

FranNet - SBA

"Introduction to Franchising"

Visual	Audio
Graphic: Introduction to Franchising Sponsored by FranNet and the SBA	V/O Welcome to "Introduction to Franchising," an online seminar presented in three modules co-sponsored by FranNet and the Small Business Administration.
Graphic: Module I What is Franchising?	V/O Module One. What is franchising? In its simplest form, a franchise is a license to use the name, trademarks and proprietary products of an existing company. Owning a franchise will allow you to distribute the company's products as well as utilize their business systems. These may include national marketing, advertising, human resources, accounting, point-of-sale information, site selection, and site acquisition. In exchange for these rights and services, the franchisor receives an upfront fee for the rights to a geographic area, as well as royalties based on sales. Franchising is a proven, systematic approach to starting a business and staying in it. A good franchise offers experience, name recognition, group purchasing power, training and ongoing support, as well as the support of other franchisees. At its core, franchising is a strategy designed to gain disproportionate market share. When franchising works well, it works incredibly well.

<p>Graphic: Module II Is Franchising Right for You?</p>	<p>V/O Module Two. Is Franchising Right for You?</p> <p>Franchising is experiencing exponential growth with more than a trillion dollars a year in sales. According to the International Franchising Association (the IFA), franchising accounts for only 10 to 12% of all retail and service enterprises, yet it enjoys over 50% of the revenues in these sectors.</p>
<p>Graphic: Many Choices</p>	<p>V/O</p> <p>There are approximately three thousand different franchise companies operating in eighty different industries. The five basic categories are food, automotive, retail, business services, and residential or personal services.</p>
<p>Graphic: Time-Sensitive</p>	<p>V/O</p> <p>While name recognition is highly desirable, by the time a franchise becomes a household word, the opportunity for local ownership may be lost. Market dominance has already been achieved and no new franchise owners are needed for growth in that locale.</p> <p>Even if these brands aren't visible, the franchise areas may already be sold and under development by existing franchisees.</p>
<p>Graphic: Strategy To Attain Growth</p>	<p>V/O</p> <p>So how can you become successful in a saturated market? A wise approach is to find a fragmented market. There are numerous mom-and-pop independents that flourish because of high demand and profitability. However, these independent owners tend to lack sophistication in management, customer service, marketing and other key areas. Given the right tools and</p>

	economies of scale, it may be easy to out-compete them.
Graphic: Franchising Pitfalls	<p>V/O</p> <p>As in any business, there are good franchises and there are bad franchises. It's important to know the difference. Buying a franchise can be expensive and it's easy to overextend. Since franchising is a legal partnership, franchisees must sign a binding contract that protects the franchisor and the brand by requiring that a specific system be followed. As in any business, success is not guaranteed and there will always be risks. But having a proven franchise system helps minimize the risk.</p>
Graphic: Good Franchises	<p>V/O</p> <p>So the question arises: if I'm looking for a good franchisor, what is a good franchisor looking for? Good franchisors are looking for team players who share their vision. They need colleagues willing to follow a proven system of success who also have good management, people, and marketing skills. Good franchisors have the same goal you do: to build a future with a solid partner.</p>
Graphic: What Makes a Franchise Industry Leader?	<p>V/O</p> <p>Franchise industry leaders have proven systems that are easily replicated with predictable results. Leading franchisors are highly proficient at their core business. They are growth-oriented, have the ability to motivate franchisees, and provide a vision for the future. Within their system, they are also interested in new and exciting ideas presented by the franchisees.</p>

Graphic: What Good Franchisees Need	<p>V/O</p> <p>To be a successful franchisee, you ideally need good management and people skills, a minimum of \$50,000 in liquid assets, the ability to cover your living expenses for six to twelve months, and the support of your family.</p>
Graphic: Financing Options	<p>V/O</p> <p>There are many financing options, but typically 30 to 50% of the total investment will be liquid. Financing may cover the remaining portion of investment, including the necessary working capital, which is relatively easy to obtain. Home equity lines are popular choices and IRA funds can be utilized without penalty. In considering your financial goals, it's important to remember that there is no direct correlation between the cost of a franchise and the return on investment.</p>
Graphic: Module III How to Choose the Right Franchise	<p>V/O</p> <p>Module Three. How to choose the right franchise.</p> <p>As you consider franchise possibilities, we recommend that you use this type of investigative process.</p>
Graphic: Step 1: Determine Your Objective	<p>V/O</p> <p>The first step is to determine your objective. This initial phase will help you to identify self-employment benefits, review the best choices, set your goals, do the proper research then make a decision to continue or not.</p> <p>In establishing your goals, consider these questions. Are you concerned about financial security in a volatile job market? Do you want more time for your family or to pursue personal interests? Do you desire independence</p>

	<p>and control? Challenge? Recognition? Prestige? Maybe you're looking to build equity for retirement? Perhaps your goals encompass each of these areas.</p> <p>Another aspect of step one is to plan an exit strategy. This involves considering what you want in the future. It may be to back away from day-to-day operations, sell the business, retire, or give the business to your children. Business ownership can offer these advantages.</p>
Graphic: Step 2: Research & Consultation	<p>V/O</p> <p>The second step begins by focusing on your short-term strategy: to find a business that you can own where you can maximize chances for success. The objective is to find a franchise where the upfront investment is affordable without borrowing too much, and ensuring that your personal expenses are covered for six to twelve months.</p> <p>Researching franchise opportunities is essential. Opportunities can be identified on Internet search engines using the key words "business opportunities" and "franchising." You can also review magazines such as <i>Entrepreneur</i>, <i>Success</i>, or <i>Inc.</i> Another good resource is the <i>Wall Street Journal</i>, <i>USA Today</i>, and various trade journals.</p> <p>As part of the process, we recommend that you seek advice from business consultants, accountants, franchise attorneys and other business experts. It's also a good idea to network with other business owners, Chambers of Commerce, and friends. Find trusted organizations and individuals that can guide you every step of the way as you research and prepare your decision on a franchise.</p>
Graphic: Step 3: Franchise Decision	<p>V/O</p> <p>The third step is to make an informed</p>

**Graphic: Government Regulations:
The Offering Circular**

decision. Over the course of sixty to ninety days, you will select franchises to consider. We recommend that you initially make phone interviews with franchisors and franchisees then visit the favored franchisors' corporate headquarters. It's important to make a good impression, ask a lot of questions, meet their support team, learn about their culture, and make sure that you fit.

All franchises are required to supply a Federal Trade Commission disclosure and update it annually. No earnings claims beyond those in the Offering Circular are permitted. There should be no pressure to buy and receiving it implies no obligation. The "ten day rule" requires that a franchisor send a complete Offering Circular no less than ten business days prior to the signing of a license. The FTC also mandates that the franchisor deliver ready-to-be-signed documents no less than five business days prior to the signing. Specific statutes may vary by state.

During step three, you will want to get professional help on your team. This means identifying a possible franchise consultant, franchise attorney, accountant, lender, and a professional site locator.

Step three also involves calling and visiting at least six to ten target-specific franchisees before making any decisions. We recommend that you target your list carefully. Find people with your background and level of experience as well as those who have attained what you view as your model for success. Remember to keep an open mind.

As you complete step three, you will attend the franchisor's Discovery Day, review the agreement with your

	franchise attorney, and make a decision: yes or no.
Graphic: A Unique Approach	<p>V/O</p> <p>Remember that this is about you. Make sure that you understand your goals, criteria and needs. Then focus on the best possible companies that meet these needs.</p>
Graphic: What are Your Next Steps?	<p>V/O</p> <p>If you're interested in franchising opportunities, begin by outlining a business model. If you need help creating your model, we suggest using an experienced and trustworthy franchise consultant.</p> <p>The services of many franchise consultants are free to prospective franchisees. The consulting fee is paid by the franchisor out of the franchisor's closing costs.</p> <p>The primary goal of the franchise consultant is to match the needs, skill sets, and business objectives of the prospective franchisee with the right franchise and franchisor.</p> <p>A franchise consultant also helps guide the research process and can offer advice on financing options.</p> <p>Your franchise attorney's responsibility is to review of the Uniform Franchise Offering Circular (or UFOC), the lease agreement, and the incorporation documents, as well as provide relevant legal advice.</p> <p>The franchise accountant helps you by reviewing the franchisor's financials, which include a Performa spreadsheet.</p> <p>A reliable lender will help secure the financing that best fits your business model.</p> <p>And a professional site locator is valuable in selecting and securing the right site for your franchise.</p>

Graphic: The End Result	<p>V/O</p> <p>The end result of this process is the ownership of a financially rewarding and personally fulfilling franchise business.</p>
Graphic: Additional Resources	<p>V/O</p> <p>The SBA offers many resources to help you build a successful franchise and has over 60 locations around the country. The SBA maintains a powerful resource via the web at www.sba.gov where you can explore financing options, management assistance, contract opportunities and other useful business information. The SBA also offers a national network of training and counseling resources, such as the Small Business Development Center with over 100 locations across the country. The SBDC's provide management assistance to current and prospective small business owners.</p> <p>SCORE is another powerful source of free and confidential small business advice to help build your business, with more the 10,000 volunteers available to share their wisdom and experience.</p> <p>Women Business Centers assist women in achieving their dreams with over 90 centers located around the country.</p> <p>Finally, the Small Business Training Network is a virtual campus available to meet your needs 24 hours a day. To learn more about any of these organizations click on the links at the end of this presentation.</p>
Graphic: Make it Happen	<p>V/O</p> <p>The most important thing to remember is this: if you don't have a dream that you're working for, then you're working for someone else's dream!</p> <p>Thank you for joining "Introduction to Franchising," an online seminar co-</p>

	sponsored by FranNet and the Small Business Administration.
Graphic: Feel Free to Refer	V/O If you found our seminar helpful, feel free to refer it to your friends and colleagues.