

THE PALM BEACH
Letter



PALM BEACH WEALTH BUILDERS CLUB

Safe strategies for the not yet wealthy

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Extra Income Opportunity #17:

Franchises: Buying Into Proven Success Formulas

By Bob Bly

A popular business opportunity is to own and operate a franchise.

In franchising, companies decide to expand by selling licenses to individuals or other businesses. A franchisor is the company selling these licenses.

The license holders, called *franchisees*, operate a branch of the franchisor's business. The individual franchisees own these locations—stores, offices, or restaurants—not the franchisor company.

As a franchise license owner, you can own and operate your own business. The restriction is that you must follow the franchisor's operational requirements.

To maintain their reputation and brand image, franchisors keep strict control over their franchise owners. Retail locations must conform to the company's corporate guidelines. The individual locations must follow operational procedures specified by the franchisor.

The franchisee must buy his supplies, raw materials, and products from the franchisor. They are forbidden to sell other brands; if they do, they'll face severe consequences.

Not long ago, I walked into a local Baskin-Robbins and was shocked to see them selling Hershey's ice cream. The following week, the store was shut down and



shuttered. Lesson: Don't violate your franchise agreement, even in a minor way, even once. If you get caught, penalties are swift and severe.

There are around 3,000 companies selling franchises of their business today.

Approximately 750,000 Americans are franchise owners. They generate combined annual revenues of around \$800 billion.

For A.S., buying a franchise met her desire to be the boss. She says, "With my own business, I have the advantage of having my own time and my own terms."

G.C. was a pizza delivery driver at a Domino's until he saved up enough money to buy three of his own locations. He now generates \$200,000 per year in personal income.

J.S., whom I went to college with, bought a franchise that he operates out of a van. He travels from client to client repairing torn leather and vinyl—mainly on couches and car seats.

I joined the Wealth Builders Club near the end of last year, 2013. I have read Mark's book, The Pledge, and have now clearly defined my seven year goals, my one year goals, etc... I was never one to attempt to plan that far in advance, and I can't tell you how much of a difference it has made it giving me true clarity as to what it is I need to be doing on a daily basis. Amazing! Many, many thanks. Club member Steve M.

Is Owning a Franchise for You?

When Mark began writing essays for the Extra Income Project, he promised to show you dozens of ways to generate more cash. A tall order, for sure.

To make good on that promise, Mark and his team brainstormed for months. They determined the specific criteria each opportunity had to meet before we brought it to your attention.

Let's review these criteria. We want to see how well owning a franchise passes our litmus test...

- **First: Anyone should be able to do it (it's easy and simple to understand).**

A huge advantage of buying an established franchise is that it is a "done-for-you" business launch.

You do not have to reinvent the wheel. Someone else has already thought out and tested the business. The franchisor provides detailed operations manuals you can follow line-by-line to ensure success. You just paint by the numbers and follow directions.

Franchises dramatically reduce your chances of failure. That's because

the franchisor has already proven the business concept at other locations.

When you open a restaurant, risks are high because you don't know if local residents will like the food or ambiance. But if you open a McDonald's, you know in advance that consumers like and buy McDonald's food.

These franchise businesses don't take a rocket scientist to run. They are restaurants, retail stores, or service businesses such as tax preparation services or hair salons—usually nothing too complex.

- **Second: You should be able to start every opportunity from the comfort of your own home.**

Here we violate Mark's criteria. You can have a home office and work there part of the time. But in most situations you must be on-site to manage and supervise.

Franchise businesses are typically retail locations or offices outside your home. Ideally, the location has heavy car or foot traffic. And your storefront has maximum visibility. A few, like J.S.'s leather-repair service, are mobile.

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- **Third: You can choose to work part-time or on the weekends.**

As we just noted, franchise owners who work either alongside employees doing the manual labor or as the general manager will work full-time.

Again, the only way to reduce your hours is to hire others to do the work. Many owners do this. You can even hire a manger so that your franchise makes money with minimal labor on your part.

- **Fourth: The opportunity should not require a tremendous amount of start-up capital.**

Now, you probably think it costs a fortune to own a franchise business. And some do. Among the most expensive is McDonald's.

Though the franchise fee is a relatively modest \$45,000, the total investment on average is about \$1 million. That's why McDonald's won't sell you a franchise unless you have \$750,000 in liquid cash.

Fortunately, besides restaurants, many other franchise opportunities don't require a building or space. So you can get in for considerably less.

Steve Marr, a consultant who helps match aspiring entrepreneurs with the right franchise, says many of the franchise businesses his clients buy are in the \$25,000-50,000 range. Says Marr:

A common question is, "What is an affordable franchise?" I use the loose definition of an investment between \$10,000-60,000 cash. A franchise investment may cost more, but with good credit and 30-40% down, the rest can be financed.

Some franchisors consider the owner's salary as part of the startup—others do not. When I work with a client, I avoid stating what they can expect to make, for legal reasons. I do help them develop their own understanding on the likely profit.

I look at earnings over time. Most franchises require 6-12 months to make a profit. Franchisors, afraid of lawsuits, often do not publish what a franchise will make.

My experience from checking with franchisees and other sources would be: year one—\$20,000, years two and three—\$40-60,000, and after four years—\$80,000-plus.

This includes the owner's salary and profit. Many of the lower-cost franchises will not generate income in the \$100,000-plus range. The owner must understand they will need to build multiple units to grow a large income.

- **And fifth: You should be able to make \$50-500 per hour.**

Let's say that as a franchise owner you earn \$60,000 per year after a few years in the business. Assuming you take only two weeks of vacation, that works out to \$1,200 per week. Working 40 hours per week, you would earn a respectable but not spectacular \$30 per hour. So, on an hourly basis, franchising falls short of our goal.

However, as the franchise owner, you also build equity in the business. And when you become successful, not only can you make more money, but you can hire someone else to be the manager. This will significantly reduce your own hours. Another way to increase your earnings is to expand beyond owning just one franchise location. For

example, E.B. owns 61 McDonald's franchises that earn an estimated \$135 million annually.

One of the biggest overall advantages of owning a franchise is that you are buying into an existing operation. It comes with a proven business formula and an established brand.

You probably have heard the often-cited statistic that only one out of four start-up small businesses remain in operation after five years.

By comparison, after five years, nine out of 10 franchise businesses are still around.

Who Buys Franchise Licenses?

Who is most likely to buy a franchise? Steve Marr again:

I would divide this into three camps. The first is full-time owners and operators. They will want to follow a passion. They may not have thought of a business, but unless they can see themselves doing the work and filling a role they won't want to move forward.

Full-time operators will be working in the business every day. If they don't want to do janitorial, they won't, even if they could make money. If a candidate can't see himself doing furniture repair, they will pass.

Executive type businesses are the second category. The owner works on the business, not in it. They market, manage staff, and do accounting. This group may be interested in several ideas, like a maid business, handyman service, or home care.

Those in this group are likely open to several ideas. Their passion is more management than the actual business. They still need to develop an interest in the business to be successful, but they are open to different ideas.

The third group is passive owners who want to invest cash for a return. They are very interested in the rate of return. Again, they may not be interested in some businesses, but they usually will get interested in those that can generate a good return. The focus is on the return first, the business type second.

It's important to know which category you fall into. If you are going to be working in the business full-time, you will be happier buying a franchise whose products you actually like. If you are going to be a hands-off owner, that is not as important.

Find the Franchise That's Right for You

There are several ways to identify and research franchise opportunities that meet

your interests and budget.

One great resource is the website www.franchisegator.com. The site lists any franchise for which the license fees are in the \$10,000-50,000 range.

Another is *Entrepreneur* magazine's [list](#) of 2014's top franchise opportunities. Unfortunately, these are also the ones with the highest start-up costs.

Fortunately, in 2012 *Entrepreneur* also published a [list](#) of the most affordable franchises. For instance, you can buy a commercial cleaning business for around \$35,000 or a glass repair franchise for about the same price.

Running the Business

Because franchises span so many different niches—from restaurants and carpet cleaning services to travel agencies and lawn care—the requirements of running and marketing each business vary with the particular product, industry, or market.

While they are not specifically for franchise owners, Mark has written a number of excellent books on starting and running a successful business, such as [Ready, Fire, Aim](#) (John Wiley & Sons) and [The Reluctant Entrepreneur](#) (John Wiley & Sons). You may also refer to Mark's "How to Start a Million-Dollar Business" essay series within the Wealth Builders Club. And if you are over age 50, you may want to check out my new book, [Start Your Own Home Business After 50](#) (Quill Driver).

When it comes to marketing your business, many of the franchisors provide ready-to-use ads for the local newspaper, as well as other promotions. Since other franchisees have already tested and proven that these advertisements work, it makes sense to run with them. Some franchisors may even require that you do so when you advertise.

Where to Go From Here

The next time you patronize your local Mickey D's or other franchise businesses, talk to the owner/operator. Ask him about running the franchise. He may be willing to share his opinions and experiences, as well as offer insights on franchising in general.

If you see a franchise business that interests you, contact its headquarters and make an inquiry. Or, if the idea of owning a franchise intrigues you but you can't

*I just read Extra Income Opportunity #7 on increasing one's income. Over the past two decades I have read scores of books and pamphlets on income and self-improvement, and I must tell you that this essay boils the issue down to the most succinct description of the philosophy necessary to succeed that I have seen... I hope to educate my sons and their wives on the basic fact you espouse... To make more you have to be worth more! Thanks for providing this invaluable service to your readers! Club member
George K.*

find one that fits your interests and budget, visit [Franchise Direct](#). The resources on this website can help you find franchise opportunities that best suit you.

Best,

Bob Bly



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