of independence
- Franchise fees & royalties
- Limited creative flexibility
- Financial reporting to the franchisor
- Vulnerability to public perception of the brand and brand reputation



I love having work-life balance thanks to the support from the home office staff and the flexibility and scalability of this business.



Bassam Safi

Our Town America Franchisee

PROS AND CONS OF FRANCHISING

Here's a deeper look into some of the key advantages of owning a franchise.

✓ **Reduced Risk:**

When you buy a franchise, you're not only buying an established brand name, but you're also buying into a proven concept, business model, and culture.

✓ **Training and Support:**

The franchisor provides initial and ongoing training on how to set up and operate the business plus ongoing support in the form of marketing, research and development, supplier relations, and more.

✓ **Financing and Profitability:**

It's often easier to secure funding for a franchise than it is for an independent business. Plus, franchisors may assist with financing. Additionally, following the franchisor's roadmap to success allows franchisees to realize profitability more quickly than they would be operating an independent business.

✓ **Franchisee Network:**

One of the greatest assets of any franchise opportunity is the community of franchise owners (franchisees). Most franchise owners truly value and benefit from their relationships with their franchise family.

[Learn more online >>](#)

FRANCHISEE SATISFACTION

Franchisors that engage with an independent research firm like Franchise Business Review to survey their franchisees gain valuable insight into the franchise system's strengths and areas that require improvement.

Not only does this contribute to franchise system strength and resiliency, but it also provides potential investors with a wealth of information.

Using franchisee survey data, potential franchise buyers can gain insight into the following aspects of the franchise opportunity:

- Executive Leadership
- Franchise Culture
- Training & Support
- Marketing & Advertising
- Technology Tools
- Financial Opportunity
- Franchisee Network

5 Ways to Measure Franchisee Satisfaction

1 Training & Support

Successful execution of a franchise business is all about the training, support, and ongoing development that franchisees receive from their franchisor.

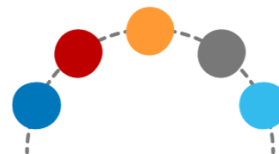


2 Leadership

When it comes to the successful leadership of any franchise company, the perception of the franchisees is the reality under which the franchisor has to operate.

3 Financial Opportunity

Making a living and earning a decent return on investment are goals that most franchisees share. Financial success is a primary driver of overall franchisee satisfaction.



4 Franchisee Community

Much of the long-term satisfaction and day-to-day enjoyment of operating a franchise business comes from the relationships formed and mutual support among the franchisee community.

5 Overall Satisfaction

Has the everyday experience of owning a franchise lived up to the expectations of the franchisees? Would they recommend this franchise to others? And most importantly, would they do it again?



FRANCHISE FINANCING

A major barrier when it comes to opening a franchise is access to capital. Fortunately, there are many funding options available. Here are some of the most common funding options:

Franchisor Financing:

The Franchisor may offer in-house financing or have an approved list of lenders who are inclined to work with franchisees.

SBA Loans:

One of the most common forms of financing, these loans—up to \$5 million—are guaranteed by the Small Business Administration (SBA) and lent by banks.

Low-doc SBA Loans:

An alternative for those searching for lower amounts of capital, \$150,000 or less, these loans offer you the same benefits as SBA Loans with a shorter turn-time.

Rollovers for Business Start-Ups (ROBS):

Rollovers for Business Start-ups allow you to utilize your retirement funds without taking a taxable distribution to start a franchise.

Portfolio Loans:

If you own bonds, mutual funds, stocks, or other securities, you may be able to leverage those funds to open your business—without liquidation.

Unsecured Loans:

You won't need collateral to qualify for these loans, which can happen in just three weeks. They are a great option if you need quick funding.

Franchise Business Review has partnered with Benetrends Financial, the industry-leading financial advisory firm, to offer entrepreneurs complimentary financing consultations.

[Request a free consultation>>](#)

QUESTIONS TO ASK THE FRANCHISOR:

You'll have the opportunity to ask the franchisor questions. Be sure to look at the Franchise Disclosure Document (FDD) and the Franchise Agreement beforehand. Here are some suggested questions to ask the franchisor.

- Is the franchisor financially sound? What is their credit rating, profitability, and financial reputation? (Share this data with your accountant.)
- How many franchise owners are there?
- How many franchisees have failed? What are the most common reasons for failure?
- What is the territory structure? How does the franchisor prevent its franchisees from cannibalizing business from each other?
- What are the financial projections for your franchise business in the first year and subsequent years?
- Is there data showing the viability of the marketplace?
- What types of training and support programs are provided?
- Are marketing and advertising services provided?
- What are the fees, royalties, and other related costs?

QUESTIONS TO ASK FRANCHISEES:

Before you invest in a franchise, speak with as many franchise owners as possible. Franchisees are the real experts on the challenges and rewards of operating the business. Here are some suggested questions to ask franchise owners.

- How do you feel about your relationship with the franchisor?
- Is running this business what you expected?
- Did your initial training prepare you for starting your business?
- How much ongoing support does the franchisor provide?
- If you run into problems, does the franchisor assist in solving them?
- What challenges have you faced and how did you overcome them?
- How long did it take to see a return on investment?
- What advice do you offer potential franchisees?
- If you could do it all over again, would you?



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Franchisee satisfaction played a significant role in my decision-making process. I wanted to ensure other owners were satisfied with their purchase.

””

Right at Home Franchisee
Michelle Rankine

COMMON FRANCHISING TERMS

Due Diligence: Prospective buyers should conduct due diligence before investing in a franchise business. This includes outlining your goals and criteria, researching and comparing franchise brands and business models, and speaking with the franchisor and franchisees.

Franchise: A type of license that grants a franchise owner access to the franchisor's proprietary business model, processes, and trademarks, thus allowing the franchisee to use the franchise brand's name to sell a product or service.

Franchise Agreement: A Franchise Agreement is the legal, written contract between the franchisor and franchisee that allows franchise owners to legally use trademarked business logos, products, and marketing materials.

Franchise Disclosure Document (FDD): The FDD or Franchise Disclosure Statement provides pertinent information outlining how the business relationship between the franchisee and franchisor will be conducted. Before you sign on the dotted line, we recommend reviewing this document with your accountant and your franchise attorney.

Franchise Fee(s): Franchise fees include upfront fees to gain access to the franchisor's proprietary business systems, set-up, and license to own and operate a franchise. It's important to understand the total upfront investment as well as ongoing fees—including marketing fees and royalties which are typically paid monthly based on a percentage of your revenue. All fees will be outlined in the FDD (Items 5-7).

Franchisee (“Zee”): A business owner licensed to operate under a franchisor's branded trademarks or trade names. The franchisee—also called “zee”—pays a fee to the franchisor for the right to sell its established products or services and use its trademarks and proprietary knowledge.

Franchising: Franchising is a marketing and distribution approach where a business system owner (franchisor) bestows the right upon a group or individual (franchisee) to operate a business, selling products or services, utilizing the franchisor's business system. The franchisee receives significant training and assistance or control from the franchisor.

Franchisor (“Zor”): The franchisor—also called “zor”—is a person or company that grants franchisees the right to do business under their trademark or trade name.

[Explore more common franchising terms online >>](#)

ABOUT FRANCHISE BUSINESS REVIEW

Franchise Business Review (FBR) empowers potential franchise buyers with franchise ratings, reviews, franchisee satisfaction reports, tools, and resources.

Each year, we survey over 35,000 franchise owners from the leading franchise brands to reveal the top franchises with the highest ratings in franchisee satisfaction, franchise culture, company performance, and other key benchmarks.

Visit FranchiseBusinessReview.com to explore lists of award-winning franchises, compare franchise opportunities, download franchise reports, and gain industry insights—all in one convenient place!

Ready to take your research to the next level?



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