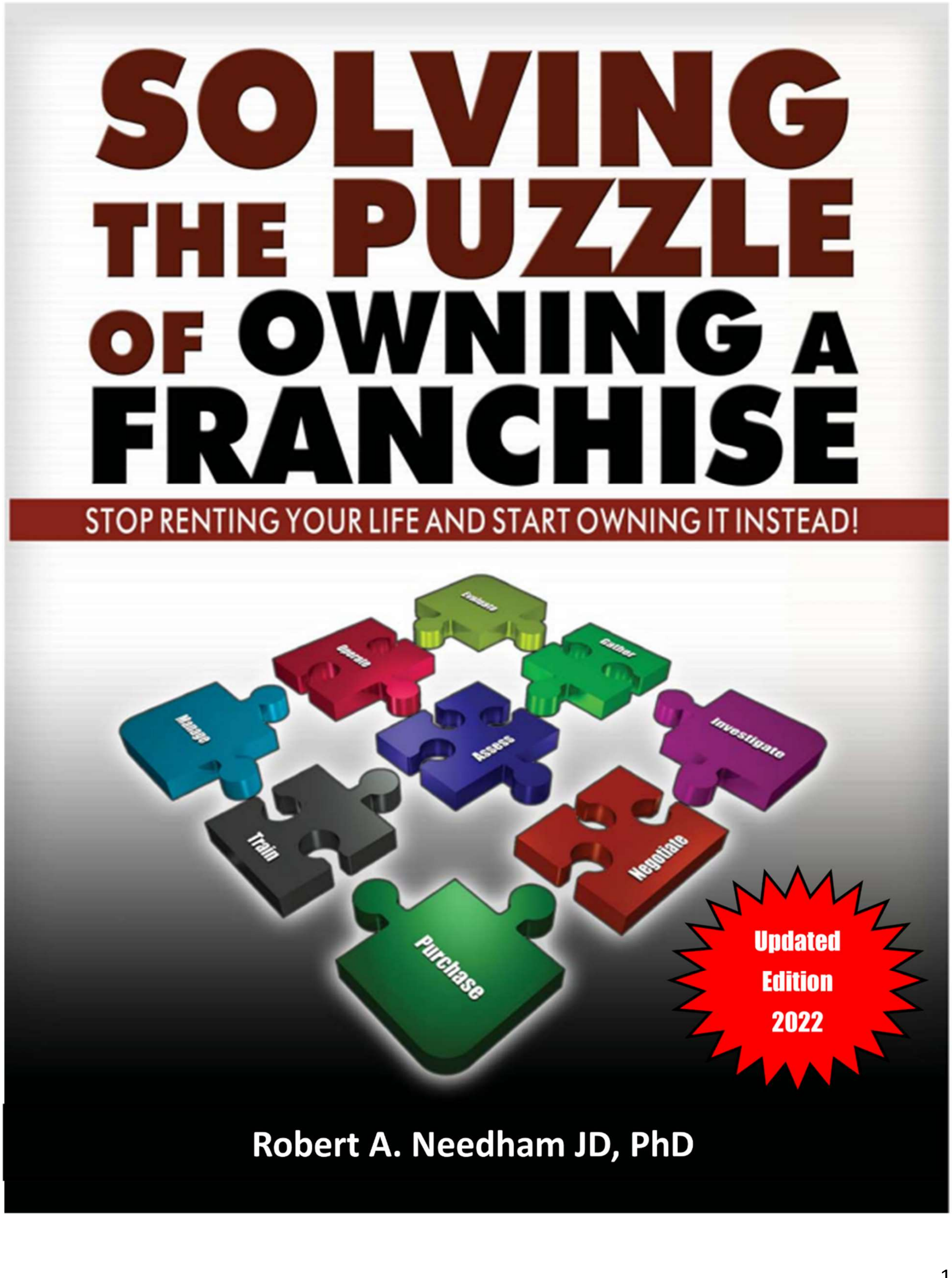
SOLVING THE PUZZLE OF OWNING A FRANCHISE
STOP RENTING YOUR LIFE AND START OWNING IT INSTEAD!
Operate
Gather
Manage
Assess
Investigate
Train
Negotiate
Purchase
Updated Edition 2022
Robert A. Needham JD, PhD

New Edition and Content added in 2022 by Robert A. Needham, JD, PhD.

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About The Author:

Dr. Robert A. Needham has been a business and franchise developer for over 30 years. He is president and CEO of SPECTRUM Advanced Markets, Inc. and Founder and CEO of Collaborative Franchise Systems, LLC (CFS). He is a veteran Officer of the USAF, serving with NASA and Unified Space Command. Dr. Needham has developed multiple franchise brands in his career. Now he is bringing new innovations to the franchise industry in collaboration with subject matter experts from every sector.

Dr. Needham has published several books including Collaborative Commonwealth (Amazon) and Escaping Economic Slavery (Amazon). He has been featured in industry articles, radio interviews, and television shows as franchise industry expert, innovator, and thought leader.

Dr. Needham has been a franchisor, a franchisee, and an industry advisor and consultant.

About This Publication:

This publication is designed to provide accurate and authoritative information with regard to the subject matter covered. It is provided with the understanding that the author and publisher are not engaged in the rendering of legal, accounting or other professional advice. If legal or expert assistance is required, the services of a competent professional person should be sought.

> - From a Declaration of Principles, jointly adopted by a Committee of the American Bar Association and a Committee of Publishers and Associations.

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Introduction

Solving The Puzzle of Franchising In the 21st Century

I originally wrote the book **Solving The Puzzle Of Owning A Franchise** in 2006. We also created the **Franchise Readiness Assessment** and **Solving The Puzzle Of Franchising Your Business**. It has been widely distributed within the franchise industry ever since. I have been interviewed on over 400 radio and TV shows, spoke at a wide range of events and conferences. Now it is 14 years later, and I felt it was time to edit, update, and expand the original book.

In the 21st century, franchising has changed a lot. This book is expanded into three audiences:

I. **The Buyer**. Even with the growth of the internet, Web 3, crypto, and other businesses that people work from home, owning your own franchise business is still very popular. In the *International Franchise Association (IFA) with FRANdata report, 2022 Franchising Economic Outlook*[1] it is anticipated that "… more than 792,000 establishments, adding a net gain of 17,000 new locations, with a marginally lower growth rate of 2.2%." This is in spite of a pandemic, a recession, and The Great Resignation. **Your Book ONLY Contains Part I.**

II. **New Franchisors**. Without question, new concepts are constantly emerging. Most of these startups that have prospered have spent their war chest getting their first concept profitable. Expansion is difficult as interest rates rise. Supply chain issues and increased freight costs due to inflation have kept prices at retail on the rise. Finding quality worker is also a challenge. All of these factors make expanding their business a strain on the balance sheet. Franchising, done well can be one of the most affordable brand and business expansion strategies for concept creators and new business owners to collaborate in local communities.

III. **The Existing Franchisor**. The Covid Pandemic and The Great Resignation impacted existing franchisors also. The cost of prospecting has risen greatly along with it the cost of the Franchise Fee. Franchisors are looking to reduce operational overhead while still maintaining quality franchisee services.

In expanding and updating the first book, I decided to break this book into three parts to align with the three audiences mention above. All three should customers should read **Part I: The Buyer.** New franchisors and existing franchisors need to view the marketplace from a "pull" perspective and thus understanding what the **customer wants and needs are essential**. Since many franchisors will use franchise brokers and consultants, how they tell your story is a direct correlation to your success.

Part II: New Franchisors will discuss the steps a business should take to franchise their business concept.

Part III: Existing Franchisors will discuss the S.I.M.P.L.E. steps and Franchise Tune-Up necessary to compete in a post-pandemic new normal.

[1] https://www.franchise.org/franchise-information/franchise-business-outlook/2022franchising-economic-outlook, viewed July 29,2022

Part I: The Buyer

Solving The Puzzle Of Owning A Franchise

Stop Renting Your Life and Own It Instead

You are likely reading this book so that you could learn how to take a different path and maybe own a business through buying a franchise unit. Don't be concerned with the fact that this will require change in your life. If you have been an employee as nearly 90% are, then you already have let someone else take the risk, decide the direction of your future, and create wealth on your asset.

That's right you should be seen as an "asset on the Balance Sheet," not "an expense on the Income Statement." Think about it, when a company cuts back, they retain their assets and reduce expenses. We are living in strange economic times – will you be cut to reduce expenses are retained because you are an asset? For most – they will lose their JOB, which stands for Just Over Broke.

It is the great American standoff; you work just hard enough not to get fired and your employer pays you just enough so you don't quit.

As I said, times are changing and more than 4 million people a month have been quitting their jobs and many of them are starting their own business. How about you, did you recently quit or are you just thinking about it?

Honestly, **you need to "stop renting your life and own it instead."** Think about it. Your employer determines the house you live in, the car you drive, the school your kids attend, and even the food you eat. You ask, "How?" The financial industry determines your mortgage by 30% of your W-2 Employment Gross Income. That means if you earn $4,000 a month, you can only spend $1,200 on your mortgage payment (including tax and insurance - PITI). If you live in an affordable area, that is $1,000 PI.

EXAMPLE: According to Bankrate Mortgage Calculator,[2] a $225,000 home requires a down payment of $45,000, 30-year term, at 5.38% to get a PI of $1,008. Then you add another $268 per month for Taxes, Insurance and HOA for a final payment of $1,276 (PITI). That's right, assuming everything on your credit is good and you have somehow saved $45,000, you can now own a $225,000 home. **The Problem:** At the beginning of 2022, the average home price in the U.S. reached $348,079![3] As interest rises, the price of houses does go down, but the cost of a mortgage goes up.

Basically, **a JOB is a form of economic segregation**. How do you escape it? Most employers won't give you a raise from $48,000 to about $70,000 so you can buy an average home. The real question then is how do you double your income? The answer – own your own business and fire your boss!

The "fear of loss is greater than the desire for gain." Meaning you do not want to take that risk. This is why franchising makes sense as an option of reducing risk and overcoming fear.

In this book, you will learn why franchising is likely your best way to lower risk and earn higher returns on owning a business than a business as a start-up. Business-format franchising saves you time to may earn you more profit!

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[2] https://www.bankrate.com/mortgages/mortgage-calculator/ Viewed 7/29/2022

[3] www.thezebra.com/resources/home/average-home-price-in-us 2022 Viewed 7/29/2022

The Journey

It's been said that life is a journey, and there are many forks (choices) in the road. You and I started our journeys from different places, and we've taken different paths along the way. Yet our paths now bring us together. The paths I've taken lead me to write about owning a franchise; yours has caused you to read a book about owning a franchise. You know how you've arrived at this point; I believe you'll benefit by understanding how I've arrived here also.

Allow me to share my journey. At some point in everyone's life, we have to ask ourselves, "Did I grow up to be the person I dreamed I would be as a child?" Is this true for you? I know for me, I always dreamed that I would make a million dollars from some great idea before I was 30. Like most dreamers, that dream did not happen quite the way you expected it would. But it did happen later!

In this book, I will show you **the secrets that your banker and your employer hope you never figure out** that will help you make your dreams come true. But first, I want to share my life with you so you can see you don't have to be born rich to succeed.

I grew up in a middle-class family. My family, like so many families, had been stricken with an unforeseen disability. My dad at the age of 30 was told that unless he had major heart surgery, he would be dead before he was 31. So, my dad became a part of medical history in that he was the first human to have surgery using the heart-lung machine. However, the surgery would require such incisions that my father, who was a finish carpenter and brick mason, would no longer be able to work at his life's passion.

As a child, I watched this great man suffer, due to illness, with his dreams unrealized, as he sat on the front porch each day and watched everyone else get to go to work. My dad was a compassionate man who would literally would give you the shirt off his back, but was stuck down in his prime. I know this affected my life and I am sure it is why I have such a strong work ethic today. I saw the result of illness stealing his dreams.

My mom worked as a textile worker on shifts; we had very little money. Until I was 14, we lived in a small trailer that was 8 X 32 feet long. That is smaller than my master bedroom today. But despite all that, in just 6 years' time taking a little from each payday, my parents built a respectable home and paid cash for it on just a little more than minimum wage. You can build wealth through consistency.

When it came time to go to college, I had to either rely on athletics, my dad's social security disability benefit, grants, or a scholarship. Like most poor students, I tried for all four. I received a scholarship to play college football, but got hurt in my freshman year and as a result lost my walk-on scholarship. I did receive a $100 benefit check from Social Security. Because of the Social Security benefit check, I could not get a grant. So, I joined the Air Force ROTC program to get a pilot scholarship.

However, even though I was selected for the pilot program, the Viet Nam post war cutbacks kept me from getting my scholarship. So, I did what everyone else did, I got odd jobs in my college town. At the end of my junior year, the Air Force made even deeper cuts and I lost my dream of being a pilot too. I decided to give up my Air Force career and drop out of school and get a real job.

All my life, I could sell stuff. I remembered when I was ten, I sold Christmas Cards to our Jewish neighbors so I could get that stereo phonograph I dreamed would make me cool like the other kids.

So, when the Air Force said I couldn't fly jets, I decided that I did not need this college thing either, and I took a sales job to earn some real money. I was really good at my rack merchandising job and was quickly recruited by Campbell Soup Company to become a Manufacturer's Rep at double the pay I was getting doing merchandising.

I got married, but my new in-laws kept telling me that even though I had a sales job with a Fortune 500 company and was making more than some of them, I would never be somebody unless I got a college degree and a government job. So, when the Air Force wrote me a letter telling me if I would just come back to school, they would let me pick my assignment, I quit my good job and went back to school.

I graduated with a BS in Mathematics and Computer Science I was commissioned as an Air Force officer and was given my dream assignment in the NASA Space Program. Yes, when someone tells you, "It doesn't take a rocket scientist to figure this out", well the trouble is, I was one! I had the privilege in the early eighties to be a member of NASA's Space Shuttle Assent Design Team at the Johnson Space Center in Houston and launch the first few Space Shuttles. I later worked at Space Command and on the Star Wars Project overseeing in excess of $1 Billion in Space Assets. Not bad for a poor kid living in a travel trailer.

However, I always wanted my own business and no matter how hard others tried to convince me to stay in the Space Program and no matter how much success I attained as an Air Force Officer, it still wasn't my dream!

How about you, have you ever had a dream, but allowed others to convince you to do something else?

Well, by the early nineties, I had become a successful business consultant using all the planning skills taught to me by NASA and the Air Force and I had my own business. In 1993, I took another turn and left my successful business in Colorado Springs and moved my family to Birmingham, Alabama to attend law school believing this is what God wanted me to do.

Now I wasn't all that religious and I did not have much use for lawyers; so, becoming one made little sense to me. When I made the decision to move to Birmingham, I gave up my very good income, again, and security of the business in Colorado; but I followed my heart and belief. When I got to Birmingham, the job I was promised fell through. The house I was going to buy, fell through. Times got so tough that my kids had to be on the government school lunch program. My wife said, "You are not called, you are crazy!"

I could not get a good job because I was in law school, had owned my own business, and employers believed I would not stay with the job. In desperation, I washed dishes for a caterer and took odd jobs for little pay just to pay my basic bills. It was tough to believe I had made the right decision, let alone heard a word from God. Believe it or not, after three years, I earned a Juris Doctor (JD).

During the process I still wanted to own my own business. While finishing my law degree, once again fell back to what had always been my desire and I built a consulting practice in Birmingham again from scratch! I chose not to practice law. The rest is history, enough for now, you get the point.

Wow! Why did I take you on this journey through my life? Simply, it is to say that we all are on a journey and we all take different paths and it does not always turn out the way we expected it would.

I know that I have made many course changes; but I have always seemed to return to that inner desire to own my own business. It is like an internal auto pilot; no matter how I let the distractions of life take me off course, I seemed to always return to the ultimate direction to "own my own business." How about you? Do you have a similar set of life experiences?

Solving The Puzzle

As an Air Force Officer, I was trained in strategic planning. I learned ever goal can be achieved if you have a good plan and are willing to work it to completion. Many fail simply because they don't execute their plan they quit too early.

I learned a planning technique called GKOM. It stands for Goals, Key Result Areas, Objectives and Milestones. As I set about my goal of buying a franchise, I knew I needed to define the Key Result Areas (KRAs) to buy a franchise. **A KRA is that thing that if you don't do it, you don't reach your goal**.

I identified nine (9) KRAs in buying a franchise. I knew that once I bought the right franchise, their Brand, Business Format (the System), and Operations Manual would give me my Objectives and Milestones to win in my franchise business.

Here are the 9 KRAs or puzzle pieces to solve my puzzle of owning a franchise:

1. Assess
2. Gather
3. Investigate
4. Negotiate
5. Purchase
6. Train
7. Manage
8. Operate
9. Evaluate

In the nine chapters (Puzzle Pieces) that follow, we will discuss each of these KRAs and hopefully I can show you how to succeed in business.

Puzzle Piece 1: Assess

A Possible Life Story. Sam and Jenny were on the observation deck of their hotel in Acapulco overlooking the great expanse of the Pacific Ocean. They were awaiting the arrival of their three children, their children's spouses, and their five wonderful grandchildren.

"How wonderful." said Sam, "That we could bring all our children down here to celebrate our 30th year of marriage. It's been a wonderful 30 years, hasn't it?" Jenny smiled a big warm smile and embraced Sam as if they were still newlyweds. In fact, Sam and Jenny lived a life we all dream about, a great marriage three wonderful kids that had all completed their education at fine colleges. Sam had only worked a week or two a month handling his business and investments since he was 55.

He and Jenny had spent close to 50% of the last 5 years traveling and pursuing non-work interests including some missionary work through their local church. They were both still healthy, and Sam could choose to retire at any time. They had achieved their dreams.

They:

- Had given their children a college education.
- Had substantial leisure time.
- Were physically fit.
- Were financially fit.
- Were spiritually fit.

Had this always been the case for Sam and Jenny?

Sam had a good job and Jenny worked part-time while the kids were in school. However, they just could not seem to earn enough to escape those monthly expenses. Sam had asked for a raise, but his boss said, "Times were just too tight right now." He had said that for the last three years!

One day a friend shared with them that he had learned at a seminar taught by Dr. Robert A. Needham, called: "The Secrets That Banks And Employers Won't Tell You Th at is Costing You Millions Of Dollars In Your Lifetime!"

Who Stole the American Dream?

We are a consumer nation. According to the Social Security Administration, by the time we reach Age 65, ninety-seven percent (97%) of us will either be dead or dead broke and only three percent (3%) will have financial security. How did it get this way? By the mid-1700's, we were mostly an agricultural economy. In this period, ninety percent (90%) of us worked from home, or owned our own business and ten percent (10%) had jobs. In the 1800's, the industrial revolution changed America, and we left our businesses and went to the factories with the promise of steady income, benefits, and less risk.

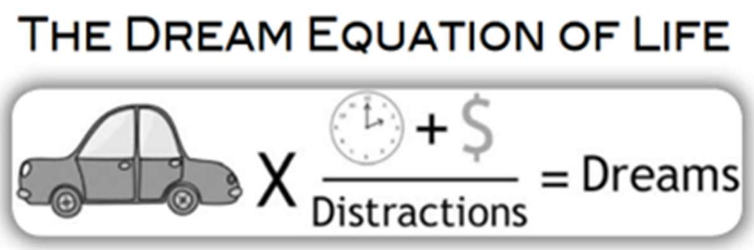
By the mid-1900's, the technology revolution was heating up and now the numbers had changed to only ten percent (10%) owned their own business and ninety percent (90%) were employees.

In 2000, with the information explosion in full swing, we watched as ENRON and others stole our promise of a safe future and a good job as thousands were left wanting and jobless. I am sure you know of many other examples.

Today, Americans are seeking the dream of owning their own business again, but which business will give us our Dreams and minimize the risk being in business by ourselves?

One of my goals, in writing this book, is to ignite a desire in you to return to the dreams of our youth and have you **own your own business for yourself, but not by yourself**.

If I told you that I had a secret equation that would show you how to make your dreams come true, would you want me to tell you about it?



Dreams

After interviewing more than 15,000 families and business owners in my business advisory and consulting career, these four major categories of Dreams (the Dream Set) are what most Americans want today:

- Own A Home
- Educate Their Children
- Retire With Dignity
- Have Adult Toys [i.e. Boats, Travel, & Leisure Time]

The Dream Equation of Life allows you to do just that, to turn your Dreams into reality. Simply stated, if you take your Vehicle (in this case your savings plan, or your job, or your business) and multiply it by a fraction of your Time + Money; divided by your Distractions; you can determine if you can achieve your Dreams.

Time

There are 24 hours in a day, 365 days a year, and an average of 85 years or 744.600 hours in a lifetime. That is, it. Each and every one of us has about the same time within which to achieve our Dreams. This is true of the wealthiest among us, the poorest, the happiest, and the saddest. From the standpoint of time alone, the ability to achieve success is the same for all.

Still some people seem to make the journey through life far easier than others. Why? The secret lies in the person's focus and in the intensity of a person's Dreams. It's not the amount of time a person has, but what is done with that time. People that achieve their Dreams have a sense of urgency, a purpose, and act accordingly. They use their time in a way that moves them closer to achieving their Dreams. They control the use of their time. Time is precious and can not be recovered in this lifetime.

Money

Money is the magic that makes everything obtainable. Do not be fooled, it is, as many have said, easier to be happy when you have money, than when you don't. Money does three things:

1) buys necessities,

2) buys luxuries, and

3) it fuels charity.

Without the very basic necessities (called Maslow's Hierarchy of Need) such as: housing, clothes, food, power, transportation, telephone, etc., there is misery and fear.

Once the basic needs are met, then there are the Adult Toys (luxuries, such as cable TV, eating out, movies, travel, fine clothes, better housing, fine furniture, jewelry, and travel). Lastly, once wealth is achieved, there is the ability to give substantially to charity, or the church. We all have to decide, "How much is enough" to achieve an "abundant" life (from our excess).

Without money it is difficult to even have the basics. However, while working a job most of us still **suffer from too much month at the end of our money**. Again, it is the great American standoff, they (employers) pay us just enough so we won't quit and we work just hard enough to not get fired.

If you invest all of your "Time" toward achieving your Dreams, but none of your "Money" you will realize fewer dreams than you expected.

Money acts in two ways:

1) as consumer: purchasing power and

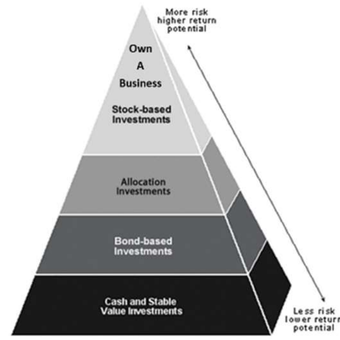
2) as an investor: an asset.

In the former, it satisfies your wants and needs, and makes someone else a profit, and in the latter, it is leveraged to make a profit and grow wealth. Using money to generate a profit is the key to ultimate dream attainment.

Once money is spent it is gone forever, and you continue to work for money. When your asset is invested, your money now works for you! **Principle: Asset + Title = Capital**. Capital can be invested.

Today, American's follow the myth of "Keeping up with the Smith's", the Madison Avenue prescription for success – SPEND, SPEND, and SPEND. This prescription only results in achieving someone else's goals and dreams, not yours. You wind up with things you did not really want and things that you never use. If you don't believe this, try taking a good look in your closets. Just think about the whole concept of "garage sales."

As consumers we spend, spend, and spend. We clutter our lives with all kinds of stuff, which at the time we purchased it seemed important. Then we have a yard or garage sale to sell all this stuff for pennies on the dollar so we can make more room for more stuff. Going into Debt as a Consumer, is what our Employer and Banker want us to do. **This is called Economic Slavery**[4].



Today, working for someone else, we are really taught to be consumers, not owners of Capital (investors in businesses). Capital is your money working for you, not you for the money. For money to be considered capital it must be doing one of three things; appreciating, earning interest and dividends, or earning profits. When as an investor, you leave your profits in the vehicle, the profits begin to accumulate and can become capital too. Looking at the pyramid, you can see that the higher the return, the higher the risk.

While this is true, it also is exactly what our bankers and employers want us to believe too. They have created systems such as Federal Deposit Insurance Corporation (FDIC) and Employee Benefit Programs as "golden handcuffs" based on our natural fear of loss to cause us to stay at the foundation of the financial pyramid, while **all along they use our money and our labor as their capital to make millions**.

Sure, it is risky to own your own business, that is why I recommend franchising which is generally accepted as the safest form of business ownership. This does not mean franchise don't fail; they do, for a myriad or reasons. It is generally accepted that franchises survive better, over any 10-year period, than startup businesses. If you think about it, it makes sense. **Startups require experimentation, which is capital sensitive and franchises follow a proven brand, business system, and training**.

Later I will teach you about the **Rule of 72's** and you will see why you must take control of your capital and not trust it to others who want to only share a fraction of the earnings from it.

Distractions

You will notice that in The Dream Equation of Life, "Time" plus "Money" is divided by the "Distractions." Distractions can be defined as something that reduces your focus on achieving your goals. The Distractions in the Dream Equation of Life are inversely proportional to Time plus Money. Too many Distractions will destroy your ability to reach your Dreams. The more Distractions you have the less return you can get for your Time and Money.

Distractions include:

- Fear of the unknown
- Opinions of others
- Beliefs
- Assumptions
- Blind spots also call "scatomas"
- Addictions or compulsive behavior

[4] <u>Escaping Economic Slavery</u>, Needham, Robert A. (2019) Available on Amazon.com

• Side journeys, and anything else that takes you away from achieving your dreams.

THE TRUTH ABOUT DISTRACTIONS… THEY ARE ALL EQUAL!

Assumptions Drive Behavior

What confuses us are these mental "blind spots" called Scatomas. Scatomas are where your mind plays tricks on you. Another way of saying it, "Reality, what a concept, Perception is reality!" It is possible for you and I to read the same sentence and see different things, based on our blind spots. Read the following sentence: Now count how many "F's" you see. The answer is on the next page.

FINISHED FILES ARE THE RESULT

OF YEARS OF SCIENTIFIC STUDY

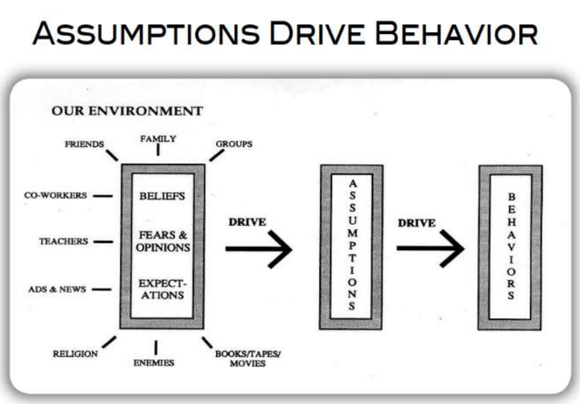
COMBINED WITH THE EXPERIENCE

OF MANY YEARS

You must think of Distractions as DREAM THIEVES, literally stealing your Dreams away from you. If your Distractions are twice your investment of Time plus Money, the result is that you reduce your Vehicle's potential (no matter how good the Vehicle is) by one-half and you only get only a fraction of your Dreams in return. The reality of Distractions affects all of us.

Distractions can be anything that holds you back; from the fear of taking some sort of action like investing your money in yourself, to what some people call, "Having too much on your plate." If you are spending a significant time out running errands that have nothing to do with achieving your Dreams, this too is a Distraction. Sometimes planning is a distraction called "paralysis of analysis."

It is a fact that you will not and cannot eliminate all Distractions, but you can significantly reduce them to the point where they are not keeping you from your Dreams. Find the Opportunity in owning a business of your own, versus the fear, and you will be well on your way to achieving your Dreams.



In thirty-plus years of consulting, this principle has served me in many ways. Looking at the graphic to the left, the first box on the left represents our Belief System. It is created from all the external influences such as family, friends, news, etc. This Environment feeds all the rules and beliefs into your mind as you grow up, and it is the auto pilot that guides us. Even if we are shoved off course from our beliefs, by some external influence (what others think we should be), our Belief System eventually will move us back to who we think we are. **Principle: Perception = Reality.**

If you remember my story, no matter how much I let family, the Air Force, whomever, get me to try other careers, I eventually took the steps to own my own business. If you want to own your own business, you likely will do it whether you become a franchisee or an entrepreneur. But more importantly, if you want to be an employee and someone gets you to buy a business, you will be miserable.

Knowing who you are and what guides you is central to your success, no matter what path you decide to take. What the chart really teaches us is that unlike animals who respond to stimulus, like Pavlov's Dog, humans rely on their Belief System to form Assumptions, which drive Behavior. So, if you want someone to change, behavior modification is not the answer. Renewing of their mind to new beliefs is what it takes.

Much like the salvation experience requires repentance (a change of direction), sometimes called a "SEE" (significant emotional event) by scientists, we must change our beliefs and reform our assumptions to ultimately change our behavior.

What this all really means, **"You really cannot fake it till you make it – you will fail!" You cannot spend your way to success by being a good consumer with a credit card.**

As you Assess who you are in this chapter, you will be able to make the right decision as to if you should own a business either as an entrepreneur or a franchisee or be in the employment of others. Neither is wrong unless you make a decision that goes against who you are and **more importantly who you "believe" you are**.

> **Answer to the F Question: There are 6 F's.** *Most people, especially the good readers only see 3 maybe 4. The reason is phonetically you were taught to pronounce the F in "of" as "ov" and that is the way your mind sees it. My point is, if two people can read the same sentence and get a different number of F's, then it is possible that may you judge things not as they are, but how your Belief System has you programmed to see them. This is why "in Crisis," most see Danger and not Opportunity.* ***The good news about Scatomas is that once removed, you rarely are fooled by them again!***

Don't skim over this principal too fast. Study it again, understand it, understand you, and you will be a success at whatever you choose to do with the rest of your life. If you Desire to change and put Action with it, you can obtain the knowledge and understanding to reform your beliefs as well.

The Desire/Action Window

The next tool I want you to use is what I call the Desire/Action Window. This tool will help you decide which of the four types of franchisees you really are. Are you: I, II, III, or IV?

	DESIRE	desire
ACTION	I	II
action	III	IV

ACTION = puts forth lots of action
action = fails to act, always
DESIRE = has lots of desire
desire = has lower desire

Don't cheat, be honest with yourself.

TYPE I:

These people have a burning DESIRE to achieve their purpose. They will maximize every ACTION; they have learned to achieve results by doing. They are not scared to commit their time, money and resources because they realize that INDECISION means the same as if you can't make a decision to move forward.

Is this you?

TYPE II:

These folks are faithful to the cause, they follow a plan. They also generate a lot of ACTION. They work each assignment every day, they usually leave the development of the plan to others.

They will assume this "thing" works for others, but probably not for me. They are from Missouri, "show me… is their cry." They have less "desire" than a Type I. They work hard day to day.

Is this you?

TYPE III:

These people DREAM of what it would be like to have the freedom to own their own business. Sometimes they will tell you "I get the plan, let's do it." But when it comes to following through with the action, they fall short! Type III's maximize Desire, but resist "action" to fulfill their dreams. It is easier to Dream about something, than to do it!

Is this you?

TYPE IV

This type really wants someone to plan it, so they just don't have to think about it. They have low action toward achieving their dream. They desire the time off, no stress, and the safety and security of a regular paycheck.

Is this you?

Basically, Type I and II are Leaders and Types III and IV are Followers. Your employer wants you to be a Type IV and let them control your future. **Let you become their economic slave**.

Which type are you?

- If you think you are a Type I, you like are best suited to be an entrepreneur or a franchisee. You will be miserable as an employee.
- If you think you are a Type II, you will make a good franchisee.
- If you think you are a Type III, you will want to be a franchisee or an entrepreneur, but you will fail. You are a dreamer. Your best bet is to be an employee.
- If you are a Type IV, then you should never be an entrepreneur or franchisee. You are definitely an employee and likely not promotable. Wow, that was tough, but it is true! Type IV's need help. They need hope. Without change, they will be stuck in a dead-end job forever.

In Type I, what separates the entrepreneur from the franchisee, is whose plan they follow. If you have to write the plan or have your way to feel good about the project, then you should be an entrepreneur. However, if you can be a team member and execute the best plan, especially if it is not yours, you may make the best franchisee of the four.

Type II's can become Type I's if they find a way to activate their desire. Type II's should only buy one franchise or own one business, and make sure it works for them. A right-minded Type I might be a franchise Area Developer with several units under their span of control.

You Can Change. Looking at the types above, you would assume that it is too late for you because you recognized yourself as one type or another. If you change your Beliefs about life, you can change, otherwise, don't spend the money, you will fail as a business owner and you are stuck with the plan your employer has for you – economic slavery.

It doesn't matter where you are right now. It only matters where you are going. It doesn't matter what your personality type is today, you can be successful as a franchisee or any other endeavor IF you are willing to change. It is this "free will" thing that is so tricky.

Creatures of Habit

Ok, you have searched your Belief System and determined that you are a Type I or Type II – A Leader who can own your own business or franchise.

Great, now we need to know what type of leader and how best to communicate with you. Much like the Desire/Action Window, there are four types of leaders to choose from. Since we are all "Creatures of Habit," I hope this will help you remember each personality. Neither creature is bad (the four are all leaders), you just need to which who you are! You have a primary and a secondary leader type.

The Lion

You are a hard charger. You are driven toward money and accomplishment; you likely won't take no for an answer and you have never seen a challenge you could not rise to. Probably a Type I, you like bottom-line communication. Others would say you are extremely confident, a take charge type, or captain of the ship. You take a 30,000-foot view of details; you expect someone else will figure those out. You will not be interested in the details of the product's features and benefits, only how much profit you can make.

Lions need to be cautious, to look at the details in a Franchise Agreement and Uniform Franchise Disclosure Document (FDD), or hire someone to check the details for you. You need to understand the business operation, because many franchisors will expect you to run the show for some time before you can be the absentee owner/leader you like to be. This may mean you will need hire the "right" manager.

Ultimately Type I Lions are the best at managing multiple locations as you are the strategic leader type who can multi-task. You don't get bogged down in fine details unless it is to understand where the profit is to be made, and then you always dig in.

As a Lion, your greatest frustration in the franchise buying process is that you will want the franchisor or franchise sales staff to tell you all about the bottom-line. You need to know – THEY CAN'T under the Federal Trade Commission's Franchise Rule until after you have purchased the franchise (for details go to www.ftc.gov) unless an earnings claim has been made in **Item 19 of the FDD**.

However, existing franchisees can, if they desire to tell you, can share all about the bottom-line of their business unit. So, a key step for you will be to get a list of franchisees from the franchisor and call and interview them. Remember, they are not corporate and they are running a business, so be courteous and considerate of their time and you will find they will graciously share important details with you. No matter your Type or Creature, it is a good policy to contact existing franchisees.

Type I Lions also make excellent early-stage franchisees for franchisors. Since the turn of the century, there are many new franchise concepts emerging almost monthly. Franchisors with less than 10 franchises are still evolving their systems and it is the hardest time for them to sell franchises. Just because a franchisor does not have a lot of franchisees yet, it is not an indication of the quality of the opportunity. Every franchisor had to sell their first franchise before they got to 100. Later in Puzzle Pieces 5 through 9 I will give you more tips on what to look for. Often, new franchisors will make concessions to get good leaders in early. A "deal" is always attractive to the Type I Lions. Type I Lions are often entrepreneurs, so make sure you have examined yourself and you are certain you are willing follow the plan or system of the franchisor. It is not the time to become an innovator.

Remember if you can't follow the plan, you probably should not be a franchisee. Beware Lions may get frustrated with new franchise concepts and rebel to their entrepreneur side and this will cause strife between the Lion and the franchisor.

Lions can work in almost any franchise setting, but they tend to like professional, financial and service franchises. They will manage employees as long as it doesn't affect the bottom-line too much, but Lions basically like to work by themselves but hand out with other Lions.

The Hound.

Hounds love the game. They love to chase the ball. They are the life of the party and have never met a stranger. Hounds are usually an extrovert and want to know where the next convention will be, will "they" get to speak, and what is the recognition program for being the best franchisee. If you are a Hound, as a leader you are the worst with details, but you are having fun with the business.

Hounds need to get help with buying a franchise. They need a friend (who is not a Hound) to give them perspective.

Many Hounds use franchise consultants or franchise brokers to help them with the buying process. At training, Hounds need to also have another person who will be working at the business in the beginning with them; so they can get the details while they are being petted and groomed by the management of the franchisor.

Don't get me wrong, I like Hounds; they are some of the best franchisees because they are always positive and see the best in everything. Early in the growth of a franchisor Hounds make some of the best ambassadors for the brand. There is nothing wrong with a positive attitude. Type II Hounds are great, they are enthusiastic and follow the plan. As their understanding of the business grows, their desire to learn more increases and they act a lot like Type I Hounds.

Type I Hounds really need to be cautious when buying a franchise. If you don't have someone tracking the daily details and doing the paperwork, you may find yourself frustrated and confused when you get to training and find that the business is not all fun and games, there is some real work here too.

Hounds like fun businesses where they get to interact with a lot of people and have a good time. They like sales related franchises, especially the ones with trips and entertainment. They are often sports enthusiasts and work well in outdoor type franchises. They really don't like to be penned up!

The Bee

A Bee is the nurturer. A Bee is a real team player. Bees will be very good at taking care of their employees. Bees often work in support leadership roles at their job. Many Bees choose franchises like retail, food, or a cause to fight. They also work well in childcare, education and senior care. Bees don't mind going to see folks, but they prefer settings that are more inside where they can help people.

Bees might be either Type I or Type II. Details about the product or service and how it helps people are very important to Bees. Bees are more satisfied if it was good for the environment or improved the quality of life of your customers. Many Bees run fitness and diet centers. If it's CARE, you are there! Bees are very good franchise buyers. They look at all the details, learn a lot about the business, and are often inspired by the founder.

If you are a Bee and making your purchase of a franchise, you need to watch that you don't get so caught up in the crusade and forget to understand the profit side. Unlike the Lion, you are less money motivated. I recommend you always have your plans reviewed by a professional like an accountant, a lawyer or a franchise consultant. **In fact, all of the creatures should always get the help of a professional advisor. Get two or three opinions.** Often getting only one opinion, you get the view of the creature that you are talking to who may not have your needs in mind at all. Try getting a variety of views as you make your decision. Just don't get paralysis of analysis. Franchisors are people too. Be honest, don't waste their time, if you are going to buy a business and then by all means take all the time you need; but if you are not a buyer, then just say so. I can assure you the franchisor won't get their feelings hurt; they will appreciate it.

The Owl

Owls know with knowledge comes wisdom. Owls make good accountants and engineers. They check out every detail at least twice. They interview every franchisee, all 100 if necessary. Generally, a skeptic that they are being told the truth, they generally take the longest time to buy a franchise. However, they also make some of the best franchisees. When an Owl gets sold, they are maybe the best crusader, because they have been convinced beyond all doubt. Owls like almost any business that has lots of details and records to keep. Owls will be offended if their franchise salesman, broker, or consultant is a Hound. Play, no time to play, I've got details to investigate.

Owls make good multi-unit franchisees too as they have the discipline and the attention to detail. Owls are the best with money conservation. Lions like money, but they spend it fast too. Hounds, money no, recognition yes! And, of course, the Bee, well I get paid when everyone else is taken care of and happy.

This is why the best multi-unit franchisees are the Owl and the Lion.

Let's try and summarize these four types of leaders. Using the checklist that follows, this should be a quick reference to which type of leader you are.

Note that you may find you check boxes more in two of the four Animals. It is quite common that hybrids occur like a Bee/Hound. One will be more dominate than the other, but it might paint a clearer picture of who you are. See the table that follows, and check all that apply. There no better answer, so be truthful with yourself.

The Lion

☐ Only interested in the 30,000-foot view

☐ Likes to bottom-line the discussion

☐ Has a need to be in charge

☐ Exhibits no fear

The Hound

☐Always looking for the fun in the deal

☐ Is the life of the party

☐ Can't keep up with the details

☐ Not the best listener

The Bee

☐ Is a nurturer

☐ Needs a crusade to fill fulfilled

☐ Very product and service conscious

☐ Excellent in a support role too.

The Owl

☐ Needs to know the details to be comfortable

☐ Likes technology more than people

☐ Likes facts, not opinions

☐ Once convinced, is sold-out to the deal.

Striking The Balance

Maintaining a balanced life in the 21st Century is tough. I have heard too many stories of the aggressive employee or business owner who in reflecting back wished they had taken more time to smell the roses.

Often when we think of a balance (scale), we think of a set of scales with two trays. I would like you to consider that life is really a four-way balance. This is even more difficult to bring into balance. The four areas of this balance are:

Financial. We all need money to meet our obligations. But money in and of itself will not make us happy. Money just makes us more of who we are. If we are generous, we will be more generous. If we are a tight-wad, then we will just keep more to ourselves. Money is an adjective in our lives, not a noun.

Family. Today, the American family is for the most part a two-income household with 2.1 kids and a dog. Time is the most important element here. Too few families vacation anymore. Children spell love, TIME. We are so busy trying to make a living that we send our children off to the ball team, music lesson or whatever else we think will fill the void of us not being there. Video games have brought our kids up, not us.

Function (Work). Work is the way many of us earn a living and receive recognition for our talents. I like to work, to me it is not a job, and it really is an adventure. But too much work, and no play – your life gets out of balance.

Fitness (Health). Maybe our greatest wealth is our health, not money. In this last year, I have watched several family members and friends suffer with illness, and die from their lack of investment in their health. How about you? How much are you investing in your family and your health? Don't only chase money and business; get all of what life has to offer. Whatever your belief in a higher power, the absence of "hope" drives us to wonder what we are striving for. We need the community and the conviction that faith provides us in every other aspect of our lives. Hope is the glue holds the balance together

Finances – Family – Function – Fitness

When you have these four elements in balance, you will live the life that is the envy of others. Combine that with work which is the ownership of your own business through franchising, and your will experience freedom and a fullness of life uncommon in these times.

Remember franchising is a strategy for you to be in business for yourself, but not by yourself. Choosing franchising and the support that comes with it can free up your time for the other important things in life. This may be one of the best reasons to purchase a franchise over starting a business of your own.

Embrace the concept of the 4-Way Balance in your life.

Opportunity

What is Opportunity? According to various dictionaries, "it is a good time to advance toward success." I would like you to think of it as "a strategy for how you will achieve your dreams."

A cornerstone of Wisdom lies in the meaning of the Chinese characters for "CRISIS". It is represented by two symbols:

危机

The Chinese Symbol for Crisis

For years, I, like so many other authors, interpreted the Chinese word for Crisis "wēijī" as the intersection of Danger and Opportunity. While loosely translated this is somewhat correct, more accurately translated, it means the intersection of "danger – wēi" and "the critical moment when change occurs – jī."

Considering that Opportunity can occur when we change, it could be correct; however, if our change is even further wrong, then it could lead to even more Crisis in our life. The point I want to make here is when your life seems to be in Crisis, the natural instinct is to fear the Danger, but what I want you to think about is it now time to find the Opportunity. See the Danger as the Distraction, while the Opportunity is the hope.

Employers want you to fear owning your own business.

Are You An Employee, Franchisee, or Entrepreneur?

As a Franchise Developer and Consultant, I am often asked, who makes the best franchisee? I see this as a continuum, as shown above from Employee to Entrepreneur.

It is not the perfect Employee, since the employee needs someone else to worry about all the big picture details. Employees, as I describe them here, are those individuals that want to be given a specific set of tasks, a timeframe to do them in, a paycheck for doing it, and otherwise don't want to be bothered with:

☐ Does the company make a profit?

☐ What is the real cost of benefits?

☐ What do you mean stay after work for the same pay?

☐ I don't work with employee issues; they are for the HR department.

☐ Investment, I don't want to save money, I want to make money so I can get more stuff!

☐ Tax planning, the company takes out all my taxes from my paycheck.

☐ And so on…

On the other end of the spectrum is the Entrepreneur. They don't make good franchisees either. They won't follow someone else's plan, they are the visionary, and they will make their own plan. If it's not their idea, then it was not a good idea. They are extreme risk takers and are not fearful of uncharted territory. They create lessons-learned, they don't benefit from them. Don't get me wrong, we need entrepreneurs; they create the new ideas, industries and jobs for the employees. Many franchisors are entrepreneurs and until they get a good systems and operations person (typically an employee), they will never develop duplicable systems that franchisees can follow.

Franchisees on the other hand are a little of the employee mindset mixed with a little entrepreneur mindset. They want to own a business of their own (entrepreneur) and they want the guidance of the franchisor (employee). Some people say that buying a franchise is sort of like "buying a job." I can see how that is true because the employee part of them needs to be able to follow directions, stay with a system, and execute a plan. They don't want to rethink or recreate that which the franchisor has proven to work.

However, most franchisors will tell you that many of the best ideas for new systems come from within the ranks of their operating franchisees. These suggestions usually come after the franchisee has worked the franchisors system for months or even years and a new innovation occurs that makes the task better or the product more profitable (the entrepreneur side).

You should think of the relationship with your franchisor as an employee and follow their experience until you have the time in the system to see the wisdom of their approach, and then adopt a partnership mindset (entrepreneur). One advantage franchising offers the franchisee over the start-up business is that franchisees can participate in a mastermind with other franchisees and the franchisor where the entire team (the franchise) benefits from the lessons-learned by the whole instead of being on your own making all the mistakes and paying the price for each of them.

If you don't think you can follow a system without constantly having to "tweak the system" to be fulfilled, then don't buy a franchise. You are likely more of an entrepreneur and you should try to start your own business first. Franchisees see the benefit in learning from the franchisors experience and following their proven profitable plan to earn the most they can for their families.

They see the advantage of the franchisor spending franchise funds to test new ideas and they only implement the ones believed by the franchisor (or the members of the mastermind) to be the most successful. I am not saying that franchisors never make mistakes; I will guarantee you they do! They are just people too, but usually, they bear the expense of testing their ideas more than you, their franchisee.

If paying a royalty to the franchisor, to teach you about the business and continue to develop new ideas bothers you, then don't buy a franchise. Franchisors need to collect "a fair" royalty (based on the industry they are in) so that they can provide you the support you need to stay focused on the operation of your business (franchisor's help eliminates distractions).

You need to think of the franchisor as your outsourced research and marketing department that you pay a small portion of your gross income (usually 3% to 8%) to help you grow your business. Of course, the royalty is also for the continued use of the Brand & Image too (see Puzzle Piece 5). Branding creates a sense of familiarity and trust in the mind of the consumer so that they choose your business over a local less known independent operator. Think about it, as you drive down any major business road, and count the number of franchises. Some statistics say that as many as 8 out of every 10 successful business more than 5 years old are franchises.

It's the branding, consistent image, and quality that contribute greatly to the consumer's impression of the business. Consumers don't like surprises. They know if they buy a hamburger from "Franchisee A" in Birmingham, it will be basically the same as a hamburger from "Franchisee B" in Chicago. They count on it! That's why they overwhelmingly choose franchise businesses over independents. Think about it. Don't you shop at franchises and chains more than independent businesses? Why? For the same reason everyone else does, you like the consistency. For example, would you not agree that Lowes® and Home Depot® have virtually replaced the local building supply companies?

As we continue to explore Opportunity, let's consider several strategies we have for being an Employee, Franchisee or Entrepreneur.

Stay At Home

In the 21st century, the family dynamic is such that with single parents, two-income households and multi-generational families (where grandparents rear their grandchildren) staying at home has become a reality for some adults. Further, working moms when they consider the cost of childcare, business clothes, commuting, lunches out, increased taxes and education – leaving home to earn an income doesn't net very much! Recent pandemics and other issues also dictate where we work from.

A mom earning about $30,000 per year ($14.42 per hour) for extra income can expect that after the added costs of going to work, covering expenses, taxes, and childcare she will net less than $6,000 per year $2.88 per hour net). Wow that's an "opportunity cost" of 80% of the gross income. In business we call this "cost of goods sold." I bet, as an employee, you never considered your time and talent as cost of goods sold to your employer.

As a result, there is a new cottage industry springing up where as employees (we telecommute or work remote). As entrepreneurs we run home-based businesses. As franchisees there are a host of new franchise opportunities where you can work from home or your vehicle. Working from home no longer has any stigma attached to it. In fact, those who get to work from home are envied.

So, what is the risk? The risk is managing the Distractions at home so you can stay focused on the business. It is just too easy to watch "Judge Judy," play with the kids, or just take a nap. See these for what they are – Distractions. If you are to work from home, then set up a place of work at home where you can shut the door and do your work with a few Distractions as possible. Of course, the commute is great with the price of gas these days! No matter where you choose to achieve your Dreams (from a home or an office); you will have to decide whether you are going to "Rent" or "Own" your life.

Rent My Life

When you make the decision to be an Employee, you have elected to Rent Your Life to your employer for an agreed upon amount (a wage or a salary plus benefits, if any these days). As an Employee you rent your life to your Employer at a wholesale cost and your Employer then retails your services and keeps the profit. With wholesale the only way you can increase your opportunity is to do more volume. For the Employee that is to work more hours. Do you think you can get rich or live a balanced life working 80 hours a week? Consider again the net income I discussed in the earlier section.

It is like the story of the flea in the jar. If you place a flea in a jar and put a piece of cloth over the top the jar, the flea will jump and jump until it becomes "conditioned" to the fact that there is a maximum ceiling which it may jump and there is no escape. Once conditioned, you can remove the cloth and the flea will never jump out of the jar.

The same is true for how they train show elephants. When they get a baby elephant, they tie a big chain around one leg and the other end to a stake in the ground. The baby elephant pulls and pulls and finally gives up; there is no way to freedom. Later after being conditioned to the chain, the trainer will tie a small rope around the grown elephant's leg and it will never try and escape. Though powerful enough to break free and do as it like, the elephant remains captive to what the master (the employer) tells the elephant its place is in the yard (the job).

Does this describe you? Are you an economic slave? Have you become so conditioned in your work that you let someone tell you how high you can achieve? Do you feel there is no escape, so you just don't try? This is compounded further by a **Secret Truth: "The Fear Of Loss Is Greater Than The Desire For Gain."** This truth is so great in our society it governs our every decision and the bankers and employers count on it. It is the greatest factor in how you might score on the **Desire/Action Window**. In fact, our entire Cold War strategy, called Mutually Assured Destruction (MAD), was based in the belief that if we were strong as a nuclear power, the Soviet Union would never launch a first strike for fear that we would get off our missiles before theirs hit us and they would ALL Die! Simply, their fear of death was greater than their desire for world domination.

When we Rent Our Lives to an employer, we have a similar standoff. We work just hard enough to not get fired and they pay us just enough not to quit!

Very few people today achieve their dreams working a job. Some are even paid very well, but are not fulfilled. I think this is what The Great Resignation is all about.

In the past, we worked somewhere for 30 years or more, retired with a nice pension and got a gold watch. Today, that has been replaced by the 401k and corporate carpet baggers that either destroy the company we work for or they so manipulate our stock so that we never know what our retirement will really be worth. Look around at how many seniors are working jobs after retirement.

We have become well-paid migrant workers in search of the next crop to pick. Note the average time a person stays with a company today is less than 7 years. Where is the hope, the feeling of accomplishment, the opportunity?

I know literally hundreds of folks who retired on the 30-year plan because they had strong 401k plans invested in mutual funds, company stocks, etc. only to find that the market fluctuations keep them with the newest fear – Living Too Long! Wow, is this the way it should be? Surely not. The massive generation called the Baby-boomers, now talk more about their retirement jobs than their retirement funds.

However, many of them are turning to franchising as their next career opportunity. They are taking their experience and getting their Capital back. **Think about it, of the people you know that have so called "made it," are they employees or employers?** Face it, our Belief System has been conditioned by our environment (they – who wrote the book of absolute knowledge) and their opinions that employment is the only sane option may have led us down the wrong path. What do you believe?

It is a fact, that at the turn of the 19th Century, 90% were self-employed and only 10% worked for someone else. I understand it was an agricultural economy then; but now it has flip-flopped and 90% are employees and only 10% are self-employed. The IRS Puzzle will tell you that owning a business is the only real tax advantage today. So why do we stay employees? I think it is conditioning and fear!

Fear for sure, risk maybe, lazy likely. It is one of the rights of being an American to own our own business, have you traded it for a J.O.B. (Just Over Broke)? We would rather be told where we can live and what our children can have by our employer. You say, that's not true, you make those decisions. I think not. Your lid on your jar is your salary, like the flea you just never escape.

Unless you are willing to get perilously in debt, your wage dictates the home you live in and to a certain extent the schools your children attend and for sure the car you drive. If you choose debt, then you are a risk taker and you should consider being a business owner as well. The problem is, you never seem to get out of debt, because there is always too much month and the end of our money. Our government is doing the same thing. This plan is not preparing for your future. Well maybe it is. That plan is preparing you "to live on much less in retirement than you can't live on now!" Don't let consumerism or a job deny you your life's equity! I am not talking some conspiracy theory here, it's a fact!

Let's look at how well some jobs pay today:

Job	**Approximate Annual Income**
Physician	$80,000-$500,0000
Car Mechanic	$20,000-$100,000
Insurance Salesman	$15,000-$250,000
C.P.A.	$35,000-$100,000
Postal Worker	$25,000-$60,000
Fast Food Worker	$10,000-$40,000
Retail Clothes Sales	$15,000-$30,000
Technical Writer	$40,000-$150,000
Psychologist	$40,000-$80,000
Truck Driver	$20,000-$100,000
Computer Programmer	$35,000-$150,000
Airplane Sales	$20,000-$1,000,000
Real Estate Sales	$15,000-$500,000
General Labor	$15,000-$35,000
Business Owner	$0-$1,000,000+

Performing A Work Assessment

A big part of achieving your Dreams is performing a job or work assessment, knowing where you are starting at and where you are going to. Furthermore, a realistic assessment of your current position is essential in determining what steps you need to take and what skills you need to develop and if your Vehicle (your job) is good enough to reach your Dreams.

You will notice, even in the short list above, that there are several common threads. First, the more technical and more educated the position, the higher the income. Second, the sales positions have the highest overall income potential. The greater the risk associated with a position, such as sales or being a business owner, the higher the income potential, but of course the higher the risk of failure. This should remind you of the investment pyramid. The closer we are to the profit, the more income and risk we accept.

Now let's assess your current position:

1. What is your family's total income "after tax?" __________

2. How much is your monthly spending budget? ____________

3. Do you have any money left? _________________________

If the answer is "NO," then you are likely slipping further into debt by using credit cards (consumer spending) to support your monthly budget. If your answer is yes, it is a good sign you can invest (Capital) in yourself and own a business.

If you don't invest in yourself, then ask yourself, "Will this amount left over help me achieve my Dreams?" If yes, just stay with your job, somehow you made it to the 3% that will retire financially secure.

But if you are like the majority (the 97%) and the answer is NO; then why don't you march in to your boss on Monday and demand a 25% pay raise or you will go rent your life somewhere else (about every 7 years or so)? Could it maybe be that Fear of Loss thing?

Can you see their plan (the bankers and employers) at work in your life? Just as with real estate, renting never builds equity, so we buy a house. Well working as an employee never builds equity either. Why do you Rent Your Life, why not Own It? Everyone agrees that owning a business is better than working for someone else. If you have never owned a business, it just seems too risky (or at least that is what they want you to belive).

Franchising, as you will learn, is a way to reduce risk and still have the benefit of owning your own business. This first puzzle piece is so important that you know where you are today, before deciding the Vehicle that you will choose to take you where you want to be tomorrow.

I am sure you have figured the Dream Equation out by now…

Minimize Distractions and You Maximize Your Dreams!

Own My Life

I presume if you are reading this book from this point further, you have chosen to at least find out the facts before you decide to stay on the "employee plan." All kidding aside, for the balance of this chapter we will examine several business types where either as an entrepreneur or franchisee, you can start a business of your own.

Guess what, you may not even have to quit your job to see if you want to own a business (Remember the Balance). Entrepreneurship, if you are a Type I Lion, you could be an entrepreneur. For our purposes an entrepreneur is one who does not own a franchise, but owns a business they created.

Truth is all business owners fit some definition of being an entrepreneur, even franchisees. The best way to start a business is with a plan based on some unique experience you have. This experience could have been a hobby; but now it is a way to earn a living too. This has been a key part of the internet business boom.

All too often the decision to go into business is an emotional decision or based on a belief that you are the best cook in town, because your family says so. There is a big difference between being a good cook at home and being a successful "profitable" restaurant owner. **As you develop your plan, it needs to be written down**.

There are many great books about writing a business plan so I won't discuss that here. I know for sure, "All plans work if you work them." Action is the key. **"A great plan poorly executed almost always fails, but a poor plan executed well almost always succeeds."** It is more the Action than the style of the plan. Plans don't have to be a 100-pages long, your thoughts on a few pages (less than 10 may be enough).

Think S.I.M.P.L.E.

- "**S**" is for the Story about "why" this business. Some call this your purpose statement.
- "**I**" is for your big Idea, Innovation, or Intellectual property.
- "**M**" is Market Pull. What do your customers say they want from you.
- "**P**" is Product Push. How do you intend to take your product or service to market?
- "**L**" is Leverage. Meaning, what is your strategy to multiply and commercialize your idea?
- "**E**" is Execute or Exit. First you have to make it profitable by executing a plan, then is your goal to keep the business or sell it?

Once you have your plan, then you need to sell that product or service to the public. Notice I said "sell". That's right, in every business something has to be sold. As an employee, you sell your time to your employer at wholesale; your employer then marks it up and delivers (sells) the product or service produced by you at retail keeping the profit for the employer.

Ask any business expert and they will tell you there is more money per transaction in selling to the end user than in manufacturing (wholesale). Money is made in wholesale by selling volume. So, as an employee you are a wholesaler. If you want to make more, just work more hours (your volume). However, you are limited to working 24 hours a day. Remember, Balance we talked about earlier in this chapter.

Business owners learn how to "multiply themselves" (Leverage) through others, not by working 80 hours a week for a wage for themselves; but by buying your time at wholesale and marking it up. Don't get me wrong, sometimes when starting your own business, you have to work long hours. Here again you are owning your life, not renting your life to an employer. Think of the long start-up hours as an investment in your future; this is your "sweat equity."

In fact, it is said that a business is built three (3) times. **First**, it is built in the mind of the visionary, **second** it is built on paper (a written set of plans), and **third** it is actually built with Action in Executing the plan.

Caution: As a business owner you have to work the business plan, not have the business plan work you. Owning a business is like the stock market. In the stock market, stocks are sold at an auction. Meaning every seller has to have a buyer. Another way of looking at it is that every winner (profit taker) has to have a loser (profit giver). As an employee you are typically the profit giver, where the business owner is a profit taker based on the auction which is your negotiated wage.

For the non-franchisee business owner, no matter if it's a lemonade stand, a home-based business (including network/affiliate marketing), a small business, or a big corporation, there are risks based on the plan you choose. We will discuss Risk later, but for now Risk means if the plan doesn't work like you dreamed it would, you may lose your Capital!

The franchisee is using the franchisor's plan that has been proven over time; so, there is usually less risk to your capital (following a proven plan, system, or idea) than striking out on your own unproven plan (entrepreneurship).

Operating the business by yourself can be more expensive than with a franchisor. Why? Because you usually don't have enough volume to get a deep discount on the cost of goods from vendors. Franchisees usually can take advantage of volume buying of the group (called Aggregated Buying Discounts) to increase margins and therefore you can earn more profit than on buying on your own. The biggest advantage of traditional business (entrepreneurship) over franchising is freedom. As an entrepreneur you get to call ALL the shots <u>and pay for ALL the mistakes too</u>!

A franchisee works within a "business-format system" which is designed by the franchisor based on lessons-learned usually at the franchisor's expense. So, for sure there is less freedom as a franchisee to do it your way. This is why so many people choose franchising as their preferred business form; they want the income from owning a business as well as the reduced risk of following a proven system. <u>They want Earnings more than serving their Ego!</u>

Let's Compare Franchise and Business Opportunities

The topic of this book is <u>Solving The Puzzle Of Owning A Franchise</u>, it would be best to define just what are the differences between an offer to buy a franchise and an offer to own a business opportunity.

First, all offers to sell you a business are governed by the Federal Trade Commission (FTC) and you can learn a lot about these offers on their website www.ftc.gov.

16 CFR Part 436 commonly called "The Franchise Rule," as of July 2008, was split into two parts. and **Part 436 covers franchises** and a now **Part 437 covers business opportunities** and will be called the Business Opportunity Rule. This new Franchise Rule, developed by the North American Securities Administrators Association (NASAA), the states (in particular 15 "registration" states), and the FTC allows Franchisors to have face-to-face discussions without the need to deliver a uniform Franchise Disclosure Document (FDD). Two rules require that 1) The FDD be presented and a receipt (FDD Item 23) be signed at least **14 calendar days prior to purchase** and 2) that **7 calendar days before a purchase**, the Franchise Agreement must be in its final form. All Franchisors will be allowed to use electronic means for delivery of the FDD.

Disclaimer! This book, nor I can render Legal or Accounting advice and laws are subject to change. It is important that you know your rights when making a purchase of a business. Ask your lawyer for an interpretation of the Franchise and Business Opportunity Rules. Visit the FTC web site at www. ftc.gov for changes too.

Business Opportunities have different rules which are outside the scope of this book.

Franchise Disclosure. Thirteen (13) state laws treat the sale of a franchise like the sale of a security. They typically prohibit the offer or sale of a franchise within their state until an FDD has been filed on the public record with, and registered by, a designated state agency.

Franchise buyers who reside in these states may contact their state franchise law administrators for additional information about the protection these laws provide (Also see the FDD for more information).

The Franchise Registration States Are:[5] California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, Virginia, Washington, and Wisconsin.

Additionally, if, the franchisor does not have their principal trademarks registered with the United States Patent and Trademark Office (USPTO)[5], the following additional states also require FDD registration: Connecticut, North Carolina, South Carolina, and Maine.

For franchisors **with a federally registered trademark[5]**, the Franchise Filing States include: Connecticut, Florida, Kentucky, Nebraska, North Carolina, South Carolina, South Dakota, Texas, and Utah. For franchisors without federally registered trademarks Georgia and Louisiana also require filings.

Business Opportunities Disclosure. Twenty-six states have business opportunity laws. Most of these laws prohibit sales of business opportunities unless the seller gives potential purchasers a pre-sale disclosure document that has first been fi ed with a designated state agency. State business opportunity laws typically cover every imaginable type of business opportunity that might be offered including network marketing. If looking for a business opportunity, ask your attorney or look for details on the internet. Again, we do not focus on business opportunities in this book.

We provide the following as a reference that might help you make general comparisons about franchises and business opportunities.

Franchise	**Business Opportunity**
Has Royalty	No Royalty
Must Use Company's Brand	Does Not Use Company's Brand
FDD/Franchise Agreement	Offering Circular/Agreement

Understanding Risks

When I look back at the thousands of families, I have helped find solutions to making their dreams come true in business and in particular franchising, without question, the most common FEAR is RISK.

If you remember our discussion earlier about "The Fear Of Loss, Is Greater Than The Desire For Gain." Fear being the greatest deterrent to the American Dream. I don't know if it is a result of our prosperity or simply our culture, but this fear of risk is real!

I am reminded of when I was in the NASA Space Program in Houston. There was the Vietnamese man who began his business by sitting on the side of the road with a white Styrofoam cooler full of Mexican tamales. That's right. He had come over to the United States, picked his spot on the road, and was selling a product that his customers wanted. As the days passed, he got an old pick-up truck and sold from the back of it. Later, he got one of those lunch wagon vans and sold from it. In time, he bought the property behind where he originally sold from and opened a small store. And when I was leaving to move to Colorado, he was beginning to construct his own grocery store. Now that's the American dream. I remember asking one of the engineers I worked with, what he thought about this guy and he said, "Well, he just don't know that opportunity is dead in America yet!"

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[5] https://www.franchiselawsolutions.com/learn/franchise-compliance/the-franchise-registration-states Viewed 8/3/2022

Risk is a funny thing; the more we think about it the more it becomes a distraction and we enter into indecision (CRISIS) and opportunity passes. Don't get me wrong, I am not saying that we should not make an intelligent assessment of the risks before we take a step into owning a business, we absolutely should. However, we just need to make a decision and move on to capture our opportunity before it passes away. So, as we examine these risks together, I hope it will help you make a decision to either accept or reject the opportunity in front of you instead of being paralyzed by the fear of the risk and missing it!

Relationship Risk

There is always that time in the interview process with a prospective franchisee where I have to get around to asking to speak with the spouse to see if he/she is in agreement with this very important family decision about buying a business. Usually, I get the response, "Oh, I can make that decision without my spouse!" That's when I know the deal is likely will not close. Why? Well in every interview where I ask the wife (for example) the question, "If your husband, in buying this business, had to go a couple of months without income to cover the business expenses, what are your thoughts?" I get this scared look on her face and then the question to him from her, "Why didn't you tell me about that possibility?"

The next tough question is, "If Bill quits his job to start this business, you know you will lose your health benefits, what is your plan for that?" When Bill gets up off the floor, we begin to develop strategies for risk transfer.

Risk Transfer is reducing or mitigating the risk by some form of indemnity (i.e., insurance). **Next to buying your home, the purchase of a family business may be one of the most significant financial decisions a couple will make in their married life**.

I have a friend who is a builder and he says he hates to build a couple's first home because many marriages can't survive it. A business has even more uncertainty. Why would anyone want to make this decision alone?

Depending on whose statistics you trust, it is widely stated that after five (5) years about 90% of all business start-ups fail. Wow, you have to be crazy, to start a business would be a normal response, it is just too risky. This is what employers want you to think!

The primary reason for failure is lack of capital to develop the business concept into a profitable business - not that owning a business was a wrong idea. As stated before, the most familiar form of risk transfer is insurance. Insurance is a bag of money we rent because we don't have one. However, there is no insurance you can buy in case your business fails. Proper planning and capitalization are your best forms of risk transfer or avoidance. A method of risk transfer is to "copy, not create."

According to Statista.com and others, "In 2020, there were an estimated 753,770 franchise establishments in the United States. Franchising is a business concept where a franchisee is contractually permitted to use the franchisor's ideas and business model." This represents approximately 12% of all U.S. small businesses. **Franchising is called "business-format" franchising as it licenses the brand, business system and training of the franchisors proven working business model.** I think one of the best reasons to buy a franchise versus starting a business on your own is you get to learn from someone else's mistakes who used their money, not yours.

When I played football, my coach always said, "The game did not always go to the biggest or the fastest, but to the ones who knew the fundamentals and the rules the best." Taking the Relationship Risk out of buying a franchise is easy if you just know how to beat the odds by transferring that risk. Always include your spouse (partner) in these decisions.

Ownership Risk

We live in a litigious society. Today people think that suing someone is the new American lottery. Yet, I am surprised at how many small business owners are still sole-proprietors and use their own social security number in business. In most states, it costs less than $250 to form a corporation or a limited liability company to hold your business. The Company Corporation (www.corporate.com) or any number of other service providers or lawyers in your local community can help you do it for as little as $500 or less.

If you look at the Secretary of State website for your state, they often have how-to forms right on the site and maybe you can do it for yourself. If you choose the form of a corporation (and many choose an S-election when they form a corporation) or a limited liability company (LLC), you can expect your franchisor to ask you to sign a personal guarantee for at least the intellectual property since that will be in your head, not the corporation or LLC. For more information on choosing a form of your business entity, see www.irs.gov, ask your CPA, lawyer or professional service provider.

I often work with customers who want to form partnerships to own a business. My recommendation, don't do it. If you think being married can be tough, just let someone get mixed up in your money that doesn't love you like your spouse and you will understand how crazy it can get. But if you decide to do it, and even I have, then make sure you never work as a General Partnership. Have your lawyer review concepts of "limited liability?" I am sure your lawyer will tell you to use the corporation or LLC as your vehicle instead.

Remember, "Minimize Risk, and Maximize Opportunity."

Management Risk

I find that management risk occurs often with new franchisees who don't have business experience. Instead of taking responsibility for the business first hand, they entrust it to a young employee. I see this often in retail and food franchises. I tell new franchisees, "One of the hardest things to overcome is the freedom you first feel as a business owner." Resist the urge to "give yourself the day off." Remember, you lead people and manage materials. **Get involved in and learn your business**.

When you go to training (at the franchisor's training facility), challenge them to teach you all they know. You paid them a franchise fee to transfer the risk of starting a business on your own, don't be shy and not expect to get what you paid for. Franchisors are not perfect, and as we discussed earlier, the one thing for certain is change. When these changes occur (and they will); demand (nicely) from the franchisor to know everything. You will be pleasantly surprised at how much they will want to help you.

If you disagree with the franchisor about a change, make them explain why this change needed to happen. Then when presented with sound rational for change, make the change and move on.

Franchisors charge you a monthly royalty for the use of their brand and system, but also to keep you informed of changes in the business too. Expect them to contact you and if they don't; contact them. Ask for their help, you are paying for it, get your money's worth! Don't be shy; if you don't call them, they may not call you assuming all must be going well with your business.

Investment Risk

One of the hardest lessons to learn when becoming a new business owner is to learn to treat the business as a business and your personal life as your personal life. **Never mix business funds and personal funds in the same checking account.** Keep two accounts and this will help protect what is called "the corporate veil". Ask your lawyer to explain the importance of this concept. Remember, **you are in business to make a profit not to get tax deductions**.

You will have invested thousands if not hundreds of thousands to open your business. You need to make sure that you are earning a profit. **Not all businesses can earn a profit from the beginning – In fact, most don't.** There is a reasonable time after you start that the business should reach a breakeven and make a profit.

Consider these examples. If you have $100,000 there are several things you can do with it. You could place the money in a jar and hide it in your back yard. Your money would be reasonably safe, but you would not earn any return on it (interest), and you would have been willing to accept what is called **Inflation Risk**. If inflation is 2% a year, then the value of your $100,000 would depreciate $2,000 and your $100,000 would have the spending power of $98,000 after one year.

Next, you could invest your money in a bank certificate of deposit (CD) for 1 year at 4%. At the end of one year, your CD would be worth $104,000, less your inflation risk. During the year, if interest rates increased to say 6%, you would be locked at 4% and the 2% difference would be called an **Interest Rate Risk**. And if the inflation risk was 2% your spending power would be about $102,000 making your net yield really only about 2%.

If you purchase a bond with your $100,000 at 5% interest (par) and interest rates rose to 6% you would earn the 5% but the principal amount of the bond would discount to about $99,000. If you took your money out it would only net about $104,000 and have the spending power after our 2% inflation would be about $102,000. This is called a **Market Risk**. If interest rates decline, the bond would be at a premium and your principal might increase making your net yield higher. If you purchase stocks or mutual funds, there may be no interest or dividend and you could also suffer Market Risk and Inflation Risk.

In the investment risk examples above, you are relying on someone else to make your money grow (**Security Risk**) and there is always some risk associated with it, even if small. Owning a business is no different. The principal you invest must earn a profit or you have **Principal Risk**. While there is no guarantee of making a profit, net profits of 10 to 30% are available in franchising which is far greater than you can earn on your money, especially when you consider the business is paying you an income too.

This is why I invest in myself as a business owner. Not only can I earn more, I also create jobs which helps the economy. I did not discuss **Tax Risk**. Tax Risk varies widely depending on where you live and your income. Ask you CPA, accountant or financial advisor to explain the various risks for each investment as well as the tax advantages of owning a business.

In banking there is a rule called the **Rule of 72's** (The Magic of Compound Interest). This rule helps you understand compound interest. The rule says, "If you take 72 and divide it by the interest rate (say 6%) then you get an approximate number of years for your money to double. Therefore, 72/6 = 12 years.

Your bank is a business that allows you to deposit your money to earn interest and they get to keep the profit above the interest you earn. Let's see what this might mean over a working lifetime from age 25 to 65 or 40 years. Let's deposit $1,000 at a rate similar to today 4%. Now banks loan your money out on credit cards at 18% or more.

Let's compare:

For You: 72/4 = 18 years to double. 40/18 = 2.2 doubles. We'll use 3 to be fair to you.

For the Bank: 72/18 = 4 years to double. 40/4 = 10 doubles.

Comparison of $1,000 invested using The Rule of 72's:

Comparison of $1,000 Invested Using The Rule of 72's

Doubles	You	Bank
1	$2,000	$2,000
2	$4,000	$4,000
3	$8,000	$8,000
4		$16,000
5		$32,000
6		$64,000
7		$128,000
8		$256,000
9		$512,000
10		$1,024,000
Totals	$8,000	$1,024,000

The business owner (the bank) earns $1,024,000 and the non-business owner (you) earns $8,000. Now you understand that with the $1,016,000 the bank earned on your money why they have marble in the bathrooms and you have vinyl!

Not every business scenario works out exactly like this; but which strategy do you want, the guarantee of $8,000, or the opportunity of $1,024,000? Think about why you rent your life to your employer, isn't that scenario very similar to the bank? This is called the **Opportunity Risk**. I think it is better to risk on believing in yourself, than someone else. What do you believe?

This is why I own a business. The way I see it, in this example, you can be 92% wrong and just break even! **It seems if I trust myself, that is less risky**. Is it just me or do you see a correlation between the 97% that retire dead or dead broke and the fact that banks keep over 90% of the profits for themselves?

Not everyone can manage a business without help; this is why franchising makes sense. You get to use the wisdom of the founders for a small franchise fee, the monthly royalty, and you get to keep the rest. I liken this to tithing. Everyone is always wondering, should I give 10% on the gross or 10% on the net. I see it this way. 100% of all the money is God's and as your partner, he keeps 10% and you get 90%. Pretty good deal either gross or net!

Well, are you going to trust the bank to be your partner and let them keep 92% or are you going to explore the American Dream and claim the 90% God intended for you in His plan! Oops, maybe that was a bit too bold – you decide.

There will be financial experts that say that I have made this just too simple. Well, have them explain where your money goes. You will find that even rounding things off to make the example simple, you are better off trusting yourself versus some third-party to do it for you. **Risk is everywhere**; **it really comes down to which risks you are willing to accept!**

Again, I am not offering financial advice here, just logic and knowledge. Always consult with your lawyer, CPA, or licensed financial advisor for making such decisions.

Are You Ready?

As you begin to make sense of the things you have learned about yourself, you need to begin to make some decisions about the next steps you should take.

Q1. Do you want to <u>Own</u> your life, or do you want to <u>Rent</u> your life?

If the answer is Own, then I encourage you to read on. If you want to Rent your life, then I suggest you put this book away, it really won't help you achieve your Dreams. It might entertain you, but it likely can't help you. If you have decided to Own your life, the next question applies.

Q2. How much of your Time and Money are you willing to invest?

Your answer will tell you if you should go into business for yourself or not. If you said, I don't have enough Time and Money, you need to examine your Distractions. If you said, "Yes," continue on reading.

Q3. Does your spouse agree with the decision to own your own business and will your spouse be willing to sacrifice today's consumerism for tomorrow's equity?

If you want to be like the couple from the beginning of this chapter, the rest of this book is about <u>picking your Vehicle</u> that will <u>multiply your Time + Money</u> to <u>achieve your Dreams</u>. Remember, you and your spouse (partner) will just have to fight the Dream Thieves (Distractions) until you win.

Puzzle Piece 2: Gather

Now that you have:

1. Assessed who you are
2. Understand the risks
3. Have chosen franchising as your opportunity
4. Have decided to own your life
5. Have decided to invest in yourself
6. Have your family's support

It is now time to "Gather" all the information you will need to make an informed decision about the various franchise concepts that can become the Vehicle to help you achieve your Dreams.

As you gather your information, you will need to sort through the comments from each of your research sources. **Remember: Opinions are NOT facts, and everyone has an opinion**.

If you recall in the first chapter, we discussed your Belief System. One of the elements from your Environment which affected your Beliefs was the Opinions of others. "Everyone who has an opinion also has an agenda." I believe once you can trust your sources of information, it is easier to sort the facts from opinions and it is likely that you would find one or more sources that align with your dreams.

Further, using a professional such as a lawyer, accountant or franchise consultant may be of tremendous help. While all franchise consultants are franchise brokers, not all franchise brokers are franchise consultants. If you are using a franchise consultant, make sure the franchise consultant works with you on your dream assessment (analysis) before they make any recommendations to you of which franchises you should buy.

Some Brokers represent a limited number of franchise concepts and will try and get you to only consider these concepts as your options. You should not let this affect your process. Make sure that you evaluate at least two or more concepts, I recommend at least three.

Even if you are doing your own analysis, you should not limit your options, but evaluate several companies that appear to meet your criteria. Franchisors will be biased too. Remember, they normally only have one (1) concept to offer you. They will want you to focus on their opportunity.

Be considerate of the expenses that franchisors must go through follow-up with prospects. A typical franchisor, either because the prospect was not qualified or simply was "just looking", will only enter into serious discussions with 1-in-150 inquiries. By the time a franchisor provides brochures, FDDs, and other related materials, it is not uncommon for a franchisor to spend $50 per prospect on lead cost and postage and handling. That can be up to $8,000 in time and materials per sale. Only request materials if you are serious as it eventually reflects in the cost of franchise fees and royalties when prospects abuse this process.

Gathering materials from a variety of sources will take some time but it will be worth it in helping you get clarity on which franchise is right for you. No one source will be enough. Think of it like a board that you drive a nail at one end. You can spin the board in any direction you wish; however, once you drive a second nail into the board, it will clearly point in a direction. The same is for gathering information about the franchises you are interested in. As you continue to drive more nails into your board the stronger your decision will be about the franchise concept you are choosing.

Y**ou must guard against is Paralysis of Analysis**. Meaning, if you get stuck looking for all the answers and forget to execute a plan, you may not achieve your Dream!

Let's look at as some information sources:

The Internet

Probably the most used source of information gathering today is the Internet. Today, it is estimated that over 70% of all franchise inquires come from the Internet. **A word of caution: just because you can find it on an Internet Search Engine, like Google, doesn't make it true.**

Always cross check your facts from at least two resources. The FDD is a "Disclosure Document" and the franchisor is more likely to be truthful in the FDD. News or commentary is not subject to regulatory scrutiny. Bloggers are opinions, and threads of chats or social media is just hearsay or worse.

Compare your findings. Where your findings match from multiple resources – this is a basis of TRUST. Where they disagree – Ask the franchisor or an advisor to clarify where your sources disagree.

Always cross check your facts. Franchisor Websites. are an excellent source of information. Many contemporary websites offer video, and can be a great source of detailed information prior to requesting materials directly from the franchisor. The website will usually be broken into two major sections: 1) The information about the business concept and its value to the consumer. 2) Information specifically about the franchise offer or where you can request information be sent to you.

News Websites. These websites are like search engines for news articles written on a variety of subjects. Your search here might include the franchisor by name, the industry by topic, the product or service by name, and information about the officers individually. Here are some suggested sources:

- CNN (www.cnn.com)
- MSNBC (www.msnbc.com)
- Fox News (www.foxnews.com)
- ABC News (www.abc.go.com)
- CBS News (www.cbsnews.com)

Search Engines. The following search engines are excellent Internet resources to enable you to cast a broad net over the global information stored in millions of websites, blogs, message boards, periodicals and other information resources. The secret to using search engines is in your selection of "key words" which are either specific or by group.

In some instances, the use of quotation marks or logical operators such as "AND, or, NOT, etc." will help refine your search and minimize the data clutter that can return on a wide search. Here are the top search engines according to use.

- Google (76%)
- Amazon (11%)

- Yahoo! (7%)
- Bing (3%)
- DuckDuckGo (1%)
- AOL (<1%)
- Ask.com (<1%)

Publishers/Websites. These websites are mostly magazine or newspaper publishers. I have specifically listed websites here known to have franchising content. There are hundreds, if not thousands, of magazines on specific topics you could also research that we could not possibly list here. For example, if you are interested in owning a restaurant, you might also search for industry magazines like "Food & Drink Magazine". Others I recommend are:

- Entrepreneur Magazine, specifically the **Franchise 500®** Issue
- Small Business Opportunities
- Franchise Times
- Franchise Update
- Franchise Business Review
- Franchising World
- USA Today
- 1851 Franchise
- The Wall Street Journal
- Franchise Handbook
- Franchise Association Websites like franchise.org

It seems that every group these days also has its own association. However, like the websites mentioned above, if you are interested in a restaurant, then you might go to the various industry specific, state and national restaurant association websites and search them for any information on the company or just franchising in general.

Government Websites. As a taxpayer, your government has made available numerous websites to help you find out about regulation, enforcement, documentation, and consumer awareness. I have listed for you websites that in particular have information related to franchising in general. There may be industry specific information as well.

- Federal Trade Commission (www.ftc.gov)
- Small Business Administration (www.sba.gov)
- Internal Revenue Service (www.irs.gov)
- Securities and Exchange Commission (www.sec.gov)

Franchise Directories. There are at least three types of franchise directories: 1) Has no association with either its advertisers or any service providers (likely the least biased) 2) Owned by a publisher or media company 3) Owned by a lead generator such as a lead development company, franchise broker, or franchise consultancy. Also note that not all franchisors whose logos appear on the directory are actually advertisers. More importantly read the privacy statements of these sites and you will find that your request for information may be sent to numerous other franchisors for which you did not request information. I frankly, don't like this practice. This practice, by other less concerned websites, has resulted in a watering down of the prospect pool and the ultimate response that franchisors make to Internet inquiries. Help clean this up; don't check the "All" box or use a directory that does not only send your information to a specific franchisor you request. Otherwise, you will be flooded with emails and calls you did not want. Don't get mad at the franchisors, brokers, and consultants, they were duped too.

Franchise Data Services. Generally seen as trusted resources of information, the websites listed below are more for franchisors than franchisees, but often do contain data about franchisors and franchisee satisfaction that may be worth your review.

- FranData
- FranSurvey

Bottomline. You can get information overload. There are many more sources than I listed in this chapter. I do not endorse any one resource and inclusion in this chapter is by reference not by importance or reliability. Nor was I paid to endorse anyone. Trust is the key.

At **Collaborative Franchise Systems, LLC (CFS) we have a website too – www.cfsfranchise.com**. Maybe you might check it out too. We are a full-service franchise and business development firm that collaborates with subject matter experts in our industry. (Since, I own this website, I am biased toward it and its information and it contains limited information on offers other than our clients).

From The Library

Most Internet users think the public library is an out-of-date resource for information; I find it an excellent place for reference materials. Why spend your money buying books when you can check them out at the library? Your tax dollars were spent to build these great resources, I recommend you use them. The purchase of your business is likely the largest or second-largest financial decision you make (your home being the other). A day at the local library could save you thousands and it's FREE.

From A Bookstore

Maybe one of the most interesting facts I discovered when doing my research for this book, and my own business, is how few books are available to purchase in your local bookstore even though franchising is a multi-trillion-dollar industry. Truthfully for less than $150, you can purchase all the books on franchising. I recommend you buy them all. **This book is provided free to all our customers**.

From Franchise Expos and Shows

A popular way to meet franchisors, compare concepts, and hear from industry experts is to attend a Franchise Expo or Trade Show. At these shows you would expect to find both US and International exhibitors and attendees. At these Expos, you will see a variety of franchises and franchise support organizations on display. Typically, they do not allow business opportunities to have booths. The National Franchise & Business Opportunities Shows are designed for more of a local market approach. While these shows are not as big as the Expos such as The International Franchise Association, they are more intimate and you usually can spend more time with a franchisor.

From Consultants & Brokers

There are as many types of consultants in the world as there are topics. I have chosen to limit my discussion to franchise consultants and franchise brokers. Remember all consultants are brokers, but not all brokers are consultants. A quick way to determine who is a franchise consultant would be to go to their website and see if the firm offers other services besides franchise sales. Examples of these services might include: New Franchise Development, Compliance, Training, Software, Manual Development, Legal, etc. If they do, then they are likely a consulting firm. Let me be clear, I am not saying that brokers are bad, I am not. What I am saying, is they may be limited in the services they could offer you or the community. They are typically focused only on sales. Again, franchise sales are like real estate sales, the seller pays the broker/agent to sell their listing.

CFS, my firm, provides a wide range of services to franchisees, franchisors, and emerging brands that want to franchise their concept. We are a collaboration of subject matter experts both internally and externally. You can think of CFS as a one-stop-shop – we are advisors and consultants. However, when selling a franchise, we act as a broker, as does everyone who sells a franchise. We are not employees of the franchisors just like real estate agents are not employees of home seller. Several brokerage firms may represent the same brand like many real estate agents can sell anyone's listing.

In many cases, CFS and other firms, are the Sales Managers (sometimes called Brand Managers) who also manage Brokers who sell their brand. Think of this service as a listing agent in real estate.

Whichever methods you choose, self-research, brokers, or consultants, due diligence is necessary. You must Gather the information that allows you to make an informed decision. What you must guard against is "paralysis of analysis" and execute your plan.

From Advisors

The two most commonly used advisors are lawyers and CPAs. Sometimes referred to as "deal killers" by salespersons. These licensed professionals provide a valuable and excellent service to potential franchise buyers. Another advisor might be a lending expert to help you find the funding for your franchise unit. At CFS, we provide business advice to franchisors.

Advisor services are especially useful in the buying phase to review agreements and evaluate costs, but in the gathering phase, they are usually too expensive on an hourly basis to use to do research. I always tell my clients to think of all advisors, consultants and franchisor personnel as one team helping them to protect their investment in the franchise. Sometimes it is better to pay now for the help than to pay later to clean up a bad business deal. **However, franchise buyers rarely are willing to pay for advice, and thus make most decisions based on third-party opinions.**

From The Franchisor

After you have searched third-party references and sources above, and you have determined the franchises you are the most interested in, it is now time to get certain documents from the franchisor. This list might include:

- The Franchise Brochure or Package
- The Franchise Disclosure Document (FDD)
- The Franchise Agreement
- Go to a Discovery Day and ask to see:
    - Operations Manual
    - Training Manuals

- Products and Services Samples
- Testimonials
- Lists of Franchises that have closed operations (see FDD)
- A List of Current Franchisees (see FDD). **You will need this for Validation.**
- A Copy of the most recent financials (see FDD)
- A Copy of the audited financials (see FDD). These are prepared by a licensed professional, a Auditing CPA.

Puzzle Piece 3: Investigate

Investigating the various franchise concepts takes time. For this reason, many prospective franchise buyers turn to the services of a Franchise Consultant or a Franchise Broker to help them wade through the information Gathered in Puzzle Piece 2.

In fact, many just have the Consultant or Broker do the gathering and report their findings. It is fine to outsource some of your efforts, but **the responsibility to choose the franchise that is right for you**, **still rests with you**.

It is important that you understand how to analyze the information that you have gathered.

Analysis (The 3-2-1 Process)

We recommend to our clients that you begin by analyzing three (3) franchise concepts. Read all you can about these concepts from the public sources and try and immediately try to eliminate one quickly.

If you recall in Puzzle Piece 2, we described gathering information and comparing concepts to sort out the facts from opinions. By comparing the data against different concepts, you can find the concept that aligns with your goals and dreams.

With the two (2) franchise concepts you have left, we recommend that you contact each franchisor and request their package of information and their FDD. Do not be surprised that the franchisor will want to get some information from you first, before sending their package. You may even be asked to sign a Non-Disclosure Agreement (NDA). Most packages are sent electronically today. Don't forget to sign the **FDD Item 23 Receipt**. This receipt ONLY acknowledges you received the FDD and starts your 14-day Rule. It is important – do it right away.

Franchise Concept Features That I Want In My Business	Concept 1	Concept 2	Concept 3
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
Score			

(You May Copy This Page To Use This Chart)

Using the form to the left, for each of the three (3) concepts you have selected, list the **Top 20 Features** that are important to you in a business.

Now write in the name of each concept at the top of the column. Check "Yes" or "No" for each "Feature" for each "Concept." Now score them by counting the Yeses. The maximum score is 20. Eliminate the one with the lowest score and request the information on the other two.

If you are using a Consultant or Broker, they should do this work for you, and quite often will already have copies of the franchisor's information in their files or can request it from a franchisor direct.

Later, I will take you through the FDD, section-by-section drawing your attention to details you should look for. **You should always read the entire FDD and associated documents.**

First Contact with the Franchisor

Depending on the size of the franchisor's home office staff, you may or may not get to speak initially with the founder or president of the company. When you call, you are looking for the person in charge of franchise sales. This may be a staff person, a third-party sales manager, or a brand manager. Your broker or consultant can set this up too.

You need to convey to this person that you have already done your homework by gathering a lot of public domain information, and that you have read their website. Let them know you are a serious prospect, and you are requesting that they send you any information you should consider including their brochure, FDD along with a copy of their Franchise Agreement(s).

Expect the franchisor or representative to ask you one or more of the following questions:

1. **What state do you live in?** The reason the franchisor will want to know the answer to this question is that the franchisor must determine if you live in a state where the franchisor does business and if they have territories available.

2. **Next, the franchisor will want to know: "What life experiences you have?"** This will help the franchisor to know if you have the knowledge or skills about this type of business. (See T.A.S.K. in Puzzle Piece 6)

3. **Expect quickly for the franchisor to need to determine, are you financially able to purchase a franchise?** Be understanding. Franchisors get a lot of inquiries from un-qualified prospects that are just "tire-kicking". The sooner you tell the franchisor that you are a serious buyer the better. Don't be surprised if the franchisor asks you to complete **a simple confidential financial questionnaire and application** before sending you materials (it is only fair). Save most of your questions for the franchisor until you have completed the steps that follow.

Reviewing The FDD

While the information I am providing you in this book will guide you through the FDD item-by-item, you should rely upon your advisors (lawyer or CPA) and the franchisor to fully explain each item. This is a long section; I recommend you set aside at least a couple of hours at one sitting to review the FDD.

No representation is made as to completeness or legal accuracy as rules, policies, regulations and guidelines change frequently. Ask your attorney, if you have any specific question about the FDD.

Item 1 - The Franchisor, its Predecessors and Affiliates. Item 1 requires the franchisor to tell you about them. Required content includes:

- The name of the franchisor, any predecessors, and affiliates.
- The name under which the franchisor does business.
- The franchisor's address
- The state of business formation and the type of formation such as corporation, limited liability company (LLC), partnership, etc.
- A description of the franchisor's business and the type of franchises offered.
- The prior business experience of the franchisor, its predecessors and affiliates.
- Information of any specific government regulation of the franchisor in its industry.

Item 2 - Business Experience. Like in Item 1, but focusing on the individuals who will have management responsibility relating to the franchise such as officers, directors, executives and other parties, Item 2 tells you who you will be doing business with.

Item 3 – Litigation. In this Item, entities or individuals listed in Items 1 and 2 must disclose relevant past, present or pending litigation either civil or criminal. We live in litigious times. Franchisors that are in business long enough or have larger numbers of franchisees may have some litigation history. Ask your attorney to explain any items listed here and how they might affect you. Just because a franchisor has been sued or has had to sue someone does not mean they are a bad choice; it eventually happens to all businesses sometimes.

Item 4 – Bankruptcy. Entities or individuals in Items 1 and 2 must provide certain disclosures. Bankruptcy laws have changed, but they are in place to provide certain protection to petitioners and creditors for approved life and business circumstances. Disclosing bankruptcy information should not be a reason to not do business with a franchisor, but you should expect to learn more about these managers and their thoughts on long-term commitments before signing a franchise agreement. If you have any questions ask your lawyer or CPA to explain this to you.

Item 5 - Initial Franchise Fee. This is the fee charged by the franchisor to you prior to opening the business. It also tells you if these fees are uniform, meaning the same for all franchisees. If not, it will disclose the range, terms and conditions. Several states (i.e. Washington, California and Maryland) may require the franchisor, depending on how long the franchisor has been in business and its financial strength, to not collect this fee prior to your completion of training and opening for business.

Most **initial franchise fees, once paid, are not refundable** and either way the franchisor will state so in this section. Therefore, you should only pay the franchise fee once you are ready to purchase the business. The FDD and Franchise Rule provide for a waiting period of at least 14 days, so there is no need for pressure in making this decision.

Item 6 - Other Fees. Franchisors must disclose all recurring fees that you must pay the franchisor in the course of doing business together. These are typically in a table format that specifies the Name of the fee, the Amount of the fee, when the fees are due and related remarks. These fees will also be explained in the Franchise Agreement. You will notice that some of the fee listings have footnotes; **you should read the footnotes** as they may further explain calculations and provide clarify of each item. This is an important section and affects your cashflow once you operate the business, or your costs in transferring or selling the business. You should make every effort to understand each of these fees before you buy. The most common of these fees is **Royalty**. Royalties are generally a percentage paid by you of your monthly gross sales (typically 3-8% although higher percentages may not mean they are overcharging, it depends on the industry and level of support).

Some franchisors charge level fees independent of your actual sales, while others may have a minimum fee but collect a percentage on sales above some minimum. Royalty is the primary profit center for a franchisor. The Royalty should be fair to allow the franchisee to make a profit on the business and enough to cover the costs of the franchisor providing service to you over the term of the franchise agreement. **If you don't like paying royalty, you probably should not be in franchising**, it is essential to the success of the business proposition.

Local Advertising. This fee is typically a percentage of your gross sales that you must spend on promoting your business in your community. Some franchisors may just specify a minimum dollar amount monthly.

National Advertising. Until a franchise network has grown in size to allow for true national brand recognition, some franchisors will delay the charging of this fee. Even if waived, it is an obligation that you need to consider in your business plan. Bear in mind that the majority of all franchisors in America today have less than 100 operating units. Get a copy of Entrepreneur® Magazine's Franchise 500® (typically the January Issue or online) and you will see that even number 500 typically has less than 100 operating units.

For this reason, it may be some time before you realize the benefits of this fee. However, it is a contract requirement and an investment by you and the franchisor in the Brand and your ultimate consumer acceptance.

Training and Assistance Costs. If there are fees for additional persons attending training or for additional assistance by the franchisor at your location, it will be disclosed here. Franchisors plan for a reasonable amount of support; however, some franchisees abuse this service. Rather than disadvantage all the franchisees by charging higher royalties and fees the franchisor just bills the actual user.

Transfer Fees. Should you decide to sell your business, these are the fees the franchisor may charge to help you train and qualify your buyer to meet the franchisor's requirements. There may be other expenses outside the scope of the franchisor-franchisee relationship if you decide to sell. Some of these might be legal, accounting, advertising, and sales commissions paid to a business broker.

Audit Fees. In your Franchise Agreement, you will be obligated to provide certain sales and related information to the franchisor. This fee is a fee that can be charged if the franchisor deems your data provided was either over or under stated by more than some percentage (typically 1-5%). Likely it will require you to pay the cost of the audit, should you exceed this threshold. **Best practice, always report accurately and this fee is a non-cost item.**

Renewal Fees. These are the fees you will be required to pay when your Franchise Agreement comes up for renewal (either 5, 10, or 20 years). The franchisor will use these time periods to reset the agreements with you and allow for changes in the economy, the business system, and other conditions that could not be foreseen when the first agreement was signed.

Miscellaneous Fees. These might include lost manuals, interest, insurance renewals, equipment or fixture maintenance or upgrades and other industry specific items. **Again, read the footnotes.**

➔**Item 7 - Initial Investment.** This table is very important to you. It will describe the costs of getting the business open and operations for an initial period of time. Key items included are real estate costs, equipment, fixtures, construction, leasehold improvements, startup inventories, deposits and licenses, startup capital, and key payments required before beginning to operate the business. The franchisor will specify a "Low" amount and a "High" amount for each major item. This will give you a range of costs depending on the configuration your franchise takes on. Franchisors are only required to disclose three months capital needed. It is not uncommon for it to take more than three months to make a profit, so when planning your capital needs, you should plan accordingly. These are estimates only, not guarantees. **Your numbers will vary higher or lower.** This section always has footnotes that explain the franchisor's assumptions when determining these numbers. You will find these footnotes a great help in understanding these financial disclosures.

Item 8 - Restrictions on Sources of Products and Services. In order to maintain quality and the consumer experience, franchisors often will restrict your vendor sources or require certain products or services to be purchased directly from them or approved vendors. If the franchisor receives rebates from these vendors, it must be disclosed in this section. Some franchisors use vendor rebates to offset higher royalties. Be cautious and compare franchisors within a particular industry segment. If the fees are much higher, you should consider or question the franchisor's motives or ask the franchisor to tell you why their fees are higher. You want the franchisor to make a profit; you just need to make a fair profit too. Asking existing franchisees of the franchisor about vendor costs may be your best way to determine the franchisor's motive. By the same contrast, franchisors, by aggregating franchisee purchasing, may be able to obtain supplies at lower than market costs. In this case, I think the franchisor should be rewarded with rebates when their franchisees have better costs than their competitors.

➔**Item 9 - Franchisee's Obligations.** This table is your best cross reference to all of your obligations under the franchise and other agreements. Many FDDs I have reviewed contain over 25 items in this list, so it is not uncommon for this list to be long. For each topic you should be able to find the section in the Franchise Agreement(s) and also for the FDD. This is what you are agreeing to do, make sure you carefully review each of these sections. If you don't understand them, ask the franchisor and your advisors to help you to completely understand these obligations before you purchase your franchise.

Item 10 – Financing. If the franchisor offers financing, and most do not, then the details would be listed in this section. Franchisors will refer prospective franchisees to a variety of third-party lending sources including the Small Business Administration (SBA). You should ask your franchisor if they have paid the fee to be listed with the SBA as a preferred franchise for lending. If they have, this usually will expedite your loan provided you have a good credit rating.

➔**Item 11 - Franchisor 's Obligations.** One of the reasons you are buying a franchise instead of striking out on your own is an expectation that you will have access to the franchisor's system, brand, and support. This section will specify the franchisor's obligations to you in detail. It will also specify key items such as training provided. Read this section carefully, if you are comparing franchisors in the same business, compare the obligation sections of each FDD to see who provides the most support by agreement. You wanted to be in business for yourself but not by yourself, now is the time to determine if the franchisor will be providing the support and services you expected. If not, ask the franchisor why not!

➔**Item 12 – Territory.** I am reminded of the story of the farmer that said, "I don't want all the land, just the land next to mine". One of the most labored areas of the Franchise Agreement is this item. We want the franchisor to have enough other franchisees that the brand is well known, just not in my city, because my "fear of loss is greater than my desire for gain." There needs to be a fair balance here between not crowding your business clientele, keeping the competition out, and expanding the brand. One of the common requests is for a "first right of refusal." The challenge with this popular strategy offer by franchise attorneys is it may keep another franchisee out, but it may let your competition in. You are buying a franchise for a system and a brand. Be willing to expand the brand over your fear of internal competition from fellow franchisees and the whole system is better for it. If you are defining a territory, just make sure you understand the terms and boundaries of it. This is really important, get help from an advisor if you need it.

Item 13 – Trademarks. Trademarks, Service marks, logos, and business names must be disclosed here as well as their filing with the Patent and Trademark Office (www.uspto.gov). This process can take a couple of years to complete between the symbols of "TM" and "SM" being used and the registration mark "®" being issued. Until a trademark is registered the name can be contested and the brand is not fully protected. If the franchise does not have its registration, it may be that it can't be achieved due to a concept called "confusion in the marketplace." This likely means that someone else may be trying to use the name elsewhere or the words in the name or slogan are just too generic to uniquely distinguish the business from another. While not fatal to the franchisor business strategy, it is a factor you should consider when agreeing to pay a large franchise fee or when expecting to have an exclusive name.

Item 14 - Patents, Copyrights and Proprietary Information. Similar to Item 13, these items must be disclosed. Not all franchisors will have patents, copyrights, or proprietary information that must be disclosed. For those that do, it usually is an advantage over certain other business concepts in the same industry and could cause market leadership.

➔**Item 15 - Obligation to Participate in the Actual Operation of the Franchise Business**. Some franchisors required owners of the franchise to be full time, while others allow absentee ownership. You should discover which strategy best aligns with your desires. It is usually not negotiable and for a good reason, ask your franchisor to explain their rational for this policy.

Item 16 - Restrictions on What the Franchisee May Sell. Compare with Item 8 which dealt with vendor restrictions as a source of product. This Item relates to the products and services that may be sold in the franchise or in the converse that may not be sold in the franchise. When you purchase a franchise, often you are not free to just sell any product or service you like from the business location. Make sure you can accept these terms before buying your franchise. Breach of this section could put your entire investment at risk.

Item 17 - Renewal, Termination, Transfer and Dispute Resolution. Typically, in a table format, this Item covers a number of terms in your franchise agreement and the FDD. You should use this cross reference to understand each section and how it applies to you.

Item 18 - Public Figures. Some franchises use public figures or celebrities in the endorsement or even management of the franchise. If such agreements exist, they will be detailed in this item.

➔**Item 19 - Earnings Claims.** If franchisors make certain claims about earnings potential, they must be disclosed in this section. Fearing law suits, most franchisors don't make too detailed claims. However, as the disclosure documents evolve, more franchisors are disclosing and making claims. Claims are beneficial to you the buyer to help you in projecting how much you can earn from your business. It is a form of validation. I personally, would like to see the law change providing protection to franchisors who do disclose from suits (other than for fraud) as it would help both sides to better understand the business relationship before signing the franchise agreement. **It is permissible to ask existing franchisees, but they are under no obligation to provide this information to you, but often they do**.

Item 20 - List of Franchises. This item contains actual and projected numbers of franchises for the franchisor. It must also include franchises closed, sold, etc. If in the last three years, the franchisor has a large number of closings or failures, ask why? If there is a reasonable answer for these closing, ask the franchisor what steps are being taken to minimize these closings and failures. Get satisfactory answers for your questions. Be cautious of failed or failing franchisees. Not every business will make it, even if the franchisor has the best system. There are practical reasons for some business closings. You should interview past and present franchisees and see if you can get their view of the franchisor before making your decision to purchase. The franchisor will provide you lists of these franchises, it is the law. Closings of 10 to 20% may be reasonable over the life of a franchise offering.

Item 21 - Financial Statements. Franchisors are required to provide up to three years of audited financial statements if the franchisor has been in business long enough. If you are not experienced in reading Profit and Loss (Income) Statements as well as Balance Sheets, then ask your CPA to review them for you. I find that the notes made by the CPA conducting the audit are useful in understanding the financials and managements discipline in financial matters. It is quite common that new franchisors form a new company to sell franchises. For this reason, the financials may not look as strong the first couple of years. Be sure to ask management about the financial health of the company and where they see their revenues in the next year or so.

There is nothing wrong with being a new company as long as the new company is financially responsible and growing. If you can't accept this risk of a new company, don't buy their franchise. Look for older established concepts. Often the challenge with older concepts is the territory options may be sold out or the fees are much higher. Balancing these risks is an important factor in buying a franchise. However, being old is not a guarantee of success either.

Item 22 - Contracts and Agreements. This item will contain those contracts and agreements you will be required to sign when you purchase the franchise. These agreements must be provided to you in the Exhibits or **at least seven days before closing** under the Franchise Rule. If you do not understand these agreements, ask your attorney for advice.

➔**Item 23 - Acknowledgement/Receipt.** This receipt is required to begin the 14-calendar day review period. It does not obligate you to anything, but is a required document in the purchase process. You should quickly provide the franchisor a receipt. There are two, one is your copy.

EXHIBITS – As Required. Documents and lists provided in the Exhibits are referenced in the FDD. You should read each of these carefully as they are a part of the documents required in the purchasing process.

Speaking To Franchisees (Validation)

I recommend it! Using the list of franchisees from Item 20 in the FDD, you will want to contact a relevant sample of the existing franchisees and ask them some basic questions. What is a relevant sample? I would recommend surveying 5 to 10 franchisees if possible. Depending on the type of franchise concept, there may be a variety of build-out options. What you are looking for are franchisees that have developed their business the way you plan to operate your franchise. If there are any closed or terminated franchises, and you can get their contact information, this may be a good source of information. **However, one disgruntled franchisee does not make a bad franchise concept**. Remember, they are independent business owners under no obligation to answer your questions, but like you, they once were a Franchise buyer. They typically are very willing to help you to see the business from their perspective. **The secret is to ask for "their opinion,"** everyone likes to share their opinion. The reason for getting a sampling is, much like our discussion in the Gather chapter, you will have to then sort out "biased opinions" from the "facts." What you are looking for in this analysis is consistency in the answers. Where the answers to your questions are consistent, you can project that this may be the true facts. Where the answers are different, it is likely that the information you gather is opinion and may be biased by the franchisees point of view and not as valuable for your decision making.

Here are 12 sample questions you might wish to ask: Interview with Franchisees

1. When did you purchase your franchise?

2. Did the franchisor provide you with the training you needed to operate your business?

3. What do you like most about the franchise?

4. What do you like least about the franchise?

5. Do the vendors provide you a competitive cost for your supplies and materials allowing you to sell competitively and make a profit?

6. Are your sales where you expected them to be at this time? If not, what would you say is the reason?

7. How is the support from the franchisor? Are they friendly and helpful?

8. Were the estimates given to you in Item 7 of the FDD – "Initial Investment" consistent with what you had to spend to get the business open and operate the first three months? If not, what was different?

9. Is there anything you would like to tell me positive or negative about your franchise purchase experience?

10. If you don't mind telling me, are you making the profit you needed to make to earn the income you expected to earn? If not, how much longer do you think it will take? **Remember most businesses don't make a profit right away.**

11. What question did you wish you had asked the franchisor, but didn't before you purchased the franchise?

12. **Last question**, looking back over the process, would you buy this franchise again knowing what you know now?

Don't forget to thank them for their time. These are tough questions, especially number 12; but you want to hear the good and bad. Most businesses don't generate a profit right away; this does not mean they are not great businesses. What you are hoping to hear is that the business is on plan and the franchisee is happy with their buying decision. If they are not, it may mean they did not do their homework to determine that this business was right for them. The franchise may be right for you, so do not let their opinion alone change your mind. Franchisee input is maybe only 10 to 20% valuable in your overall investigation (due diligence).

Follow-up Contacts with the Franchisor

After you have gathered information and investigated the facts of the franchise, now it is time to call the franchisor back and get their answers to your questions. If you can prepare these questions in writing and send them to the franchisor in advance when you get on the conference call, you will be able to stay on the key issues and quickly get all your answers. If you don't use a written format, likely the conversation will wander around and you may never ask the questions you intended to ask. If you are working with a franchise consultant or broker, they can track down these answers for you or help coordinate the conference call.

I find that it may take up to three calls to get through all your questions. Then again, it would not be uncommon for all your questions to be answered in one call.

Taking A Look: Discovery Day

Now that you are feeling very good about your franchise concept investigation, I recommend that "seeing is believing," and you should schedule yourself to go visit the franchisor during what they typically call a "Discovery Day."

Discovery Day is where prospective franchisees visit the home office, meet management, view the training facilities, and tour an operating franchise unit if possible. This is a must for the serious buyer. **Going to Discovery Day is at your expense, not the franchisor.** However, it is also my experience that more than 75% of those attending Discovery Day also purchase a franchise within 7 to 60 days of attending. Franchisors like Discovery Day, they get to see you in action too.

You **should not take your checkbook to a Discovery Day**; there will be time to complete the agreements when you get home. However, it is an excellent time to work through details like territory or location. If you do purchase at Discovery Day, make sure you have done your due diligence first!

Decisions – Decisions – Decisions

There are three decisions that can occur when it comes time to choose the right franchise for you. Read all three before you think about making a franchise purchase.

Decision 1 – A decision for buying. The ability to readily know that this is the right franchise business opportunity for you is fantastic. This is the first of several decisions on your journey to opening the business. Later you will be making decisions about management, operations, expansion, and ultimately the disposition of your business. Each time you will need to evaluate the facts and make the right decision for you.

Decision 2 – A decision against buying. It may be that after your analysis, you have decided that the franchise opportunity that you have been considering is not for you. This too is a good decision. The purchase of a franchise is a long-term decision and if you can determine that the business is not for you, then you will have saved yourself a lot of time and money. There are an estimated 4,000 franchisors in the United States and even more business opportunities. There are plenty to choose from, you don't need to feel the pressure of making a hasty wrong choice.

Decision 3 – Indecision = Danger. The inability to decide for or against the franchise is the most dangerous place to be. First, it wastes your time and the time of the franchisor. More importantly it creates stress and paralysis of analysis. If you are unable to make a decision for or against choosing a particular franchise, then you may not possess the decision-making capability to run a business for yourself either.

Even though you will work within a system designed by the franchisor, you must run your business day-to-day, and making decisions is an essential element to your success in any business franchise, or not. If you can't make decisions, it is likely your fear of loss kicking in. I recommend you go back to Puzzle Piece

1 and re-examine if owning a business is right for you. You may need to be an employee to achieve happiness and that is okay too.

Puzzle Piece 4: Negotiate

There is definitely an art to negotiation. In its simplest form **it is not about winning, it is about compromise.**

If you must win in every negotiation, this is called a contract of adhesion where one party must accept the terms of the other party without, what is called in contract law, mutual assent. For this reason, using a professional, like a lawyer, allows you to keep it business and not personal.

The basic strategy of negotiation is as follows: Whoever offers first sets the high offer and whoever offers second sets the low offer. From this high and low, you seek to "compromise" somewhere in-between. <u>There are some things that franchisors likely will not negotiate such as franchise fee and royalty</u>, although it never hurts to ask.

Using the strategy above, the franchisor's FDD has already set the high in its FDD disclosure. Content in the FDD, since it is a registration document, is usually not negotiable. If the franchisor would change this content, they potentially would have to re-file the FDD and that can cost thousands.

However, what the franchisor may not want you to know is that the Franchise Agreement(s) are negotiable (hence, the 7-day rule). Here is where you get to work out the business arrangement to fit your expectations within the franchisor's system. Bear in mind that franchisors work hard to develop a consistent system of doing business so they are averse to change. Also, there could be a warning signal if the franchisor will change anything to get you in the deal. You should find confidence in the negotiation process if it is hard to get what you want. That doesn't mean you should not ask!

Professional Assistance

Here are some suggestions of those who might assist you with the negotiation, in no particular order: Lawyers, Accountants (CPAs), Real Estate Agents, Location Companies, Franchise Consultants, Franchise Brokers, Business Consultants, and even a close friend with franchise experience. Depending on their role or relationship, you may expect with some professionals such as lawyers and CPAs to bill by the hour for their time, others by the job. If there are a lot of issues this can get expensive. I had a client spend $20,000 on lawyer and accountant fees in addition to my services for a $25,000 franchise fee. To me this was too much negotiation when likely we would have gotten everything, they asked for without all that expense. However, the customer is always right, if that is what it takes to make a decision.

Since the Franchise Consultant and Broker are being paid by the franchisor, their services to you are usually free. Sometimes the franchisor will pay real estate and location consultants as well. Of course, friends may or may not charge you for their "Opinions." I think you should be willing to pay a Franchise Consultant or Coach for their advice if your need for help is larger than normally required. It is only fair.

Getting Your Territory

The majority of franchise concepts in this country specify a territory in the FDD and franchise agreement based on some criteria like population or proximity to traffic. In the food industry, this has been a challenge as it would appear there is a shop on every corner. What you are looking for here is to make sure there will be enough customers for you to make a profit.

This may take some time to determine. You likely will need professional assistance. Marketing and understanding demographics is crucial. There is research data from Geographical Information Systems (GIS) databases that can show traffic and population density. You might ask the franchisor if they have such studies or software. Many franchisors will not as their territory strategy is simply population, boundaries, zip codes or similar data.

If you feel your territory is not big enough, negotiate and ask for more. The franchisor will likely want to charge more for the territory; this does not mean you can't negotiate for it.

Location – Location – Location

Depending on the business and especially if it relies on customers "coming to see you," location is critical. Don't act hastily here. Make sure that the location has the customer base and that the cost of Build-Out will fall within your budget. Spending time in negotiation with the landlord could result in them providing you with a higher build-out allowance. A longer lease may achieve this as well.

With rare exception, **the franchisor will require you to submit your proposed location to them for approval**. Here you may find yourself negotiating with your franchisor for approval. They have to rely on marketing data from books, and there may be something recent about your market that has caused you to pick this location. Be prepared to make a case for the location you want. In the end, you are buying a franchise and you are expecting the franchisor to provide you the benefit of their lessons-learned about locations. Listen to the franchisor, often it will save you money and may make the difference in how well the franchise works for you. Remember you goal is to make a profit.

The Build-Out

There are so many areas involved in a build-out. First, there is the working with the franchisor to determine if the franchise concept will even fit in the location you have chosen. Next, will be working with the landlord as to build-out allowances, restrictive covenants, signage restrictions and often plumbing, electricity, and HVAC. Don't overlook these last three, they can be very expensive and build value for the landlord.

After the landlord negotiation is over, now comes the next two tough hurdles: 1) working out the permitting, licensing and zoning with the city, county and state government issues and 2) coordinating the project with the builder to construct the outlet according to the franchisor's brand specifications.

If the franchisor does not provide a project manager to do this coordination, it is often a good idea to hire a project manager in your local area. Each one of the aforementioned steps requires negotiation. Many of them, you, and the franchisor can partner on the negotiation; others you will be on your own.

The thing to remember here is DETAILS, DETAILS, and DETAILS!

Puzzle Piece 5: Purchase

What You Are Buying What is a Franchise?

According to various dictionaries, “the right or license granted by a company (the franchisor) to an individual or group (the franchisee) to market its products or services in a specified territory according to a franchise agreement.”

What the franchisor is really selling you, the franchisee, with this franchise (license) is the use of:

1) their Brand & Images together with

2) their business system, and

3) their training program.

There are two types of franchises:

1) **Product Distribution Franchises** such as Pepsi Cola Bottling or the local Cadillac dealership and

2) **Business-format Franchises** where the business system is the center of the franchise purchase. In this book when we speak of franchising, we are generally speaking of Business-format Franchising.

Brand & Image

The average person in the United States is stimulated by over two thousand marketing approaches per day and social media is increasing this at an astounding rate. The amount of information that we have access to today has doubled in the last five years and will likely double again in even less time!

So, what does this all mean? It means that if you are serious about your business, it’s best you figure out exactly:

- Who you are.
- What business you are in.
- Strategically develop a unique and powerful Brand identity.
- Figure out who your customers are… or your competition will!

Whether you are an individual sales professional, an owner of a professional practice, the leader of a startup company, a small business owner, the CEO of a large corporation, a politician or campaign manager, or even a coach you must understand the importance and the process of branding.

Unfortunately, “branding” has become a popular term. Moreover, popular terms have become over-used clichés, corporate jargon, and even a source of confusion. Branding goes far beyond the creation of a catchy slogan or a striking logo. Branding happens when “who you are” perceived to be in the marketplace matches “who you really are” as an entity.

The most successful organizations set out to strategically achieve a brand identity. They understand how to convert a brand identity into a “brand culture.” This culture can be defined by:

- Systems

- Actions
- Attitude with the public
- The people you hire and fire
- Information you embrace as truth
- Interactions with others (customers, employees, vendors, etc.)

To better understand your brand culture, you should:

- Define your values and mission clearly
- Determine how best to communicate your values to others
- Walk it out — “Live the values you claim.”

This is why buying a franchise makes so much sense in business today. You get the value of the entire company’s efforts to establish your business in the mind of the consumer instead of trying to have your business identified in the sea of offers that are presented daily among consumers.

Your franchisor should be able to help you with:

- Where to Advertise?
- What is your Web Presence?
- How is your Phone Answered?
- What does your Packaging Say?
- What does your Literature Communicate?
- Are all of the aforementioned items consistent in image and message?

The franchisor is selling you their Brand & Image and a Business System. Important elements of the Brand & Image for you to consider are the Trademarks, Service Marks, Patents, Copyrights, and Consistency of the business image. Branding & Image are how the franchisor clones itself.

What’s In A Name? (Who You Are?) In franchising, there a number of great Brands that when we see their symbols, we automatically know the product or service being offered. For example:

- McDonald’s – Hamburgers
- KFC – Chicken
- Subway – Sandwiches
- Right At Home – In-home Services for Seniors and the Disabled

Each of these concepts, before they began franchising was either a local one-owner operation or a small regional multi-unit operation. They developed their business concept around an excellent product or service that was accepted by the consumers and they focused on one or more of the following items:

- Consistency
- Quality
- Systems
- Look (i.e., cleanliness)
- Presentation
- Customer service
- Excellence

Their Name + Product/Service were bonded together into a “Brand” that when the logo of the business is shown or the name is mentioned, a positive experience and satisfaction are immediately associated by the consumer with the business.

In addition to Brand, operational association is needed as a consistent public message in the media called public relations (PR). This develops a recollection with consumers although they may have actually never used the product or service. The more successful a franchisor is at Branding, the more valuable your franchise will be.

This does not mean that new franchisors are not a good buy, in fact often they are if you are willing to work with them in the establishment of the Brand. Early in their growth, franchisors often may offer you consideration (discounts, bigger territories, etc.) in the negotiation process (See Puzzle Piece 4: Negotiate). The more established the Brand, the lower the business risk, and the tougher it is to get the deal you want versus the deal the franchisor will offer.

Trademarks and Service Marks.

A trademark is a distinctive design which is used by a business to uniquely identify itself, its products or services to consumers, and to distinguish the entity and its products or services from those of other similar companies or organizations.

A trademark comprises a name, word, phrase, logo, symbol, design, image, or a combination of these elements. The essential function of a trademark is to exclusively identify the commercial source or origin of products or services. You can find the use of trademarks and service marks by the franchisor in Item 13 of the FDD.

It is important to note that trademark rights generally arise out of the use and/or registration of a mark in connection only with a specific type or range of products or services. When a trademark is used in relation to services rather than products, it may sometimes be called a Service Mark, particularly in the United States. For this reason, franchisors will disclose their marks to you in the FDD and an indication of their process in reserving the Brand of the company and protecting their rights.

The franchisor will disclose in the FDD that they “grant” you the use of the marks and how you must use them with the public to protect the marks and promote the franchisor. The franchisor in the Franchise Agreement and the Operations Manual will specify what you can do and what you cannot do with the marks, and your failure to follow these guidelines could result in your losing your right to operate the franchise.

The franchisor sees these marks as a key element in their offer to you and the other franchisees and typically will defend their marks vigorously. You will likely be required to agree not to contest the marks and to notify the franchisor of any misuse of the marks you see.

Patents, Copyrights and Proprietary Materials.

In addition to the marks, franchisors will disclose any patents, copyrights, and proprietary materials associated with the franchise in Item 14 of the FDD, as well as their use in the Operations Manual in Item 11 of the FDD. You should read these sections carefully and make sure you understand what they mean and how they affect you and your business plans.

Consistency.

For the franchisor and for you the franchisee, the key in Branding & Image is consistency. The franchisor will require you to build-out your business location (outlet) in strict compliance with the franchisor's policy relating to Brand & Image – sometimes called "trade dress."

These requirements center on a concept that brand consistency will equal consumer confidence. The franchisor works very hard to have a positive experience associated with the brand by the consumer. Therefore, the Brand & Image issues transcend the marks, copyrights, logo and colors to include product satisfaction issues such as taste, service, dress, floor plan, and the like (see Puzzle Pieces 6, 7, and 8).

If you believe you cannot follow these plans and you just have to decorate the store your way or make the food your way or dress your employees your way, then don't buy a franchise as this will only frustrate you. You need to embrace the concept of Brand and Image the franchisor is requiring. As you and your fellow franchisees follow this plan, the "Brand Equity" the business rises and so does the value of your franchise in the mind of the consumer as well.

When the time comes that you wish to sell your business and retire or do something else, you will get the highest offer for your business. This will become even clearer as we take a look at the next item purchased – The Business System.

The Business System

The Business System is that set of rules, processes, procedures, recipes, formulae, methods, protocols, etc. which work in concert to conduct day-to-day business operations. A classic example of this type of Business System is how McDonald's became a franchise. It is not a mistake that when you enter a McDonald's that the arrangement is nearly the same from one location to the next. This is the "business-format" or system.

> **The McDonald's Ray Kroc Story**
>
> Circa 1954, If you go to the corporate website, www.mcdonalds.com and read about the McDonald's History you will see the pictures of how a Business System is developed. "Ray Kroc mortgaged his home and invested his entire life savings to be the exclusive distributor of a five-spindled milk shake maker called the Multimixer. Hearing about the McDonald's hamburger stand in California running eight Multimixers at a time, he packed up his car and headed West.
>
> Ray Kroc had never seen so many people served so quickly when he pulled up to take a look. Seizing the day, he pitched the idea of opening up several restaurants to the brothers Dick and Mac McDonald, convinced he would sell eight of his Multimixers to each and every one. "Who will we get to open them for us?" Dick McDonald said. "Well", Kroc answered, "what about me?"
>
> **McDonalds went public in 1965 and the rest is history. For more details, please see the company website www.mcdonalds.com.**

A new generation of franchisors is also emerging. Unlike the ones built from a well settled business, they are born from fresh new ideas that may or may not have had time to even prove out the prototype. For example, the Internet, Web 2.0 and Web 3.0 concepts are simply moving too fast for becoming a well settled business.

While these franchise concepts contain more risk than business systems that have been in existence for a number of years, they may also offer more opportunity and gross margin, in that this new fresh idea may only recently could have occurred due to breakthroughs in technology or consumer need.

Sometimes market timing is more important than time in the market. Some franchise concepts may have been in the market for twenty, thirty, or more years and failed to evolve to consumer demands or needs and present very little opportunity to you the buyer. They may have a well-established Brand & Image, but no one wants their offering anymore. For example, Blockbuster Video Stores.

Therefore, all franchisors are not the same and you should consider the experience of the management team and balance that with the vision of the founder of the business concept before choosing the franchise that is right for you. Frankly, I like new franchise concepts, but I am very risk tolerant. Do what is right for you, that is what is most important.

The Upfront Costs

FDD Item 5 - Initial Franchise Fee. This is the fee charged by the franchisor to you prior to opening the business. It also tells you if these fees are uniform, meaning the same for all franchisees. If not, it will disclose the range, terms, and conditions. Several states (i.e., Washington, California and Maryland) may require the franchisor, depending on how long the franchisor has been in business and its financial strength, to not collect this fee prior to your completion of training or opening for business.

Most initial franchise fees, once paid, are not refundable and either way the franchisor will state so in this section. Therefore, you should only pay the franchise fee once you are ready to purchase the business. The FDD and Franchise Rule provide for a waiting period so there is no need for pressure in making this decision.

The minimum and maximum cost of starting your franchise is disclosed in the FDD in Item 7, Initial Investment. This will include the franchise fee from Item 5, but may not reflect all the fees from Item 6.

You will notice in this Item 7, there is typically a table with a Low (Minimum) and a High (Maximum) amount shown for a variety of items. Many of these line items have footnotes at the end of the table. **You should read all the footnotes as they will clarify the assumptions made by the franchisor in developing these cost estimates.** Do not rely on this table as being all the money you will need to make it in business. It typically will cover the costs for operating about 3 months.

Remember, <u>the reason most small businesses fail is that they are undercapitalized</u>. You need to make sure you have all the franchisor says you will need and also what you think you will need to be comfortable as to personal income, which is not included in Item 7, and risk management. Some of the areas where the franchisor cannot predict unforeseen expenses often come in the area of real estate. There could be delays caused by lease signings, permitting, construction delays and even receiving a certificate of occupancy from the final inspection.

These delays cost money as well as time. In fact, you should think of the **time risk** as money. The franchisor should have pre-opening checklists or manuals that will guide you through the process. I have seen numerous franchisees make the mistake of believing the franchisor will do all these steps for them. They likely will not. Be a good steward of your responsibilities and pay attention to these details. If you can't do it, hire someone who can. A project coordinator may cost you a fee, but may save you thousands in mistakes if you can't focus on the details.

Of course, if you can focus on these details, there is no need for a coordinator. Again, when you go for your training, many of these matters will be discussed. Take notes, ask questions, and be tactful but diligent to get all the information you need. If your franchise does not require a build-out, and many don't do to being services, home-based, or mobile, then this task will be much easier. The main franchises that need extra focus are the franchises that require construction and leases.

Item 6 - Royalty. Royalties are generally a percentage paid by you of your monthly gross sales (typically 3-8%). Higher percentages may not mean they are overcharging, it depends on the industry and level of support. Some franchisors may charge level Royalty fees independent of your actual sales. Others may have a minimum fee but collect a percentage on sales above some minimum. All of these strategies are valid ways of collecting and paying Royalty.

Royalty is the primary profit center for the franchisor and is part of your licensing the Brand. The Royalty should be fair and allow the franchisee to make a profit on the business and enough to cover the costs of the franchisor providing service to you over the term of the franchise agreement. **If you don't like paying royalty, you probably should not be in franchising**, it is essential to the success of the business proposition.

Be wary of franchisors that don't make royalty payment an important part of your business relationship, they may fall short of funds and not provide you the support you need.

Item 6 - Other Fees. Franchisors must disclose all recurring fees that you must pay the franchisor in the course of doing business together. These are typically in a table that specifies the <u>Name</u> of the fee, the <u>Amount</u> of the fee, and <u>When</u> the fees are due and any related remarks. These fees will also be detailed in the Franchise Agreement. **You will notice that some of the fees listed have footnotes; you should read the footnotes** as they may further explain calculations and clarity of each item. This is an important Item and it affects your cashflow.

You should make every effort to understand each of these fees before you buy:

- Local Advertising
- National Advertising
- Training and Assistance Costs
- Transfer Fees
- Audit Fees
- Renewal Fees
- Miscellaneous Fees

Supplies and Initial Inventory. Often franchisors will require that you purchase only from approved vendors (See FDD Item 8). The franchisor likely will provide you a set of checklists or pre-opening documentation that will tell you what and how many of each of the items you are to purchase to open the business. Be careful to follow these instructions, they have thought it through for you, trust the system. Overspending here can hurt your early cashflow and delay you making a profit. **Inventory is just cash in another form.**

Finding The Capital

After completing your search and a quick review of what a franchise is again, it is now time to solve the BIG PROBLEM – Where am I going to get the money to pay for it?

Since **the majority of franchisors do not offer financing**, you will have to come up with the funds. Here are some ways I have seen people find the money to purchase their franchise business:

- **Cash.** Believe it or not, this is the most popular form of purchasing a business purchase. I know it is old-fashion, but cash really works. The question is, "Where can I find cash in my financial statement?" You might ask a consultant or advisor for help.
- **Checking Account.** I am amazed at how much money people have in their checking accounts not earning any interest at all. Remember the Rule of 72 examples? Your Indecision about

what to do with this money is making your banker rich, not you. Investing cash into your business saves on interest charges and by far is the fastest way to buy a business.

- **Certificate of Deposit (CD)**. A CD may be a good source of funds. What you need to watch out for is what is the penalty for taking it out of the CD. If you have your money in a CD at a rate higher than you can borrow against it, then sometimes it is better to use the CD as collateral against a loan and this way you earn the difference on the rates, avoid penalties, and you still can pay for your business.
- **Bonds, Stocks and Other Equity Investments.** If you recall your discussions on Risks in Puzzle Piece 1, you have to watch the market risk of cashing in equities at the wrong time. If your position is at a loss, then you do get a write-off, but you take a hit to your principal. If your position is at a profit, cashing in the equity may cause capital gains and a tax due. You should ask your CPA or financial advisor about such decisions. You may be able to pledge these assets against a loan as well and reduce your tax and market risks.
- **Insurance Cash Value.** Permanent life insurance, sometimes called whole life or universal life, often builds cash value. These policies allow you to borrow against the cash value at very little to no net interest for the use of the money (these are called wash loans). Depending on your age, insurability, and type of policy; it may not be advisable to borrow out your cash value. You should ask your CPA or financial advisor about such decisions.
- **IRAs, 401(k)s and Other Retirement Funds.** Normally the rules surrounding retirement savings do not allow the use of these funds without risk and tax penalties. Taking money out of these accounts to purchase a business is likely your last decision and should be weighed very carefully. Always get advice from your CPA or financial advisor before ever withdrawing retirement funds. Further, retirement funds, unlike other forms of savings, rarely can be pledged for loans. There are such strategies, but I recommend you get your CPA or lawyer to evaluate the proposed strategy or program before you commit. A strategy wrongly applied, could have severe tax consequences.
- **Debt.** Depending on your credit score, you may be able to borrow the funds directly as either secured or unsecured loan. It is rare to get a financial institution to loan on a new business that is less than two years old. There are some exceptions for franchises, but it is rare.
- **Secured Debt.** Secured debt is when you pledge an asset as “collateral” for the loan. Earlier we discussed CDs, Equities, and Insurance. Other forms of secured debt are Home Equity Loans and loans against other assets of collateral value (i.e., cars).
- **Leasing/Re-Leasing**. If the franchise that you are buying has equipment and fixtures you likely will be able to lease these items on terms of 1 to 7 years. Re-leasing is where you take other business assets which are paid for and collateralize them to free up their cash value. Traditionally, this form of asset funding is used in heavy equipment-based companies. This strategy typically does not work for service-based companies as there is nothing to collateralize.
- **Unsecured Debt.** We have all heard the story about how the pregnant single mom with seven kids took out a $1,000 advance on her VISA and built a multi-million-dollar business part-time, online, right? Don’t be fooled by such crazy stories. Unsecured debts are based on your personal credit score, existing personal debt load and ability to repay the loan. The more common form of these debts is charge cards (i.e., American Express) or credit cards (i.e., Visa, MasterCard, Discover, etc.). Unsecured debt, especially credit cards is very risky and should

not be used for long-term franchise funding. Unsecured debt works well for short-term inventory purchases and small business needs under $25,000. Decide if you can service (pay) this debt from sales income. However, if the sales fall off, you still have to be able to make these payments and it can be a dangerous spiral. Ask your CPA or financial advisor before using unsecured debt in your business.

- **Borrow from a friend or business associate.** Often called a promissory note, many businesses use these notes to obtain funding at a mutually agreed interest rate and term. Some are secured and many are unsecured. Sometimes promissory notes are secured by the stock in your company that is buying the franchise. Since franchisors must approve someone taking over your business, you should ask your franchisor to give you a written acknowledgment of this type of financing. That way, in case you default on the loan, and all of a sudden, this lender becomes your partner. You don't want this financing strategy to cause you to breach your franchise agreement.
- **SBA Loans.** The Small Business Administration works with franchisees to fund franchise startup. This strategy works best if your franchisor has applied to be on the Franchise Registry. Some banks will petition the SBA to back a loan solely on their analysis of the FDD. Franchisors must submit their FDD and Franchise Agreement along with a fee to be added to the registry. This process can take a couple of months, so if you are planning to use SBA funding, check with your franchisor earlier to see if they are on the registry. See www.franchiseregistry.com. Rarely will the SBA lender finance 100% of your need. Most loans I have seen required up to 30% contribution on the part of the borrower. More often than not, this also seems to be about the same as the franchise fee. This funding can come from any of the other sources, but if a debt source, it may not satisfy the lender's underwriting policies. To find out more about SBA lending go to www.sba.gov.
- **Partnering or Selling Equity**. A common strategy in business, but not usually in franchising, is to take on a capital partner or sell equity in your corporation or LLC. There are many states' specific rules on selling equity in your business. I recommend if you plan to use this strategy that you get the assistance of an attorney and/or CPA. Generally speaking, don't do it! If you have never partnered in business before, it is harder than being married, and your partner may not love you like a spouse. The fights can cost you time and money in lawyers plus create a lot of stress – this is called "business divorce."

The Agreements

The Franchise Agreement. This agreement traditionally is received with the FDD, and is cross-referenced in the FDD, so that you can find where elements in the FDD can be found in the Franchise Agreement. While the structure of Franchise Agreements may differ slightly from author to author, the following are important sectional highlights. Like all other agreements, if you don't understand them, get with your advisors or the franchisor and make them clear. After attending Law School, I have concluded that, "Well written agreements are not to keep the parties together; they would do that naturally even if there was not an agreement; agreements are to help the parties get apart in the event of an irreconcilable dispute."

As you read through your Franchise Agreement and any other agreements provided you by the franchisor, read them with the "eyes" of getting out and the "heart" of staying in business together.

Franchise Agreement Sectional Review (Section my vary by Agreement style)

Section 1. Definitions. The franchisor will provide you a set of key words in the agreement that have meaning to the business relationship or more importantly give rise to performance criteria.

Section 2. Grant of Franchise. This section will define the franchise and likely the business system.

Section 3. Term and Renewal. This section will cover the timeframes for the renewal of the agreement (typically 5, 10, or 20 years) as well as fees for such a renewal.

Section 4. Territory. This section will define how a territory is determined, the location, and if protected, how. It will describe if you can solicit outside your territory and how. If any rights are reserved, they will be outlined here. **Note this part of your Franchise Agreement is negotiated and must be completed, according to the Franchise Rule, 7 calendar days prior to you signing the Franchise Agreement and paying your Franchise Fee.**

Section 5. Fees and Royalties. This section will describe the franchise fee, royalties and other fees including late fees. Who pays what taxes are often described here too.

Section 6. Marks. This section will define the franchisor's marks, your rights to use them with your business and in advertising. Also, the franchisor usually provides you instruction if you receive notification from a third-party about infringement. The franchisor wants to defend these marks as part of establishing their Brand & Image.

Section 7. Manual and Confidential Information. This section will describe the manual(s) and how you may use them. This section is more about the confidentiality of your business relationship with the franchisor. Expect subsections to discuss Non-Disclosure and Non-Competition agreements which may be required to be signed too. Lastly, make sure you understand who owns the business records. Should you terminate your relationship with the franchisor, likely you will not be able to contact your clients.

Section 8. Franchisor's Duties. This section will describe what the franchisor is agreeing to do for you. You need to really understand this section. Some of the typical services might be:

- Site Selection
- Equipment
- Inventory Services
- Commissary
- Training
- Ongoing Assistance
- Advertising Programs
- Central Purchasing from Vendors
- Updates to the System
- Internet Presence

Section 9. Solicitation and Advertising. This section will contain the do's and don'ts on marketing and advertising.

Section 10. Construction and Maintenance. This section will describe each party's roles if there is construction required, or how maintenance must be performed. If there is no build out or physical location, this section may be either eliminated or state there is nothing required.

Section 11. Records and Reports. In this section the franchisor will tell you what records you must keep, which ones they want copies of, what formats they need to be in, and how audits, if any, will be conducted.

Section 12. Franchisee Duties. All sections are important. However, Section 12 specifies your performance. You must read and understand each subsection and what your responsibilities are. Again, get help from the franchisor and your advisors if you don't understand what something means.

Section 13. Default and Termination. Should you not perform on Section 12 in particular, the franchisor will provide your rights relating to a default in the agreement and what each party must do to terminate the agreement.

Section 14. Transfer. In my years of franchising, I have seen a number of reasons a franchise needed to be transferred to a new owner. It did not mean the franchise was not successful. Illness in the family probably heads the list. This section will tell you what you can't do, what you can do, and what you must do to transfer the franchise from your name to another person.

Section 15. General Provision. Likely there will be subsections on covenants not to compete and shareholders of franchisee who must report under the agreement.

Section 16. Dispute Resolution. While you would hope to never be in a dispute with the franchisor, it does happen for a variety of reasons. This section will provide the various ways to settle your disputes such as negotiation, mediation, arbitration, civil litigation, venue, jurisdiction and rights, if any, to damages. Make sure if there is a dispute you seek the advice of an attorney.

Section 17. Relationship of the Parties. This section will usually state you are an independent contractor and not an employee of the franchisor. It also will require you to identify yourself in a specific way so as to not confuse the public that you are the franchisor.

Section 18. Miscellaneous. This section is all the standard contract boilerplate subsections found in most agreements.

Section 19. Acknowledgements. This section is likely all in CAPS and will have you indicate that: 1) You have conducted an independent review of the business. 2) That the franchisor has not made expressed or implied warranties as to volume, profits, or income potential. 3) That you are not a party to other agreements that would prevent you from entering into this agreement. 4) That you received the FDD and Franchise Agreement at least 14 calendar and 7 calendar days before signing respectively.

Attached: Other Forms and Agreements. Depending on the franchisor, you may find one or more agreements attached. Some examples are: Authorization Agreement for Pre-Authorized Payment Service. This agreement gives the franchisor the right to credit and debit your business checking account for certain fees. Others might be:

- **Collateral Assignment of Client Lists**. This is the agreement to transfer your client lists in the event you cease to operate the franchise.

- **Lease Assignment Agreement.** This is where you assign your interest in a real estate lease to the franchisor. This is common in restaurants in particular.
- **Guarantee of the Franchise Agreement.** Since many franchisees elect to use a corporation or LLC for liability protection, the franchisor will require the shareholders and managers to personally guarantee certain fees and intellectual property protection.
- **There may be a series of Exhibits** covering owners of corporations or LLCs interest in and addresses for record. Also, there might be an Exhibit that details the location, the build out or even the territory. Remember the sections of the agreement may vary by number or detail and the attachments or Exhibits will vary by the franchisor ’s policies and specific business requirements. **The bottomline is that you need to read the whole agreement and make sure you understand it.**

Puzzle Piece 6: Train

The franchisors' approach to training should be that you know nothing about business. Your approach to training should be you know nothing about the franchisor, and you expect them to tell you everything you will need to know to operate your franchise.

If you don't get the training from the franchisor, I think it is really your fault. You paid for training in your franchise fee; you should expect the franchisor to have delivered it when you finish training. To be fair, some of the training will continue once you open for business, but the fundamentals need to be there before you open your doors.

In training, there is a depreciation of knowledge; the more information passes from one person to another the more details that get lost. When you were a child, you may have played the game where someone whispers a short story in the first person's ear and it continues around the room until the last person tells out loud the story. Isn't it funny how different the story was from the first version. With training, if you hear 100%, you might without notes and books, remember 50%. When you teach your manager, they will get 25% and by the time an employee gets it, "well, training, what training, I didn't get any!"

You have to be motivated to be a sponge and get all you can get while you are in training with the franchisor. **Remember – WRITE IT DOWN!** Make sure you take very good notes and capture all the materials used by the franchisor in your training class. Don't be lazy, it is your money at risk.

Preparation

When I was in the Air Force ROTC, I never forgot what my Commandant of Cadets shared with me about learning. He said that learning was like navigating an airplane from Point A to Point B. You have to know where you are and you have to know where you are going for sure; but you also need to know the scenes along the way in order to know that you are still on the right path.

For this reason, he recommended that I always study the Table of Contents before I read the book. Later in my military career, I had the opportunity to attend a six-week instructor course called Instructional Systems Designer (ISD). What I learned in this course is that in order for training to be effective it must first begin with the desired outcomes, next the subject matter experts develop the protocols and procedures from lessons-learned through actual operations, and finally the trainee's profile of **Talent – Aptitude – Knowledge – Skills (T.A.S.K.)** are defined so that the right student was matched with the right position and training.

You need to learn training from two perspectives; first, as the franchisee/owner/manager and second, as the employees that will work in your franchise. Each level requires a different T.A.S.K. profile. Many franchisors understand this principle, but their training may not reflect it. What I mean by this is that these franchisors know how to run their business and make a profit, but very few of them think like a new franchisee or employee. They are captives of their own familiar experiences and often make assumptive leaps in the knowledge a new franchisee will need.

Franchisors with over 50 franchises should have worked this out, but there is no guarantee. I know a couple of franchisors that spent the necessary time to develop excellent training before they started and their very first franchisees benefited from it. Regardless if the franchisor is a good trainer or not, you still need to get your training to be able to operate the franchise you are purchasing. For this reason, I recommend that you ask the franchisor to send you the Table of Contents for the training materials before you attend Home Office Training so that you can look at the outline and compare that with the Table of Contents of the Operations Manual (may be provided with the FDD). The franchisor may not provide the Training Table of Contents to you until you have signed a non-disclosure agreement (NDA) or signed the Franchise Agreement and paid your franchise fee. This way the franchisor's secrets are protected by the confidentiality agreement and the Franchise Agreement in general.

You should invest a couple of hours in preparation before you go to training developing a set of questions based on your visit to an operating franchise location, the Discovery Day, or at least the brochure. You want to make sure that the training offered covers all the operational areas of the business. You have paid a franchise fee with expectation of getting to use and be trained on the franchisor's system, there is absolutely no reason why not to expect to have the system fully explained during your Home Office and/or Grand Opening Training (if any).

T.A.S.K. – Talent, Aptitude, Skills, Knowledge

T – Talent

Using a variety of research sources, I have composed this definition for talent: "A natural ability to do or act physically, mentally, legally, morally, and financially with competence in an activity or occupation because of one's skill, training, or other qualification."

For each item in T.A.S.K., I will give you a perspective of the requirements for "Management" and for the "Employees."

Management. As the franchisee, you will need to manage the business and perform the functions described in Puzzle Piece 7: Manage. You will draw upon your personal experiences and those taught to you by the franchisor as the leader of the business. Remember, you are the standard by which the employees judge the need to know a topic. You should know the business better than them. If you recall the **flea example from Puzzle Piece 1**, they will only rise to the level of the lid you set. If by your negligence you set the standard too low, then don't be frustrated if the employees under perform your expectations. It should not be as maybe your parents may have said, "Don't do as I do, do as I say." It was unfair to you then as a child, and it will be unfair to your employees now for you to demonstrate the same leadership.

It is true that you can in big businesses hire second-tier talent (management) with better leadership skills that help you and the business work; but in a small business such as a franchise, "If the head is rotten the whole fish smells."

Employees. As a franchisee you will need to operate the business and perform the functions described in Puzzle Piece 8: Operate. Here you want to recruit employees with the talent to follow the business system, its protocols, procedures, and plan-o-grams. You are looking for competent followers of a system. If the employees can't follow a system, you will never get any time off. For this reason, it pays to invest some time in getting to know the people you hire. I know that in a number of franchise concepts, the employees earn a retail wage which is just above minimum wage in many cases. Keeping employee costs down is what makes the budget work. However, I have found that as I have lead teams of 10, 100, or thousands, in my life - if the motivations are right, they focus on the mission more than the money.

Learn to develop recognition programs for your people. I have seen people fight to win a T-shirt or contest and give little concern for their pay. Just make sure that the motivation you use tells the employee the outcome you desire. Remember “Inspect what you Expect.”

A – Aptitude

Using a variety of research sources, I have composed this definition for aptitude: “Intelligence for learning.” Notice I did not say a level of education. Learning indicates an open willingness to absorb the process before them. This speaks to the process or system needing to be one easily duplicated. As compared to education which may have only been the ability to memorize a list of facts and not involve performing any functional task at all.

Learning implies Action.

Management. As a manager, you need to know the information, but it is as important to know how to do it. If you don’t learn how to run the business effectively, you won’t be able to measure your employee’s feedback. You have to be able to intelligently discern a real challenge from a slack-off employee. As a franchisee myself, I owned a retail store.

Every time I went to the store and worked, sales would be double that of the employees. I had to learn that it was not my super skill at selling, but it was my motivation as an owner to do the business by the protocol and procedures that made me successful. Once I learned to hire employees with a similar Aptitude for these important aspects, my sales doubled. The point I am making here, it was not that the franchise system didn’t work as expected, it worked just fine, it was my willingness to hire the people that could stay on T.A.S.K. and follow the system, protocols, and procedures.

Employees. You must learn to interview your employees to see if they have the desire to “learn” the business or just want a job with hours so they can go on a date on the weekend. Your failure to measure their aptitude will determine your altitude in your business!

S – Skills

Using a variety of research sources, I have composed this definition for skills: “A learned set of abilities, which uses the body or mind, to accomplish a task.” As you can see, skills are very closely tied to Aptitude or Learning.

Management. You must have leadership skills and operational skills. The best way to learn leadership skills, is to “copy, not create” them. In addition to what you can learn from the franchisor, **I challenge you to read or listen to a book on tape from an author on leadership each month for your first year in business.**

Yes, that’s right twelve (12) books. Which books you might ask? I think they are all good. In particular, I like books by Dr. John Maxwell, but really any book written by any leadership author will work. Remember skills are a LEARNED set of abilities. Yes, it is true that some have so called natural skills, but I can remember when I played football, our coach said that “He who knew the rules the best, usually wins.” Even though we weren’t always the biggest or the fastest team, we knew the rules of the game and were champions for it.

Employees. As an employer you will need to create an environment of learning in the business. I recommend that you find a way to offer incentives to the employees who will learn the protocols and procedures of the business. The better skills your employees have the more money you will make. The more money they make the less likely they will leave and keep you in a constant training environment. Think of it as making an investment in your business. Training and hiring employees can be time consuming and costly to the bottom-line. Skilled employees are happier employees, and happy employees stay with you, thus reducing the cost of acquisition of employees.

This small investment on the front end earns you dividends on the back end. Think about it, when you were an employee would you appreciate your boss more if you were rewarded with compensation or recognition for being skilled in the business? Think of it as the Golden Rule of training employees.

K – Knowledge

Using a variety of research sources, I have composed this definition for knowledge: "Information gained through study, observation, communication, research, and instruction in a body of truths about a subject or topic."

Management. As a manager, your discipline to gain knowledge about your business, its industry and the competition will be directly reflected in your profitability. While you can expect the franchisor will provide you a body of this information, you should still seek your information from reliable third-parties as well.

Employees. An old retail saying is, "If you can lean, you can clean." While this does promote a clean environment for the shoppers, as an employer, I think you should consider instead "If you can lean, you can learn." Keep information about the business, your products, and your services where idle employees can improve themselves. If you ever grow past one operating unit in this franchise, or you become a multi-concept franchisee, you likely would promote from within using employees that have learned the business.

Bottom-line - IT PAYS TO INVEST IN YOUR EMPLOYEES' LIVES and they will stay on T.A.S.K.

If you notice each word Talent, Aptitude, Skills and Knowledge all have a synonym in common "Ability". If you keep your business on T.A.S.K. you will have the Ability to win in business.

Protocols

I am sure by now you get that I believe the most important things to learn in training are the Protocols and the Procedures.

Protocols and Procedures are virtually the same in that they are a set of rules to govern our actions by. I named them different for this reason:

- **Protocols** are directly related to the selling of the product or service.
- **Procedures**, by contrast, are directly related to the delivery/administration of the product or service.

Personally, I think that if you had to make one more important over the other, I would choose Protocols because I am sales oriented and top-line revenue matters. However, just as good an argument could be made for Procedures by one who is more operationally oriented.

While you are at training with the franchisor, you want to capture all the Protocols you can about how to present your product or service to the public. For example, in retail, most clerks when a customer walks up will ask, “May I help you?” and the standard consumer response is, “No, I am just looking.” While the offer to help was a nice greeting, it did not address what the consumer wanted. A number of authors are credited with the following; so, I will simply credit Anonymous! **“People don’t buy drills because they want drills; they buy drills because they want holes!”** Understanding your client wants (**the Market Pull**) is critical to business success.

Protocols help you and your employees overcome the standard response or objection from the client by asking a question that doesn’t have a yes or no answer. Rather, protocols find out about the customer and what type “hole” they need. For example, I had a client in the retail pet business. When we first started working together, they were a procedures-based company in that they focused on absolute product quality so that it “Would sell itself” or “Fly off the shelf” as the founder would say. However, they would ask the client, “May I help you?” and the response was… You guessed it, “No I am just looking.” Then the founder would tell them about the quality and a sale would be made, because they were both dog lovers.

However, as the business grew and the franchisees did not have the same passion as the founder or they hired employees that certainly didn’t have the passion of the franchisee; so, the average sale dropped. After studying the problem, we implemented a simple protocol that quickly engaged the client and would never get the “No I’m just looking” response. If you want to know what it was, read about protocols in the Puzzle Piece 8: Operate.

Your job is to find out all the protocols of the franchisor. These lessons-learned will make you more money and after all it is why you bought a franchise and did not start a business on your own.

Procedures

From our discussion of protocols, you learned that procedures are more operational in nature. While you are at training with the franchisor, you want to learn those procedures that are the “7 Secret Herbs and Spices” to quote Colonel Sanders of Kentucky Fried Chicken® fame. What made the Colonel’s chicken better was how he prepared it and they have built an international franchise around this procedure.

In Puzzle Piece 8: Operate, we will discuss these procedures more, but for now, make it an objective of yours to highlight each of these procedures as you go through training. As for your employees, you will need to emphasize the procedures as much as the protocols when you train them. The franchisor should provide you with an employee training program of both protocols and procedures. Observe the things that the franchisor tells you are the secrets to why their business works and make sure that the franchisor provides you with training for your employees on each item.

The Mastermind

Smart franchisors know that the best ideas have not been developed yet, and when franchisees get experience in operating the business system, they often provide great insight into new business strategies that the entire network of franchisees could benefit from. This is where slogans like “Pizza - $5 Bucks” from Little Caesar’s Pizza came from. Franchisors will usually use surveys, national conventions, regional trainings, and personal interviews to receive this feedback. There is nothing more powerful than a good mastermind. However, if you want to kill some idea, put it in a committee where everybody expresses their ideas, and often the original reason for even having the discussion gets lost.

You have rights, stand up for them; but, the title of the book is "Solving Th e Puzzle Of Owning A Franchise," not how to become a franchisor, that's Part II of this book for sure. If you want to be heard, run your business as the best in the system. Prove to the franchisor that you have tried it their way; made money, but if they make this adjustment, all the franchisees will earn more.

First, everyone is in business to earn all they can. Second, the franchisor's royalty is based on increased sales. If you are going to make suggestions, let them be profit motivated not making you feel important or more comfortable. I know I am being tough here, but trust me, this is one of the greatest challenges in the franchising process, and if not considered can lead to a bad franchisee – franchisor relationship.

Owning a business is hard work and often rewarding financially and personally. However, if you have a poor relationship with your franchisor, you will grow to hate the day you bought a franchise and that is never a good thing for anyone.

As important, as preparing to go to the Home Office training and Grand Opening training, is the continuing education (the Mastermind) that you will receive from the franchisor. Depending on your franchisor's method, you might expect one or more of the following: Conference Calls. Franchisors often take advantage of technology and offer conference calls with management and other franchisees to discuss new products or services, protocols, procedures, vendors, and policy. Don't be "too busy" to attend these calls. It is not so much the agenda of the call that matters but the cross-talk or mastermind principle that occurs when a group of like-minded people work to implement a plan.

If your franchisor does not use conference calls, ask them to start. One of the best FREE services out there is Zoom.com or a conference bridge for voice only. Even if the franchisor doesn't do the calls, you could get a Mastermind Group of a few franchisees together and have a call at least once a month. Just keep them to one hour or less to be productive. It keeps everyone informed and motivated.

Email, Bulletins or Newsletters. Franchisors may send one or more of these forms of electronic or printed communications to you on some frequency. If someone took the time to write it, you should take the time to read it. If you find it is always junk mail, call the franchisor and complain. Likely, however, it will be full of tips and information to help you to better operate your business.

Regional or National Conventions and Training. I know you are busy, but you need to go to these meetings. Yes, some of the lectures will be boring and it is often expensive; but the following should be considered:

1. You will get to meet your vendors and see new products and services.

2. You will get to meet the support staff. Sometimes putting a face with a voice can make the difference in how you feel about your support team.

3. You will get to meet other franchisees and maybe this is the best thing. I have had franchisees tell me that but for the annual conference they would have quit. However, after going there, and seeing that it was a common problem, and that they worked together with the franchisor to solve it, it gave them hope.

Add a couple of days and make it a family vacation too. Ask your CPA, but likely a good portion of the trip will be tax deductible.

Back Office Support Software. Today most franchisors have some form of back-office support via a secure Internet connection that helps franchisors and franchisees communicate better, manage employees, pay royalty, order supplies, and get current documents plus so much more. If your franchisor doesn’t have such a modern tool, this would be a great suggestion at the mastermind.

Puzzle Piece 7: Manage

There are two ways to own a business and receive income.

The first let's called "Passive." Passive is where you invest money in a business, others perform the work, and you expect a return from their efforts. Franchising is typically not Passive.

Passive is really an investment. Franchising requires you to actively manage your business, so it is referred to as "At Risk." This does not mean that the franchisor may allow what is referred to as "Absentee Ownership."

Absentee Ownership is where you own the franchise and hire a manager to run the business, and while sounding similar to Passive, it is not. In both cases the dollars you have invested are At Risk. However, the At Risk I am speaking of is your risk in the management of the business versus a passive investment in a business where you have no management authority. Even if you hire a manager, you still have authority in the At Risk model. Wow, now that we cleared that up!

Pre-Opening Planning

I cannot overemphasize how important this part of starting up your business really is as the manager/owner. The initial investment described in Item 7 of the FDD is controlled in the Pre-Opening Planning.

You will want to check with the franchisor to receive their Pre-Opening Planner or Checklist. This document will at a minimum cover the critical steps to getting your business open. It may be included as a section in your Operations Manual.

Examples are:

- **Your business structure**: Sole Proprietor, Corporation or Limited Liability Company (LLC)
- **Getting a Tax ID**
- **Location Development and Defining your Territory** (if any)
- **Lease Negotiation** (if any)
- **Signage** (if any)
- **Build-out** (if any)
- **Equipment** required
- **Supplies** required
- **Ordering Products and Services** from Vendors
- **Utilities Connection**
- **Getting Business Licenses and Sales Tax IDs** (if required)
- **Recruiting Employees** for Grand Opening
- **Scheduling Home Office and Grand Opening Training**
- **Setting Up Payroll**
- **Press Releases** and Free Media Campaigns

This is just a representative sample of things needed.

Personnel: Employee Records

Depending on the type of franchise you choose, you may or may not have employees. However, one employee requires all the same paperwork as 100.

Since lenders understand W-2's instead of business ownership, often it is better that you become an employee of your business and pay your taxes as you go on some base salary. This helps with buying homes, cars, and also tax planning. Depending on the strategy with your CPA, then you can bonus or dividend profits which may save on certain taxes like social security, Medicare and even some state employment taxes – again ask your CPA.

Doing all that is required in business today by government and even your employees is tough for the inexperienced business owner and experienced alike. I don't do it, I outsource it! There are several options for outsourcing the recordkeeping required for employees such as payroll companies, Professional Employer Organizations (PEOs or sometimes called employee leasing), CPAs, etc.

Very few franchisors provide service in this area. They usually leave the problem of employee records to the franchisee; but they will require you in the franchise agreement to comply with regulations and employment laws. Franchisors have to be careful to maintain a relationship with the Franchisee that is not employer – employee. In addition to payroll, you will need to also have a strategy for the following other employee items:

- Employment Applications/Interviews and Files
- Job Posters required by Federal, State and Local laws
- Worker's Compensation Insurance
- Employee Benefits, if any
- Employee Handbook, if required
- Dispute Resolution
- Equal Opportunity and Sexual Harassment
- Various Trainings
- Employee certifications, such as Health Department
- Other Human Resources requirements for your state, if any.

Now you see why most franchisees outsource it. None of this makes you money, but failure to do it properly, it can cost you money and even shut your profitable business down. Don't cut corners, don't take risks, get the help and start it out right. It doesn't have to be overwhelming, hard or expensive; it just has to be done right. **We have a team at CFS that can help with this, just ask us for a quote.**

Government Records. It will save you time and frustration, if you call your secretary of state, judge of probate office, local and state taxing authority, and business licensing authority early in the process and get the proper forms filled out. I have seen entire grand openings of food related businesses and mall kiosks come to a screaming stop because some form wasn't filled out or some inspector was not notified.

If you use scales, there is an inspector for that; if you serve food, there are a host of government inspectors, licenses, etc. you will need. A simple business license or sales tax number are often forgotten and can delay or even halt your business. Ask your franchisor, "What are your pre-opening checklist and guidelines? How do I know, what licenses, forms, numbers and inspections I will need to open, conduct business and stay out of trouble." If your franchisor doesn't know these requirements, take this as a warning sign to whether you should buy a franchise from them or not. You can ask these questions before you buy and I recommend you do. You will find, that most of these requirements are well understood by your franchisor, and one of the reasons to buy a franchise is that they will walk you through this process. You are paying a franchise fee, expect this to be done for you. You may have to do the leg work for sure, but they ought to have a list of “to do’s” for you.

A lawyer, CPA and franchise consultant can help you too. Expect to pay fees for this help, so when the franchisor can do it, it will save you money.

Another area, is building permits, and zoning approvals for your business. Ask your franchisor if they will help you in this area. Often, franchisors require the franchisee to do this work. For this reason, I recommend that you find a leasing consultant or real estate agent who knows commercial real estate to help you complete these tasks.

Professional Assistance. Here is a list of some of the professionals you may need in getting all your records in order:

- Lawyer
- CPA
- Bookkeeper
- Inspectors
- Real Estate
- Franchise Consultants
- Leasing Consultants
- Secretary of State or Office of Judge of Probate Office
- Local Licensing Offices
- City Counsel Offices
- Zoning Committees
- Health Department
- Departments of Revenue State and Local
- Internal Revenue Service
- Social Security Administration
- Insurance Professionals
- Investment Professionals
- Builders and Sub-Contractors
- Utilities Companies

Paperwork

A wise friend once said, “You have to learn to inspect what you expect.” There is absolutely no excuse for poor recordkeeping in business. In this puzzle piece, we will look at some of the basic records you must keep to get to take advantage of the owning your own business.

Recordkeeping. Gone are the days of twelve-column accounting paper where you had to be an accountant to figure it all out. Enter user-friendly software that takes the guess work out of bookkeeping and accounting. There are several small business software packages that almost any novice can use. I personally like QuickBooks by Intuit® (www.intuit.com) and so do many Certified Public Accountants

(CPAs). If you can do the recordkeeping yourself and just let your CPA do the filings and your taxes, you can save hundreds of dollars in your business budget per month. Ask any CPA and they will agree, this is the service they least like to do, so they charge a premium for it. Learning this software can be easy and fun. Many of the business owners I know who use QuickBooks learned it by using it. However, the local community colleges and software stores regularly offer quick start courses in QuickBooks.

As I stated before, you need to always keep your business funds separated from your personal funds. There are a number of national banks that offer free small business checking these days so there is no reason why you wouldn't have a separate checking account. If you need to put money into your business, "loan-it-in." That way when you take out profits, you pay the loans first which are tax free withdrawals plus you can charge yourself interest and take the tax deduction too. If you take money out other than for payroll, ask your CPA for the most tax advantaged way to do so.

There are various tax advantages and disadvantages to withdrawing funds out of an S-corporation, C-corporation and an LLC. Depending on my strategy, I have used all three structures in my personal businesses. You need to develop a filing system to keep your receipts, invoices, etc. Even a shoebox is better than nothing. If you shop at office supply stores such as Staples, Office Depot, etc., you can get simple file systems from as little as $10 to $100 that will ensure your records don't get lost.

Good recordkeeping will be important if you need to borrow money after the business gets going. You need to know that it is very hard to borrow money in the name of a business that is less than two years old. Especially if you don't have records and cannot generate a Balance Sheet and a Profit and Loss a.k.a. Income Statement. The software packages I mentioned earlier make generating of these reports very easy. Remember, the reason most businesses fail in the first five years is not because the business idea was bad, but that the owner failed to keep good records and more importantly was undercapitalized from the start. The best way to determine the capital you will need to operate your business it to write a simple business plan. At CFS we have a team that can help with this, just ask for a quote.

All great lasting structures are built three times. First, they are built in the mind of the visionary; second, they are built on paper (the plan); and lastly, they are built in the physical world. A common saying is "people don't plan to fail, they simple fail to plan." For this reason, you need a business plan. Once you have a business plan (and it doesn't have to be a novel of a 100 pages) a summary is good enough (2-10 pages), then you can approach the Small Business Administration (SBA) about getting a business loan. If you need help with a business plan, you can contact our offices www.cfsfranchise.com, or just use one of the many resources online, or your local SBA office or resource.

A growing number of franchisors have made application and become listed on the Franchise Register with the SBA. The reason this is so important is that the SBA lending banks check this register and it speeds up the loan process and saves you a lot of paperwork. Of course, your credit rating will be a major factor in getting the loan. However, if the franchisor is on the register, you have a good little summary business plan, and a proper budget, getting the loan is easier than you might think for a franchise. One reason is the SBA knows that franchise businesses have a better survival rate than startups (a reason to choose franchising).

Your franchisor can help you develop the SBA plan once you have purchased the franchise. If you have not paid your franchise fee, look for the franchisor to not be as helpful. It is not because they are unfriendly, they are not allowed to give you projections and projections are a key part of the business plan; but once you have paid the franchise fee, they are allowed to help you.

For this reason, you may wish to use the services of a franchise consulting firm like Collaborative Franchise Systems, LLC (CFS); www.cfsfranchise.com. We have helped hundreds of prospects complete packages and plans. Usually form $500 to $1,000 depending on our relationship.

A lawyer or accountant can help you with this process as well, but expect costs of $1,500 to $5,000 to develop the plan.

Franchisor Relations

If you manage the business or you are an Absentee Owner, you will still need to develop a good working relationship with the personnel at the franchisor's home office. It is my experience that a good franchisor really looks at the business like a partnership and is very willing to work with you to achieve your success and therefore the franchisor's success.

All too often, new franchisees develop a mindset that the franchisor has replaced their employer and there is this master-servant relationship which is typically not one of trust. Franchisor and Franchisee need each other and both need to work in a spirit of collaboration and respect. A good rule is that problems only go upward and praise always goes downward.

I put this discussion here in the Manage chapter, because it is your options to manage the relationship or have the relationship manage you.

Begin early, to develop contacts on a first name basis. Don't be afraid to pick up the phone and call the president of the franchise. However, if you constantly jump over the staff to their boss, they will never trust you. This relationship of trust will be essential as time goes on. A franchise relationship is a long-term relationship and like marriage it takes work and communication to be the best it can be.

Puzzle Piece 8: Operate

To Operate is different than to Manage.

Manage is something you do. For example, you manage paperwork, money, resources and issues. When you Operate, <u>you lead people</u> in the execution of Protocols, Procedures and Plan-O-Grams.

After the initial opening order of supplies, products and services, you have to make sure that you establish inventory levels and oversee the operational purchasing. The bottom-line is you can't sell from an empty basket. I cannot tell you how many stores I have seen miss their income potential from under ordering, or to lose their profit to over ordering and even spoilage. Remember inventory is a form of cash. The franchisor will help you, but this is a very important operational issue. **Learn cash management**.

Protocols

Protocols are directly related to the selling of the product or service, where procedures are directly related to the delivery of the product or service.

Every product or service has a right way and a wrong way to present it to the public. In Puzzle Piece 6: Train, you may recall we discussed our client in the pet industry and how we solved the age-old problem of how to approach the client. The wrong way was: "May I help you?" If you recall that always get the answer, "No I'm just looking." For a Franchise this client, we developed a simple Protocol that did not result in a yes or no answer, but got the client to engage immediately. This secret Protocol was: "What type Dog do you have?" Seems simple right? Let's examine it closer together. First, the client could not answer yes or no, so that objective was met. Next, it let the client know that we cared about them and their pet. In fact, when we got the first answer (i.e., Poodle) we would naturally be able to ask the second question, "What is the Poodle's name?" See people don't care how much you know until they know how much you care!

Now we have two very important elements in a relationship with the client. First, we know the type and size of the dog, and second, we have a personal tie-in with the customer (remember Market Pull). From this point on, depending on our marketing strategy, we had a friend we were talking to and not a stranger. You want to determine these unique Protocols that your franchisor and the existing franchisees have developed over time. Some call these "ice breakers;" I think they are more important than that. Remember, <u>people who buy drills really want holes</u>. In your franchise or any business, <u>you must know what it is that people want; far more important that what you are selling</u>.

Relationships equal repeat business and repeat business is the life blood of every business. For your business there may be more than one set of Protocols. For example, restaurants may have different clientele for Breakfast, Lunch, and Dinner involving different menus. Protocols are more logical in the retail setting, but are no less important in the delivery of professional services. Protocols are selling techniques. **With every sales presentation, you have to know what you are closing for**.

In more complicated sales (other than retail); where more expensive products or even tougher intangible services are being offered; the sale is rarely made in the first conversation. Each conversation needs a goal of what you are closing for and that means likely a set of Protocols instead of just one. For example, if you are in professional sales, usually the first contact is to "set an appointment" to discuss how your product or service could help your client solve a problem or meet a need. Your goal is not to discuss your products and services on this call; it is just to make an appointment; therefore, your Protocol should avoid the no and get the time of an appointment.

The next Protocol is to create the need for your product or service in the mind of your prospect. Your final Protocol is to capitalize on the client's willingness to follow your advice and ask for the check (make the sale). I know, in franchise sales, we tell our Franchise Consultants that their sales cycle (series of Protocols) might easily take 45 to 60 days.

Lastly, Protocols, **you need to invest the appropriate amount of time** as a function of the gross profit made from the sale. For example, if your Protocol takes 15 minutes and the gross profit is $5.00; otherwise, you are losing money. In some professional sales, the sales cycle can be six months, but the gross profit might be $100,000. The key here is to balance effort and reward.

Procedures

If Protocols relate to sales, then Procedures relate to production and service. In food retail, the Protocol might be to sell-up from a hamburger to a Combo #1. The Crew would then have a Procedure to start the burger, drop the fries, pull the apple pie from the warmer, and draw down a 16-ounce drink.

Behind these Procedures would be another set of Procedures for ensuring that there are enough cups in inventory for this day, or week's sales. Also, that there are enough patties and buns to make the burgers; and of course, that the soda machine does not run out during the lunch rush.

For a manager, there are other Procedures, such as collecting hours and processing payroll. Others might be paying vendors so as to always be current and maximize the terms offered by a vendor. (See Purchasing) Another name for Procedures is checklists. Franchisors in the Operations Manual should provide you Procedures or Checklists for every major process in the business flow. As the owner/ manager you must be the most knowledgeable of these items or you simply will not be able to operate your business at a profit.

Plan-O-Grams

Consistency in the look and feel of a branded business brings comfort and trust to a customer. One of the reasons that franchise retail and food concepts do so well is a consumer knows that a hamburger in Pensacola, Florida will taste like a hamburger in Virginia Beach, Virginia. They are familiar with the menu, the method of getting the service, for the most part the price of the goods, and even where the bathrooms are. This is called business-format franchising.

If they are business people inviting clients out to lunch or dinner, they know the level of service they will receive and the impression it will make on the client. Plan-O-Grams are how you set-up your business layout. When I was younger, I worked for Campbell Soup Company as a Sales Representative for the State of Louisiana. From New Jersey, the marketing department knew what every shelf that contained their product looked like even in the smallest cities. It was critical for brand awareness by the consumer. Also, they were concerned with customer convenience (meaning Tomato Soup should always be in the same place in every store). Why? They know that consumers are creatures of habit and the more they can make it easier for the consumer to find their product, the more products they sell.

You will want to inquire to your franchisor for the Plan-O-Grams for your business. You are buying a franchise to get a brand and a business system. There is a reason that 1-in-8 businesses today are franchises. It is not because the franchisors are great at selling franchises; it is because the consumer wants the consistency. It makes them feel safe and comfortable in an ever-changing world.

Purchasing

One of the secrets to making money in business is to have terms on the product you sell in 30 days, and have your inventory turn, sell through, in 7 days. The result, on the payment of one invoice you can earn 4 times the profit before you have to pay out any of your own money. This is how Walmart, Costco, Home Depot and others compete. **Supply Chain Risk: You must account for slow downs in your supply chain.**

In this strategy, the vendor and your client are paying for the inventory, not you. By contrast, if you don't watch your Procedures and you let your staff just order products as they think you might need them; you could be sitting on inventory for much longer than your terms. **That is BAD Cash Management.**

At this point, you have taken your money and converted your cash into inventory. I have counseled a number of retail operators who can't figure out why they are making sales, but don't have the money. Worse yet, they have been spending their cash thinking they were rich and not paying attention to their payables to their vendors. You would expect the franchisor to have such Procedures in place to help you from making these mistakes and to help you maximize your profits. After all, this is why you bought a franchise.

While I agree, they should, it is still your business and that is why I have provided this section in the book. You must "Inspect what you Expect." When you go to training, when you open the store, and when you read the manuals; ask the franchisor, "Where are my Procedures?" "How do I know I am doing it right?"

Finding Customers

The best-looking business without any customers is the best-looking business with an "Out of Business" sign on the door. I know that is "Tough Love", but it is the truth.

Nothing happens until the sale is made. Throughout this book we have talked about Protocols, Procedures, Plan-O-Grams, Business Systems, Brands, Locations, Build-Outs, etc. None of that matters if you have no customers. This is an area where you must really investigate with the franchisor their plans for helping you generate the customers.

As an Operator, you need to make a central part of your plan and budget the development of customers. If you don't, the Overhead Monster will come in the night and still your Dreams away. If the franchisor tells you that you must spend $1,000 a week in advertising, don't cut it short; get the money in the budget to do as they ask or don't buy the business.

Investing in a franchise as we have said before is maybe the single largest purchase in your life. Don't set yourself up for failure and not do what it takes to get the customers. Don't get caught up in the fun of owning a business and forget to ask the franchisor how the customer is generated.

A Day In The Life Of…

I find that a lot of the franchisors develop their training around the concept of "A Day In The Life Of" the business. I really endorse this method. As an operator, you need to study the days in the life of your business. There are naturally slow days, on these days, you will need to reduce staff. Then there are the best days, on these days, you make sure you are well stocked so you don't run out of something to sell.

If there is any way possible for you to observe the franchise you are buying for an entire week, do so. Then interview the franchise owner to see if your observations are the way it really is. I promise you; it will help you in running your business. There will be good days and there will be bad days.

In retail, the reason they call the Friday after Thanksgiving "Black Friday," is for many of the businesses this is the first day all year that the owner's business is finally in the black (making a profit). That's right, for many retail businesses they survive January through October to make all the profit for the year in the last two months. You might ask, "Why not only be there in November and December, well that would work well if you could:

- Get a 60-day lease – NOT
- Train your staff – NOT
- Have Immediate Customer Awareness – NOT

See it takes an investment of 10 months to win for 2. If this is not right for you, then take a pass on retail as your franchise opportunity.

One of the great challenges in making the transition from Employee to Franchisee, is overcoming **the fear of the transition**. As an employee, you get a check on the 1st and the 15th and all you have to do is show up for work. Your boss or the business owner worries about all that other stuff. Then at the end of the year, when you have earned a wage and your business owner has earned a profit, you think, "WOW, born rich, which will never happen for me." Never thinking behind the scenes, the owner took the risk, had to average the working capital for the good and bad times, maybe went without income for a month or two and now is rich. But you got paid… welcome to Economic Slavery.

Are you still jealous? If so, welcome to business ownership, you will do what it takes to win. If not, maybe you really are an Employee after all. It's ok to know who you are!

CHANGE

Its Monday morning you finally got everything going your way and the mail person shows up and in the mail is a new merchandising Plan-O-Gram from the franchisor telling you to remodel isle 12 and change out the red shampoo for the green shampoo, then you blow your top! You say, "This is my business and who are they to tell me how to run my business." Well, they are your franchisor and you signed a franchise agreement to follow "their plan" of brand development and a business system. If you can't accept this, then maybe you are not supposed to be a franchisee, maybe you are an Entrepreneur and should not have taken that risk as a startup. Then again, you might be an Employee accepting what your boss will pay you as your future – Economic Slavery.

One thing I will promise you in the 21st Century business climate is CHANGE. It really doesn't matter if you are an Employee, Franchisee, or Entrepreneur, you must be able to accept change. Employees the least, and Entrepreneurs the most; but change is the only steady certainty in business today.

As a franchisee on a long-term contract with your franchisor, you will need to be able to operate your business in the dynamic 21st Century. Unlike franchises that even started in the mid-1950's, change has become a part of life for all of us. You must be flexible; be willing to grow with the marketplace. Those who embrace change will prosper and those who resist it will suffer if not pass from the landscape just like the dinosaurs.

Your franchisor cannot predict the future out even the 10 years of an initial Franchise Agreement. It is likely the landscape with change at least two to three times in that period. Think about Covid-19 – how do you plan for that?

Bottom-line be prepared for Change! In the famous words of George Santayana, "Those who fail to learn from the past are condemned to repeat it."

This reminds me of a great story of "How To Catch A Monkey!" To catch a monkey, you stand under the tree were the monkey's play and you flip a shiny coin. As the monkey's see the coin a desire swells up in their heart to have it. Next you tie a small neck gourd with a chain to the bottom of the tree. Flipping the coin, a couple of more times, you then drop the coin into the gourd and walk away. The monkey will then come down and stick his hand into the gourd and grip the coin making a fist. Of course, his fist cannot make it out the small neck of the gourd. You can now walk up and grab the monkey as he will not let go of the coin. His fear of loss of the coin is greater than his desire for freedom. If you are real with yourself, being an employee is like the monkey, you want the promise of the paycheck so you are caught up in a system of Economic Slavery.

What is the moral of this story you ask? If we become so locked on one idea and fear change, we like the monkey, become trapped in our own fascination with the way it "use to be" and perish. Be open to change and win. By the way, learning the reverse of this story and applying it to your marketing strategy is a powerful consumer attraction to your products and services. Feel free to call us and we can discuss this concept together, it is one of the more popular consulting services we offer!

Puzzle Piece 9: Evaluate

Every business opportunity has a life cycle. In the last chapter of Part I, we will discuss change and how important it is in the life of a business owner.

After you have owned your franchise for a season of time, you must continually evaluate your options. The following sections are some of the options franchisees should consider. Not all of them will be right for you.

Did you buy your franchise to replace your job, or did you want to create wealth?
Truth is that most single franchise units, may give you a pay raise, but won't create wealth!

In this chapter, I just thought it would be good to Evaluate some of the more common options that your contemporary franchise owners face: **Expand or Exit**.

Multi-Unit Ownership

Once you have learned to operate one franchise unit successfully, and have developed a second tier of leadership, where you could appoint a manager to run your current unit; then you may want to consider owning more than one franchise location. You might even launch your manager at those locations.

Successful franchisors learn early that internal growth from successful franchisees is the best way to grow their business and are quite often looking to existing franchisees to become multi-unit operators. The same is for you if you decide to be a Multi-Unit Franchisee. Depending on the franchisor, they will expect you to have successfully operated your first location for at least six months to a year before they would want you to become distracted with a second location. There are exceptions.

The good news is that often there will either be a stated discount for buying multiple franchises or a least room for negotiation in a reduction in the franchise fee on you second or subsequent units. Why? Well, the franchisor recognizes that normally a successful manager of one location will require less training and support than a new operator. I have read hundreds of franchise agreements and discounts of twenty-five percent (25%) on the second franchise fee are common, some even more. If you believe you are going to want to own more than one location, you can negotiate that in your first franchise agreement. I recommend that you get the help of an experienced advisor when undertaking this strategy. This is called a Multi-Unit Development Agreement (**MUDA**). Also see Area Development Agreements.

Multi-Concept Ownership

Depending on the terms of your franchise agreement, your ability to multi-task, and your ability to hire quality management talent; you might wish to own more than one business concept. **There is safety in diversification.**

This is not for the amateur or newbie. If you can't run one concept very successfully, running two could spell disaster. Franchisors want you to focus on their concept, so make sure as you negotiate your franchise agreement that you are allowed multi-concepts, if you ever expect to exercise it.

Multi-Concept Ownership has a strategic value in that you are diversifying your market risk as opposed to Multi-Unit Ownership where all your "eggs" are in one basket. Just remember this diversification, if not well managed, may introduce a management risk greater than the market risk of staying focused on one concept. Also, when you change franchisors, you likely will spend more since you will not be getting the multi-unit discounts. You should see Item 15 of the FDD as it relates to restrictive covenants. As well as review the Franchise Agreement, typically, Section 15 plus any Non-Compete, Non-Circumvention and Confidentiality Agreements you may have signed to make sure you will be allowed to own more than one concept. Likely, it cannot be a competing brand or concept; but may be a concept that uses the same customers.

Area Development Agreements

Area Development Agreements are similar to the MUDA strategy except you are making the decision "upfront" to lock in a particular number of units in likely the same market area.

Franchisors will work aggressively with owners who have the business experience and capital to deploy multiple units over a defined time period and market area. Depending on how you structure your Franchise Agreement, you will usually pay a premium up front that will be credited toward the unit franchise fees. If you then, take on the role of training and oversight, some franchisors will even negotiate payment of a portion of the royalty. These terms are more often found in Master Franchise and Sub-Franchisor Agreements.

Financing will be an important part of this plan. If you recall, many banks are reluctant to loan on a business that is less than two years old. If you don't have the capital, signing an Area Development Agreement that requires deployment in a specific time period can put your up-front fees, market exclusivity, and happiness at risk.

Master Franchise Agreements

Master Franchise Agreements are virtually the same as Area Development Agreements, except the area is much larger and the commitments to the franchisor much stronger. For example, it would be common for the Master Franchise to sell franchises within their territory where the Area Developer often is just building out their own chain of stores. Masters may be requested to conduct training, site inspections, oversee construction, and other similar services. Master Franchisees often receive a portion of the franchise fee on every franchise sold in their territory and in some cases may share in the royalty. It is very common for franchisors to sell the rights to a country as a Master Franchise Agreement.

Sub-Franchisor Agreements

Sub-Franchisor Agreements are Master Franchise Agreements where the Sub-Franchisor takes on most, if not all of the duties of the franchisor, for an agreed split of the franchise fee and royalty income. Sub-Franchisor 's may even have their own FDD with references to a Licensing Agreement from the Franchisor to use the brand and business system exclusively in a state, region, country or continent. Of course, the bigger the area, the more the Franchisor will require the Sub-Franchisor to demonstrate the financial ability to maintain the business requirements.

EXIT. Selling The Business

Not everyone who buys a business dies on the job, or only sells because it is not making any money. I have worked with franchisees that after purchasing a franchise contacted a serious illness themselves or a close family member and they just had to sell. Others for financial reasons, and some just because it was not what they really wanted to do after all. Then there are the ones who did make a profit and just want to take it.

Selling your franchise requires that you follow a specific set of rules called out in the FDD, Franchise Agreement and Operations Manual. For the FDD see Items 3, 6, 13, 14 and 17 and Sections 14 and 15 in the typical Franchise Agreement. Additionally, it may be advisable to use a business broker to negotiate the sale. For sure a lawyer to draw up the agreement. Rarely in today's business environment will a buyer purchase the existing corporation or LLC; but the transaction will be between your company and a new formed entity. The reason is the buyer wants the assets, but not the liabilities.

This is called a transfer.

For this reason, if your franchise unit requires a lease, have your attorney or real estate expert ensure that your lease can be assigned or sub-let to a buyer of your business. This is a very important step that should occur years before you sell. Check for this option when first negotiating your lease. Before selling you should also consult your CPA for the tax ramification of the sale. Quite often you can structure a deal where to minimize or defer tax obligations if you just do some pre-planning with your tax advisor.

Lastly, don't forget that with most franchisors, they will have the say as to if your proposed buyer will be able to purchase your franchise. At first, this doesn't seem right; after all it is your business. However, consider it from their perspective; they have to report to the public all changes in franchisee ownership, closings, and terminations. If you sold the business to an unqualified operator, the franchisor would have to report the sale and ultimately the failure of the unqualified franchisee (buyer).

If they approve the buyer, it takes you off the hook too as they have accepted your buyer as qualified, thus removing your liability to determine that. Moreover, all the agreements have words similar to the effect "that no reasonably qualified buyer will be refused." Again why? If they don't help you sell it then you will close your doors and it looks bad for the brand. Franchises that close are a certainty in the life of a franchise system. There are a variety of reasons which are beyond the franchisee just wanted to quit. For example, a restaurant is just down the street from a plant that employs 3,000 workers, has just closed and moved overseas (this does happen often). The franchise may close because its market moved away. It isn't because the business went bad, the brand was bad, or the system didn't work; there just simply weren't any customers left.

I see franchisees close and forget that the franchise could have been sold and relocated (with the franchisor's approval) to a new territory or location.

Instead, they just close and walk away. This is your asset, you wouldn't just walk away from a house you bought because you the neighborhood changed, don't do this with your business either.

Legacy Matters!

What is a legacy? For purposes of our discussion, it is the value you have built up in your business that belongs to your family in the event of your death, disability, or simply you just want to transfer to your children or other family members.

All too often we forget to plan for the risk of accident, illness, or not living long enough for our dream to reach its full potential. Insurance is a bag of money you rent until you get your own. For pennies on the dollar, you can transfer the risk of an accident, illness, or death through insurance. You should work with your advisors on insurance plans that are right for you. I don't sell insurance.

Don’t say it won’t happen. In my life my father and my first wife both became disabled before 40 and could not work anymore due to illness. My father did not have coverage and my family struggled on Social Security. My wife had coverage that paid 66.67% of her income plus her health benefits until age 65.

Death. There are three types of life insurance you need to consider:

1. **Personal Life Insurance** (which is not tax deductible) to cover your premature death and enable your family to have an estate as if you had worked your entire life in the business and earned that estate. Term insurance is likely the least expensive to purchase for a period of 10, 20, or 30 years convertible to decreasing term until age 65 or 70.

2. **Credit Life Insurance** to cover the debt on the business, which may be tax deductible. So that in the event of your death, the business could survive to be run by a family member or until sold. You should also purchase a disability rider to make these loan payments in the event of a disability.

3. **Key Person Insurance**. This insurance provides a lump sum to the business to hire your replacement and compensate the family as if the business was sold. This is especially useful where there are partners. This is almost always a tax-deductible business expense.

A Will or Trust. A tragic mistake is to have a business and not have a will or trust to determine who will have ownership in this asset in the event of the owner’s death. In absence of a will, the state will enter the business into Probate which can take 6 months to 2 years to resolve without a will. During this time, every decision about the business may have to go before the court before an action can be taken. You can see now why the insurance is so important. Beneficiaries of insurance are outside of Probate.

Wills don’t have to be expensive, shop around. If you are using legal services like a Legal Zoom, or similar, the Will is usually included in their fee.

Planned Sale of the business to a relative or associate can be a smooth transfer, and with the advice of a lawyer and accountant, you can safely manage the capital gains issues as well. The key here is in the words “Planned Sale.” Hopefully years and for sure months before this takes place you will work out a strategy that conveys the business to others, maximizes your income and provides stability for your family and the employees.

Lastly, if you remember the 4-Way Balance from Puzzle Piece 1, your legacy as a business owner is how you balanced the privilege of business ownership. Did you:

- Make time for your family?
- Did you take vacations and enjoy the freedom of ownership or did you enslave yourself?
- Were you a good employer and treated your employees the way you always wanted your employer to treat you when you were in their shoes?
- Were you a good corporate citizen and support community events and projects with your prosperity so that it created a sense of good will about you and the business, or were you Ebenezer Scrooge?
- Did you sell your products at a fair but profitable price so that your family, employees, vendors, lenders, suppliers and customers all benefit by your being in business? I bring this up, because for every person that decides to go in business for themselves, I have heard it estimated that at least 14 others have a job.

Being a business owner is good for our economy and something to be proud of.

- Did you pay your taxes on time?
- Did you put money aside for your retirement?
- Did you save money for your family's needs and emergencies?
- Did you have a good time?

These are some good questions to consider about your legacy before you begin the journey of owning your own business. You see owning a business is a noble adventure with high risks and high rewards. But it is more than just about you. It is about a community of people that work together for the good of all.

This is why I am proud to say that I am a business owner,
I hope you will be able to say that too.

Remember the story in Puzzle Piece 1, this couple had planned their Legacy and were enjoying the fruits of business ownership. Consider your legacy before you start.

Because if you don't know where you are going, how will you ever know if you get there!

Summary: Part I – Owning A Franchise

It is my true hope that you have benefited by reading this book. It was written for the buyer of a franchise from one who has owned a franchise, been a franchisor, and consults to an industry of franchisors and franchisees.

I purposefully did not add a lot of filler in this book. I left that to the novelist. I felt if you were sincerely on a journey to own your own business you would appreciate a to-the-point, reader-friendly book on the subject. In a sense, I went for quality not quantity and wanted to show respect for your time. In its first version we distributed over 40,000 books. Now with this new edition in 2022, I would be pleased if we gave away 100,000 copies or more.

I see the readers of this book as a collaborative community of business owners committed to helping each other succeed in a business strategy called franchising. Follow Collaborative Franchise Systems online (www.cfsfranchise.com) and give us a "Thumbs Up" when you can.

As you read this Summary, you will quickly know where to turn in the book and find what you need. More so in the Access chapter, but throughout the book, I identified for you several key perspectives as to **"Secrets That Your Banker and Employer Won't Tell You That Are Costing You Millions of Dollars in Your Lifetime!"**

I have highlighted in **BOLD** some key words and phrases I trust you will remember from reading this book. This is not just a clever choice of words, but a reality of how the current business and financial system works in the United States. There is a reason that over 90% of individuals reaching Age 65 are either dead or dead broke. More and more retirees have to either learn to live on half what they couldn't live on before, or find an additional source of retirement income (the retirement job). I personally tried retirement and I won't do that again. I enjoy helping people more.

Using the Rule of 72's, I showed you how to evaluate the investing of Capital, so that your money will work for you, instead of you working for it. I have been told that the example of investing $1,000 in a bank and what you earn versus the bank has opened a lot of eyes to why American's suffer from "too much month at the end of their money."

If you consider that a successful business has Earnings Before Taxes (EBT) of about 20 to 30%, while paying its owners an income to work in the business, then applying the Rule of 72, I believe there is a compelling argument for you to stop "Renting Your Life" to your employer and start "Owing Your Life" as a franchisee. I hope you agree that you just can't wholesale your services to an employer anymore, who then retails them to the public keeping all the profits so you can earn a wage and retire in the 90%.

In the Assess chapter it was my goal that you would learn about YOU and where you currently are in life and what information you would need to know in order to make an informed decision about your future. I felt if you understood what it takes to make your dreams come true, you would learn to **Minimize the Distractions and Maximize Your Potential Income**. With your Dreams understood, you would then **choose the right Vehicle that would carry you to your Dreams**. To do so, you would need to **understand how your Belief System was formed**, how you come to **make the Assumptions about life**, and **how that affects your Behavior**. It is essential that you master **how you respond to Desire with Action** and that we are all **Creatures of Habit** and you learn which one you are. "**Striking a Balance**" between the major life forces of "Family, Finances, Work and Health" is essential if you are to manage your business and not have it manage you.

Having YOU well understood, we next covered **how to approach your Opportunity** by "Staying at Home" or "Commuting to Work." We examined the advantages of "**Owning versus Renting Your Life**." A business owner must be able to **Understand Risks that affect their Business Decisions** such as Relationship, Ownership, Management and Investment Risks. Assuming you are ready to **Own your life, Invest in you, and your Family is in Alignment with your Dreams**, it is now time to proceed to find the right business to own.

The next step was to **Gather the required information** from a variety of public sources such as the Internet, Library, Bookstores, Consultants, Advisors and interview the Franchisors whose concept matches your vision for you in business. This chapter is a quick resource guide to each of the gathering sources, with all the websites for each category listed, to help you find the information you need. Once you Gather the information you need, it is time to **Investigate which of the approximate 4,000 franchise concepts meets your profile** of the right business for you. It can be confusing until you learn to **sort out Opinion and find the Facts**.

With your facts in hand, you can make the right decision of the franchise business for you. After completing your Analysis, it is now time to **contact the Franchisors using the "3-2-1 Strategy."** Being honest with the franchisors about your interest, you now must compete the two best franchise concepts to find the one that best meets your goals. You can make your competitive analysis from the FDDs and Brochures which may require you to complete some form of a **Confidential Questionnaire** for the franchisor first. In this chapter, we take you through each of the 23 required Items contained in every FDD. As you continue speaking with the Franchisor, the existing Franchisees, and following up on your Contacts; it is recommended that you attend a **Discovery Day** before making your final Decisions about which franchise concept is best for you. You should **never sign the Franchise Agreement at the Discovery Day** unless you have been able to **Negotiate to obtain your most favorable terms**.

During the Negotiation Process **you should seek the Advice of Professionals such as Lawyers, CPAs, Consultants, and Real Estate Experts.** You will want to **study the Territory being offered to you** and understand the Customers that you will be able to access in this Territory. **Picking a Location will usually take time**, so you have to be patient and follow the process. Once you have found the Location you want, you must **get the Franchisor's approval of the Location and before you Sign the Lease** make sure you understand all the issues surrounding the Build-Out for your Location.

After you have completed the Negotiation process, it is now time to begin the make the Purchase of your franchise concept. To assist you, we reviewed "**What a Franchise Is**" and "**Why the Brand and Business System" are so important**. Understanding the Costs is essential in making the right Purchase and more importantly in determining **how to Find the Capital** you will need to purchase your franchise.

Before you buy, make sure you and an advisor have thoroughly reviewed the Franchise Agreement(s) and that all requirements are understood. Remember, that **once you have paid the Franchise Fee, it is rarely refundable even if you never open your Franchise**. Now that you are the proud owner of a Franchise, **you are in business for yourself, but not by yourself**; you must schedule to **attend Training**.

One of the reasons that franchises are far more successful than independent startups is Training by the Franchisor that **assumes you know nothing about the business you purchased**. You learned that **preparing to go to Training is maybe as important as attending Training**. We explained the acrostic **T.A.S.K.** and how to evaluate yourself as a manager and your employees as to Talent, Aptitude, Skills and Knowledge. You found that **Protocols were essential to overcoming objections** in the sales process and **Procedures were how you would Manage and Operate your Franchise**. Further, you are in a System of Franchises and the **Power of the Mastermind** will help you **take advantage of Lessons-Learned to avoid the costs of experimentation** if you were on your own.

Often these valuable Mastermind insights can save you more in your first year of business than the cost of the Franchise Fee. Trained, you **have to prepare to Manage your business**. There is a lot of energy that needs to be invested in the **Pre-Opening Planning** and the Franchisor is counting on you to do your part. You will need to learn about **Managing the Paperwork** and essentials surrounding your Personnel and the business. Developing **relationships in the Franchisor Home Office** with key Support personnel will make your journey easier. This is not a relationship of them-you, it is a team effort where you and the franchisor have to be patient with each other to allow the details to get worked out.

The franchisor is your partner, not your boss, you have a right to communicate your feelings and they have a right to tell you why it needs to be their way, versus your way. Finally, it is **Grand Opening** and now the real test; can you **Operate the business that you have Purchased and Trained to Manage**? It is now time for you to lead your employees and set the example for how they will run your business when you are not there.

You will be using the Franchisor’ s Business-Format System to **Inspect What You Expect!** Train your Team on the Protocols (**Drill-For-Skill**). You will be able to measure the results and know when Employees get lazy and don’t follow the Protocols. Teach them “**If you can Lean, you can Learn.**” A successful franchise operator embraces the **Procedures and Plan-O-Grams** provided by the Franchisor. You made the investment in the Brand and Business System, to not follow the game plan as prescribe by the Franchisor in the Protocols, Procedures, and Plan-O-Grams is to diminish your own future Capital growth and bring unnecessary Risk into the business model.

Work with the Franchisor and their Marketing Plan to Develop and Find your customers. As you Assemble the Plan in your head, think of it as “**A Day In The Life Of the Business**”. Take it day-by-day, line-upon-line, principle-upon-principle, here a little there a little and the next thing you know, you will be a successful Franchisee. However, **be ever open to Change**. Managing Change and accepting it as a way of business life will cause you to survive in tough times when others fail who are resistant to change.

After some time of Managing and Operating your Franchise, you will need to Evaluate the options available to you. In this chapter we looked at **how to Expand** within the same franchise concept by **owning multiple units**. It may be as time moves on you will need to **consider diversification by adding another franchise concept to your business portfolio**. As a Multi-Concept Operator and **MUDA**, you have to learn to multi-task and to hire employees you can trust. **Keeping your Balance in Life will be a challenge**, but you are now multiplying your efforts through others and mastering the growth of your Capital. We also reviewed other agreement types such as **Area Development Agreements, Master Franchise Agreements and Sub-Franchisor Agreements** and the opportunities and financial commitments that may be required. At some point in your business life, you may **wish to Sell Your Business or create a Legacy for your family**.

In this chapter we discussed the advantages of using **Insurance as a Risk Transfer Vehicle** so that with little cash in the beginning you can overcome the unforeseen accident, illness or even death of yourself or a key employee. In short planning your **Legacy Matters!**

Final Thoughts. I hope this book has helped you Solve The Puzzle Of Owning A Franchise. I wish that when, I first got in the business someone would have given me an easy to read, concise view of what it would take to get the job done.

For a time in my life I lived in Colorado Springs, Colorado right at the base of Pike's Peak. We often mused about making the 10.5-mile journey by foot to the over 14,000-foot summit. It was hard to convince people to walk up. However, it never failed that if I told them I would fly them to the top, almost everybody said they would walk down. Amazing it was the same 10.5 miles. If fact truth be known, it was often harder to walk down, than up. However, everybody could visualize walking down.

In this book I have flown you to the top of owning your own franchise. I have given you the nine signs (Puzzle Pieces), (key result areas) along the trail so you can't get lost. Won't you join me and the nearly 800,000 others who are making owning a franchise in the United States one of the greatest business ownership experiences for our families and our communities.

Together, **we are taking the American Dream back from the banks and employers one franchise business at a time**.

Welcome to the World of Franchising!

Robert A. Needham, JD, PhD
A Fellow Traveler

P.S. Parts II and III are for Franchisors, therefore we have not included them in this PDF.