How to Select a Franchise
Greetings from the Publisher

Want to own a business but don’t want to start one from scratch? If so, a franchise may be a perfect fit.

Franchise ownership is popular with business people and entrepreneurs who want to own their own businesses -- but who prefer to start with a proven business model, established systems and processes, and a well-known brand.

Franchise ownership also appeals to those who have left corporate careers and are looking to try business ownership for the first time.

We created this Franchise Guide to help you decide if a franchise is right for you.

This is one of a series of eBooks published by our company, Small Business Trends, an online resource for small business owners. Our online publication has one sole focus: serving small business. We provide from-the-trenches advice. This one phrase sums up our mission: “Small business success… delivered daily.”

This eBook consists of a collection of articles written by franchise expert-in-residence, Joel Libava (known as The Franchise King). They are written in Joel's unique conversational style – blunt, informed, yet tinged with humor. For convenience we’ve gathered them together in this printable document. You can also find all of the articles online at: http://smallbiztrends.com/franchise-guide.

Wishing you the best in your quest,

Anita Campbell,
Founder and CEO
Small Business Trends, LLC
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Introduction to Franchising

The business model of franchising has been called one of the greatest ever developed. Its popularity has to do with its proven track record of success, and the relative ease in which people can become franchise business owners.

Franchising contributes a sizeable amount of dollars to the U.S. economy, and some of the data that I’ll be sharing with you here will bear that out.

It used to be that folks would graduate from college, land a well-paying corporate job, and move up the ranks in the company until it was time to retire. Those were the days....

Today, people are graduating and landing corporate jobs, but they’re finding themselves out of that job 4 years later. (According to the Bureau of Labor Statistics, the median number of years that wage and salary workers had been with their current employer was 4.4.) Is it any wonder that we’re seeing more and more people take a serious look at other career alternatives, including franchise ownership?

What Is A Franchise?

A franchise typically involves the granting by one party (a franchisor) to another party (a franchisee) the right to carry on a particular name or trade mark, according to an identified system, usually within a territory or at a location, for an agreed upon term. The franchisee is granted a franchise license to use the franchise company’s trademarks, systems, signage, software, and other proprietary tools and systems in accordance with the guidelines in the franchise contract.

Not only must you run the business according to the operations manual and the franchise contract, but you must pay them an upfront franchise fee (license fee), and
ongoing royalties. The average franchisee fee ranges from $25,000-$35,000, although some franchise fees can go well over $100,000, as in the case of what’s called a Master Franchise. In a Master Franchise, like Jan-Pro Cleaning Systems, one buys the rights to an entire area, and it’s usually based on population.

The royalties are usually based on a % of gross sales. Royalties range anywhere from 4%, like over at Batteries Plus, a retail storefront type of franchise, all the way up to 9% as in the case of MRINetwork, an executive recruiting franchise. Some franchisors like Fantastic Sam’s, a hair salon franchise, charge a flat monthly royalty fee.

In addition to royalties, franchisees usually pay into a national monthly advertising and marketing fund, which amounts to 1-2% of gross sales.

How Big Is Franchising, As An Industry?

According to a report put out by the IFA (International Franchise Association), franchising is huge. As of 2005:

- There were 909,253 franchised business establishments in the United States.
- Franchised businesses provided more than 11 million jobs, or 8.1 percent of the national private-sector workforce.
- Franchised businesses supplied an annual payroll of $278.6 billion, or 5.3 percent of all private-sector payrolls in the United States.
- Franchised businesses produce goods and services worth $880.9 billion per year, or 4.4 percent of private-sector output in the United States.

(Go to the IFA website to see the full report.)

Differences Between a Franchise Opportunity And a Business Opportunity

They’re both really “business opportunities.”

A franchise business provides a detailed, step-by-step, business “blueprint.” There are very specific rules that must be followed, including the use of approved signage, and marketing materials, hours of operation, etc. Franchisors also provide ongoing support to their franchisees. Franchising is also highly regulated, and there are a lot of things that a franchisor must do to legally set it up.
**A non-franchise business opportunity** also provides a “blueprint,” but it’s usually not as detailed. There just aren’t as many rules, when compared to a franchise. The actual contract that you’re given to review prior to signing a business opportunity type of business may be one to two pages in length. Franchise contracts are 20 to 40 pages long.

A good example of a business opportunity would be a mall kiosk type of business. The kiosk owner is provided with a pre-packaged set-up including the actual kiosk, the inventory, and preferred methods to make sales. In addition, there are no ongoing royalties, as with a franchise.

Most of the time, pure business opportunities have a much lower investment than a franchise business. One reason for this is that once someone buys a business opportunity, the support provided by the business opportunity seller is very limited in most cases, as opposed to a franchisor, who must invest in an infrastructure that can handle the ongoing needs and contractual obligations of its franchisees.
Pros and Cons of Buying a Franchise

As with anything in life, there are pros and cons involved and it’s important to consider every aspect of them. In this section, we’re going to take a look at the pros and cons of buying a franchise as a way of getting into your own business.

So let’s get started.

**Pros**

**Operating system:**

This is the system developed by the franchisor that enables the business to be easily replicated by franchisees. This includes standard operating procedures and methods.

By getting an already-established operating system, it means you don’t have to start from a blank sheet of paper creating everything yourself for your business. When I think of “systems” I think of McDonald’s. They’re the franchise industry standard.

**Formal training program:**

Good franchisors provide good training to franchisees. This usually includes classroom-style training at corporate headquarters. Franchisees are taught things like pre-opening procedures, daily operations, marketing techniques, hiring practices, software use, and more. There’s usually on-site training also, right at the new franchisee’s location. Read more about franchisee training at Entrepreneur.com.

**Specific marketing and advertising plan:**

Part of the general business plan, the franchisor will have a proven, detailed plan that allows its franchisees to rapidly get to market with their products or services. Here’s what a franchise marketing plan looks like, courtesy of the folks at Palo Alto Software.
One new trend in franchise marketing involves automated solutions that are designed to help franchisees at the local level. Companies like Balihoo are leading the way with this new technology.

**Product supply line / purchasing power:**

When the franchisor buys products that the franchisees will use or sell, there’s a discount involved, because the franchisor is really purchasing these goods on behalf of a large number of franchisees. The franchisor has bulk buying power. This makes it tough for an independent business to compete on price with the franchisee. [7-Eleven](https://www.7-eleven.com) (over 36,000 stores worldwide) is one franchisor that does this quite well.

**Support staff:**

Usually based at the franchisor’s corporate headquarters, the support staff can help franchisees with whatever problems they are experiencing. These support areas include, marketing, technology, sales, real estate, and operations. Some franchisors have field reps that go out to visit and assist franchisees at their locations.

**CONS**

**Rules:**

Part of the attraction of the franchise business model is of course, the system. For a system to work properly and effectively, the users of the system must follow it closely. The franchise operations manual contains pages and pages of rules that franchisee’s must follow.

For instance, if you’re a franchisee of Ace Hardware, there will be certain items that you *must* carry in your inventory. If you invest in a Seattle’s Best Coffee franchise, you’re going to have to be open certain days and times. You’ll also have to purchase and use the technology that the franchisor has chosen. Everything that you’ll need will be disclosed to you, before you sign the franchise contract.

**Complex legal documents:**
All franchisors that are registered in the United States must have a Franchise Disclosure Document (FDD). All franchise buyers must be presented with the FDD before they are permitted to purchase a franchise business. There are 23 items listed in this document, including specific information about the executives of the franchise, litigation, start-up costs, franchisee obligations, franchisor assistance, and information about site selection, territory restrictions, and more. The actual franchise contract is included in the document, and it’s written in fairly complicated legalese.

**Reputation management:**

Your local reputation is only as good as your franchisor’s. If the franchise brand runs into trouble, you will probably suffer at the local level. Case in point: a pretty distasteful video that two employees of a local Domino’s Pizza franchise filmed, was posted on YouTube in 2009. Things got so bad that the president of Domino’s decided to film an apology and put it up on YouTube, himself. Dominos franchisees were definitely affected by this negative publicity.

**Limitations on product/service offerings:**

If a franchisee owns a franchise like SignsNow, he or she is only allowed to sell signs, banners, and related sign materials. If the franchisee wants to add window cleaning services to the business, if it’s not in the franchise agreement, then it’s not going to be permitted.

* * * *

When it comes time to decide on buying a franchise -- or not buying a franchise -- you will have to weigh these pros and cons. You know your tolerance level for things such as needing to follow rules ... versus making your own rules. You also know whether you are the type of person who can create something from scratch, or whether you are more successful when systems and processes are already set up for you. You will need to think long and hard about what is right for YOU.
Tax Benefits of Franchise Ownership

So this is the year you are going to take the plunge into small business ownership. You have tired of the corporate shuffle, you are ready to break free ... and you are considering buying a franchise.

Everybody that I work with in my franchise consulting role wants to know this really important question:

"How much am I going to be able to make?"

The answer to that question is this:

"It Depends."

When you become a franchise owner, your income will depend on lots of factors:

1. Your market area
2. Your monthly expenses-overhead
3. Your skill set match with the business
4. Monthly royalty % due to the franchise company
5. Your monthly business loan payments
6. Your marketing and advertising costs

Now let's say that all the stars lined up perfectly on the day that you signed your franchise agreement, and sent in your check for the upfront franchise fee. In this perfect scenario, your market area is incredible, you have a low overhead business, you have
been able to find a franchise that really complements your skills, the royalty percentage collected monthly from the franchise company is lower than average, your loan payments are super reasonable, and the marketing costs are next to nothing.

Sounds wonderful, huh?

Since my role is not one of “selling” the actual franchises, I cannot legally get into any type of earnings representation. Even if I could, I wouldn’t.

The research process I encourage you to follow will lead you to specifics concerning your income potential. Since you are taking the risk, it is up to you to find out for yourself. You really will be able to find out how much you can expect to make by gathering facts, and by talking to individual franchisees.

Some franchise companies disclose earning claims on the franchise offering documents you receive. Still, check with their franchisees!

Suffice to say, when it comes to your actual income, there are a lot of factors that go into it, including the benefits you can get as a small business owner.

Barbara Weltman, a leading authority on small business, took some time out from her demanding schedule to talk with me about some of the benefits of franchise/small business ownership.

"The biggest advantage (tax wise) of being a franchise / small business owner is the ability to shelter earnings. As a small business owner, each year I can set aside a substantial sum for my retirement years and get a big tax deduction now," Barbara said.

Barbara was also kind enough to offer more advantages of being a franchise/small business owner:

- Expensing the cost of equipment purchases
- Claiming a home office deduction for a home based business franchise
- Writing off the cost of business travel, even though there’s some personal pleasure involved
- Deducting car usage for travel from your office to any business destination
- Educational expenses and business seminars
In summation, as you begin your quest towards franchise / small business ownership, and you start to get excited about the prospect of "owning what you do," please remember to look at the whole picture. When it comes to income from your own business, there are advantages that you get as the owner, that you can't get as an employee.
5 Benefits of Buying a Franchise vs. Starting From Scratch

The business model of franchising is phenomenal. Although franchise ownership is not for everyone, for those who align their skill sets with the right franchise offering, being a franchise owner usually beats working for someone else.

Here are five things that make franchising fantastic.

1. Proven Model

When you purchase a franchise, the thing that you are really purchasing is a business model. You are purchasing the rights to use someone else’s idea. This someone (the franchisor) has put their idea into an organized, easy to follow operations manual. In other words, you are replicating the franchisor’s business.

The obvious advantage is that you don’t have to "invent" anything of your own to start a business. It’s already been invented.

2. Formal Training

Once you have written a check for the Franchise Fee, and signed the franchise agreement, you are officially a franchisee. It is now on the franchisor to teach you their system, in a formal fashion. Training can last from three days all the way up to two weeks. It depends on how complex the franchise concept is.

You’ll be trained on the use of their computers and software, their operational procedures, marketing and advertising, human resources, and sales. Some franchisors even have online training modules set up, so that you actually can start training from home, a few weeks before you head to their corporate headquarters.

“...being a franchise owner usually beats working for someone else.”
3. Marketing systems

Marketing techniques employed by franchisors, are usually top notch. That is because part of the franchise development process includes testing. Some franchise offerings end up using direct mail marketing to get customers, while some may find that radio advertising proves to be the most effective way to find and retain customers.

The point is this: You are not the one who has to try out nine or ten different marketing ideas in order to find the one that works the best. It has been done for you already. In most cases, the franchisor knows what works. They just have to show you how to implement it.

4. Technology

The franchisor needs to have great technology. Twice. First of all, the franchisor must make things as efficient as possible for it's franchisees, so they can concentrate on business growth and development, not payroll, and scheduling. Most franchisors have software programs of their own for their franchisees, who pay for them as part of their initial investment.

The franchisor must also have top notch software for their own internal operations. Things like franchisee sales figures, royalty payments, email marketing metrics and website statistics are all measured, so that management can stay on top of things, and keep the system growing.

5. The Franchisee Network

This may be the best part of the franchise business model. As you learn more and more about the franchise offering that you are interested in, you will find that the franchise director or salesperson can only go so far in dispensing pertinent information about the franchise opportunity. It will be time for you to reach out and talk to the network of franchise owners who are in the business that you may want to get into yourself.

You should call 10-15 franchisees of the franchise concept you are interested in. You will be able to get a lot of your questions answered -- but it gets better.

Undoubtedly, you will find some commonality with a couple of them.

These are the franchisees that have given you permission to call them back if you happen to have more questions before you make your decision. Hold on to these names and numbers. These will be the folks you call after you become a franchisee.
You could be calling them to get some much needed advice during those challenging start-up months.

These people will usually go out of their way to help you. They probably had similar help during their own start-up phase, and are more than willing to give it back. Sometimes, close friendships even emerge. After all, they probably went into a business of their own for some of the same reasons that you are thinking of doing so. Talk about a natural bond.
Downsized? Franchise vs. Corporate Employment

For those of you who are thinking about becoming a franchise owner this year, it's essential for you to dig deep into your own psyche, and make sure that you are investing in a franchise, or even a non-franchise business, for all the right reasons.

**Downsizing.**

That word is becoming more common to more people in this choppy economy. The recent unemployment numbers tell the real story.

Companies are lowering their revenue expectations, engaging in major cost cutting moves (which is a nice way of saying that they are cutting jobs), and are basically battening down the hatches, for awhile. (Tell me something I don't know!)

There is some interest in franchise/small business ownership options from downsized middle managers and executives. Folks are a lot more cautious today, and seem to be on somewhat of what I call a dual track; some of their energy is being used towards finding a traditional job, and some of their energy is being spent on non-traditional career options such as business ownership.

I generally don't recommend this way of doing things.

I feel that you either want to be a business owner, or you don't want to be a business owner. It shouldn't be, "Well if I can't find a job, I'll just buy a franchise." There tends to be so much self-inflicted pressure when launching a new business. Doing so because you can't find a good job may add even more pressure.

I have found that almost all of the folks that I have been able to help place into franchises of their own have focused 80% of their time on finding opportunities in business ownership. They have pretty much made the decision to move away from a corporate career, and really want to do something on their own.
Some people that I meet tell me that they are really fed up with the corporate life. Some people are fed up more than others.

Jonathan Fields, author of a book titled "Career Renegade" writes:

“At some point, it dawns on you that the corporate ladder is really more of a treadmill. You run faster, work harder, climb higher, sweat more blood and push through stifling fatigue. But, in the end, all too often, you’re no freer or happier than the day you began. In fact, for many, as your lifestyle expands to gobble-up nearly every dollar you make, it’s quite the opposite. The day-to-day stress, relentless posturing, politics, negotiating and hours spent on minutiae increasingly suck the life out of you. Body, mind and spirit, slowly and methodically being sucked dry.”

Jonathan and I have two things in common.

1. We work for ourselves.
2. We tend not to sugar coat things.

I remember my dad coming home from work early one afternoon, with a look on his face that I hadn’t seen in awhile. His face revealed the combined feelings of sadness, anger, frustration, and fear, for all of us to see that day. He had been downsized. Again. For those of you who have ever been downsized, I’ll bet you remember your feelings the day it happened to you, too.

That was dad’s last downsizing. It happened in 1990. A couple of weeks later, he made the decision to forgo a job hunt, and started to seriously look into starting a franchise consulting business. He did.

My last downsizing was in 2001. I remember everything about that day. I was a little more confused than my dad, though. For me, I knew what I didn’t want to do anymore. I just didn’t know what my next adventure would be. My dad convinced me to join his firm, and eventually that year, I did. I now own it. (My dad passed away in 2007, from lung cancer.)

If you have been recently downsized, and are at the point in your life in which you feel a corporate job just isn’t the place for you anymore, get out of your comfort zone, and look at some non-traditional opportunities:

- It may be a franchise business. Franchises are a great way to get into a business that has a blueprint all ready for you to use.
Maybe you would like to find a small company that needs some fresh ideas. Work out something with the owner of that company, and get some equity in the company. Maybe arrange to buy the owner out, someday.

Are you a specialist? Consider becoming a consultant in your field of expertise.

If you have been downsized, and are comfortable with the corporate life, congratulations! Opportunities abound. You just have to look for them in a different way. Get out of your robe, and get out of the house. Attend an ExecuNet meeting. Meet someone new for lunch a couple of times a week. Use resources that can still be found at your local library. Get on LinkedIn.

Whatever you decide to do on your next career adventure, do it for all the right reasons.
Is Buying A Franchise Really Buying A Job?

One very popular question that’s asked of me during the numerous seminars I give on franchise ownership is this one;

“Aren’t I really just buying myself a job, when I purchase a franchise?”

The answer that I have been giving as of late may surprise you;

“What would be so bad about buying yourself a job today?”

As of this writing, the unemployment numbers are staggering. The U.S. Bureau Of Labor Statistics stated that the national unemployment rate was 9.4 percent in July 2009, seasonally adjusted, little changed from 9.5 percent the prior month, but up from 5.8 percent a year earlier. Total nonfarm payroll employment decreased by 247,000 over the month and by 5,740,000 from a year earlier. 14.5 million people were unemployed as of July 2009.

If you are one of those 14.5 million people, does buying yourself a job sound all that bad?

Although “buying yourself a job” is really not the goal of most prospective franchise buyers, you are guaranteed one thing: you can’t be downsized.

Most of the folks that I consult with tell me that the one thing they want more of is control. They want to control their own future. They also tell me that it doesn’t seem to matter how good they are in their jobs. If they happen to work for a large public company, it seems to them that the price of the stock dictates their job security. Payroll always seems to be the first thing that’s cut.

So what is your new career path going to look like? Chris Brogan, a social media guru, and a guy that I have been following a lot the past year and a half says this;

“The thing is, there really never was a career path for you. That was something for your dad or you about four careers ago. But those paths are gone. There’s not really even an indent any more where they were left. So, let’s just level with you now: congratulations. You’re the president of your career.”
I think he’s right. A couple of years ago I attended a talk given by author Steven Little. In it, he said this;

“The kids that are going to be graduating college in the next few years will have seven different careers. Not seven different jobs, seven different careers!”

Maybe the folks that are out there “buying jobs” are on the right track. I’d like to share some examples of franchise opportunities that one could say is exactly like buying a job;

- **HouseMaster Home Inspections** - This is usually a one-person franchise, and one in which you need to be very comfortable climbing on roofs, crawling under furnaces, and inspecting the electrical wiring in homes. This franchise system seems to offer some unique methods when it comes to getting to market.

- **Global M.A.R.S.** – If you love cars and trucks, and don’t mind getting a little dirty, this franchise offers reconditioning services to automobile dealerships. You’ll be doing things like fixing paint chips, removing door dings, helping with interior odor elimination, and repairing torn leather seats, which will hopefully benefit your customers, by helping them get top dollar when they go to sell these now pristine vehicles.

- **The Dentist’s Choice** - This is an interesting business. The expensive hand tools that your dentist uses to clean your teeth, and in some unpleasant cases, drill into the decayed areas of your teeth, actually don’t always work. They break down. Enter the local franchise owner of The Dentist’s Choice, a dental handpiece repair specialist. If you like detail work, this low investment franchise offers both. Hayes Handpiece is a similar franchise offering the same types of services, and has been around a long time.

- **Surface Specialists Services Inc.** – This franchise offers surface restoration services, mostly for residential bathrooms. As a franchisee, you will be refinishing bathtubs, showers, countertops, and whirlpools. One interesting and much needed service they offer is retrofitting. They can make entry areas for tubs and showers lower in height, and add safety bars, which can help the ever growing senior population reduce their risk of injury in the bathroom, which is an all too common occurrence.

- **ProEnergy Consultants** - Think Green. As a franchise owner of this new concept, your role will be one of energy consulting. Basically, you will do energy “audits” for homeowners. By using a tool called a thermography scanner, you’ll be able to tell where energy is escaping from your customers homes, and make recommendations
on how to improve problem areas. This model is very similar to the home inspection type of business, except you are in more of a consultative role.

Do those five examples (and there are many more) give you a better idea of what I mean by “buying yourself a job?”

The franchises I have named could be great opportunities for the right people. If you desire freedom and control (not total control, but much more control than in a corporate setting) then these low-cost, one-person franchises could be one way to secure your future.

Even if you have to buy it.
Questions to Ask Franchise Company Executives

If you're looking to become a franchise owner, there are several ways for you to increase your chances of success. One way is to arrange some time to talk with the operations people at franchise headquarters, and if possible, the president of the company.

Some well thought out questions can have a huge impact on your decision to become a franchisee.

Here are five questions that most people I've consulted with never thought to ask:

- **Can I have some specific examples of problems that your franchisees have experienced, and how your employees jumped in to help out?**

  (You are trying to find out how good their support team is. There should be some great "stories" of how they were able to alleviate a franchisee's problems)

- **What types of people have you found to be super-successful as franchise owners in your system, and what types of people have been below average?**

  (You are trying to find out if there are any patterns that you can detect with either the really successful franchisees, or the ones that have not done so well.)

- **What are some of reasons you have turned down prospective franchisees?**

  (Here, you are trying to find out how serious they are about finding the best franchise owners.)

- **Do you have any ongoing litigation with any franchisees? Can you tell me about it? If not, if you've had any litigation in the past, can you share what it was about, and how it ended up?**
(Lots of franchise and non-franchise companies experience the many pleasures of lawsuits. Listen carefully to their answers. Who sued who? What really happened?)

- **Are there any major technology/equipment upgrades planned for the current system?**

  (Upgrades could be equipment upgrades that the individual franchisee has to pay for, or major technology upgrades that the franchise company pays for.)

Questions like those are not commonplace. That's the point. The more you can learn before you invest, the better you'll feel when you write a $35,000 check for the up-front franchise fee to the franchisor.

The entire business world is becoming more transparent. Allow me to rephrase that; The entire business world is learning that transparency is really the way to do business. Not many industries will be able to escape this fact in the near future.

Shel Holtz and John C. Havens wrote a book called “Tactical Transparency,” and it's an important one. Here’s what Paolo Tosolini, the New Media Business Manager at Microsoft Corp. said after reading the book;

> "Transparency is a necessary journey that takes effort and time, but has high rewards. Organizations of any size should recognize the value of being transparent and make employees part of the journey."

Employees of the franchise companies that you are researching may or may not be able to answer some, or even all of these questions. If they can’t, they should at least be willing to go the extra mile to get those questions answered, though.

Recently, a franchise candidate of mine submitted a list of questions to a franchisor that were amazing. The franchise director came back with answers to all of them within 24 hours. Even I was impressed. I wasn’t as impressed as my franchise candidate though. He’s getting ready to visit the California headquarters of this franchisor, and make a yes or no decision.

Do you think it had to do with the way they consciously chose to handle my candidate. (A guy who just wants to make sure he’s doing the right thing for himself, and his family.)

Update! The gentleman who visited franchise headquarters in California decided to become a franchise owner. His in-person visit with the executives of the franchise
company mirrored the phone and email exchanges that took place during his information gathering stage. His expectations were met. (According to my franchise candidate, they were "exceeded.") In the end, that's all he wanted.

Consumers can't be "slammed" into making purchases anymore. They want to feel that they are in control of the buying process like never before. Companies that understand this will be successful ones. Companies that allow the buying process to happen naturally, will win. Companies that refuse to adapt to our rapidly changing buying environments, will fade away.
The Franchise Discovery Day

Most of the time you’ll have to be invited to what’s known in the franchise industry as a Discovery Day. And, if you are invited to a Discovery Day, get ready; things are about to get serious.

If you’ve done a good job with your franchise business selections, including making sure that the opportunities you’ve looked into are easily within your budget, and you’ve done a stellar job with your research, there’s only a couple of things left for you to do.

The first thing involves energy. You’re going to have to decide which opportunity you’re going to focus all of your energy on. Once you’ve done that, you’re a lot closer to becoming an owner.

The next thing you do will probably involve travel, and with it, some out of pocket expenses. It’s for Discovery Day; it’s the day that you travel to franchise headquarters to meet the franchise team.

You Need to Get an Invite

Not just anybody can attend a Discovery Day. Only candidates that qualify financially, and have been through every stage of the franchise exploration process with their franchise development representatives can get an invite.

Most franchise development representatives don’t extend an invitation to their franchise candidates until they’ve gone through several specific steps in the process. The candidate’s credit history is checked, and there’s usually a background check done, too.

In addition, the development representatives must feel confident that their candidates have a good understanding of the business itself, and what their roles would be in the operation of it.
It’s also the job of the representative to help their candidate’s get a feel for the (FDD) Franchise Disclosure Document, and to answer questions that they may have along the way. All franchise buyers must be presented with this document before they’re permitted to actually buy the franchise opportunity. The items listed, (23 of them) include thing like company financials, executive backgrounds, and the actual franchise contract.

If you’ve met the criteria identified above, and you do get invited up to headquarters, should you go?

The answer to that question depends on how serious you are about becoming an owner of the franchise in question.

**For Serious Candidates Only**

When my clients ask me if they should attend a Discover Day that they’ve been invited to, I tell them to only go if they’ve made the commitment to buy the franchise. That’s because by the time Discovery Day rolls around, the candidate should know just about all there is to know about the opportunity. No more research should be needed.

The candidate should have a pretty good idea on how his or her franchise will be financed, and should have a franchise attorney standing by to look the franchise contract over. The contract may be sent home with the candidate at Discovery Day.

That’s right; a contract. That’s why only serious franchise candidates should pay a visit to franchise headquarters … candidates that are just about ready to take the leap.

**What to Expect**

Your day at headquarters will allow you to see the entire operation in action. You’ll get a tour of the facility plus you’ll spend some time in all the different departments. You’ll meet the CEO. You may have an opportunity visit one or two franchise operations located in the vicinity of headquarters.

When you attend the franchisors Discovery Day, you’re going to notice a difference in the way that your franchise development rep is communicating with you; eventually,
things may start to feel a little more salesy than they have been during your past interactions. Your representative could be close to making a sale-and a commission.

But, two things need to happen before that sale can take place:

1. The executive team needs to feel that you’d be a good franchisee, and if so, formally approve you. If they do so, your franchise representative will call you a day or two after your Discovery Day visit, and tell you that you’ve been approved as a franchisee and that they’d love to have you as one.

2. The second decision will of course be yours -- The Decision to become a franchisee.

Your Discovery Day will fly by. Absorb as much as you can. Get a feel for the company culture. Then go back home and sit on things for a couple of days. Bring the franchise contract to your (franchise) attorney. If everything looks good, you’ll have a decision to make. You’ll know what to do.
How NOT to Talk to Franchise Company Executives

Let’s assume that you bring a business background of some sort to the table. You probably shared your past or current job title with the franchisor on the “request for information” form you filled out.

The franchise director (salesperson) will follow up with you to schedule a formal introductory call, so he or she can explain the concept in further detail, and also learn more about you.

At first glance, this may not seem like an important phone call. It is. The franchisor is sizing you up. He or she is trying to find a way to either qualify or disqualify you.

(Sometimes, a franchisor is more interested in making a sale, so the qualifying may be minimal. In my experience that is not the norm, but you should be aware of it.)

Read these 5 Franchise Tips from SCORE to understand how your role is different from the franchisor’s role.

You are also sizing up the opportunity, and the franchisor, during that phone call. You are both trying to make a good first impression.

Let me share the following first hand experience to make a point. As a franchise consultant my role is to match up my franchise candidates with franchisors that are a fit with that candidate, based on a lot of different criteria like their skill sets and available investment amounts.

Some of my candidates are high level corporate executives, with impressive credentials, and money in the bank. On more than one occasion, however, I have had to jump in, and be a referee, after that first introductory call.

Here’s a post mortem on one such introductory call:
Franchise Director:

"Joel, where did you find this guy? The first fifteen minutes of our call consisted of him telling me that he knows business, and that I better not try to pull the wool over his eyes. He requested our P & Ls, and wanted to talk with our CFO. I am not going to stand for this, Joel. I don't have to. We have plenty of qualified people who want to invest in our franchise concept. I don't even know if I want to talk to him again!"

Me:

"Sorry about that. I totally agree. Jim really is a great guy, one on one. I really feel that he is serious about becoming a small business owner, and he seems to like your concept. Let me give him a call, and see if I can figure out what went wrong. Will you talk with him one more time, if he backs off a little?"

Franchise Director:

"He better back off, or we're done."

Me: (Calling my candidate)

"Hello Jim. I wanted to follow up with you concerning your first call with ABC Franchise Company. I received a call from the Franchise Director, who shared with me that he didn't feel that you two started off on the right foot, or on any foot, for that matter. What happened?"

Jim:

"Nothing happened, really. I asked him for some pretty specific information, and he didn't seem to want to share it with me. As a matter of fact, he seemed offended that I even asked. Who do these guys think they are? I am about to invest $250,000 of my own money into their franchise, and they won't give me what I asked for? That is just plain wrong, Joel. If all the franchise companies you work with are like these guys, then maybe we don't need to work together anymore."

Me:

"Wow, Jim, what happened? I thought you were interested in exploring some opportunities in franchising, so you don't have to work for anyone else again. If you really are serious about investing in a franchise of your own, then you will have to take a breath or two, and try to bond with these folks a little bit. If they don't like you, they won't
award you a franchise. I know that you don't want to be ripped off, and I can understand your trepidation. Would you like to have a second phone call with these folks, and get to know each other a little bit? I promise that in due time, you will be able to get your questions answered, and find all the facts that you will need to make a decision. OK?"

* * * * *

Are you thinking that I may have been a little too harsh with Jim? After all, he is the one taking the risk, right? Jim should be able to get important questions like the ones he asked answered by the franchise director, right?

As a prospective franchise owner, you certainly have the right to ask any questions you want. I think that Jim just asked them in the wrong order, and maybe in the wrong way. As a matter of fact, if Jim didn't ask some tough questions, the franchise director may not even take him seriously.

It is really important that you make a great first impression with the franchisor. Get to know the franchise director, and allow him (or her) to get to know you. Talk about your family, and your life, and let him talk about his. Establish some rapport. If the opportunity turns out to be "the one," then your first impression will go a long way towards being asked to become a franchisee.

The franchisor will want to make a great impression with you, too. The franchise director will talk about the opportunity, and about the company, and some of its accomplishments.

The next step is to learn enough about the opportunity through their brochures, other marketing materials, and a couple of conversations with the franchise director, to decide if you can actually see yourself owning that franchise. If you cannot see yourself owning this franchise, then the numbers probably won't matter, and you will move on and continue to look for an opportunity that is a better fit.

If you can see yourself owning this franchise, then figure on 30-45 days of serious due diligence. During this due diligence phase, the time will come to ask some tough questions. Most of the tough questions will be about the numbers. The difference is that now you know a lot more about the opportunity, and will have some points of reference to go back to when you do get the numbers.
Types of Franchises and Investment Required

There are 3,000 different franchises available in the US, and they fall under five general categories. Cost-wise, the investment required ranges from $50,000 to over $1,000,000.

Food Service

This category includes everything from:

- ice cream shops like Dairy Queen, ($382,000–$1,828,000 total investment);
- to fast food franchises like Buffalo Wild Wings, ($1,389,200 – $3,148,200 total investment);
- to sandwich shops like Subway ($84,300 – $258,300)

Since food-related franchises are the most visible of all franchise types, (as well as being the highest percentage of franchises) it’s a common starting point for would-be franchise owners, who like the idea of associating with a popular type of business.

Retail

This category of franchising is a highly visible one. Retail franchises are for people that want customers to come to them, as opposed to having to go out to find them. For instance, The UPS Store ($150,984 – $337,946) has thousands of locations. Other retail franchise businesses include:

- Batteries Plus, ($159,300 – $313,900)
- EmbroidMe, ($85,460 – $232,465)
- Supercuts, ($112,550 – $243,200)
It’s common for retail franchise owners to own more than one store; they’re called multi-unit franchisees.

**Personal Services**

This sector of franchising tends to cater to busy families, and more recently, seniors. Service Brands International is a great example of a franchisor that focuses solely on this busy segment. Their brands include:

- **Mr. Handyman**, ($91,500 – $132,600)
- **Molly Maid**, ($71,525 – $116,200)
- **1-800-DryClean**, ($59,800 – $78,950)
- **Protect Painters** ($78,850 – $97,950)

Franchisors like US Lawns, ($48,500, $56,000) and 1-800-Got-Junk, ($107,400 – $140,400) also provide much-needed services.

When it comes to keeping our senior citizens in their homes, (as opposed to a nursing home):

- **BrightStar Care**, ($90,895 – $155,723)
- **Synergy Homecare**, ($53,300 – $115,300)
- **Visiting Angels**, ($52,285 – $84,035)

Those are just three of the over 30 different senior care-related franchises being offered. Read about the senior care franchise numbers.

**Business to Business**

This category of franchising attracts sales and marketing minded folks. These types of franchises are outbound franchises; franchisees go out to find their clients and customers:

- **Servepro** ($127,300 – $174,700) is a company that specializes in water and fire damage clean-up and restoration.
• **Jani-King** ($13,150 – $93,150) is in the commercial cleaning business, servicing office buildings, restaurants, and stadiums/arenas.

• **TeamLogic IT** ($91,850 – $148,850) is a franchise that provides IT consulting services to small businesses.

Several types of *home-based* franchises fall into the B2B category, too. **OneCoach** ($40,100 – $318,800) franchisees offer consulting/coaching services to small businesses. Cost-cutting is an important part of running a business, so franchisees of **Expense Reduction Analysts Inc.**, ($66,100 – $81,750) consult with business owners and executives on how to do just that.

**Children’s Services**

When it comes to children, consumers generally spend their money, freely. Opportunities in this sector abound, and for people that love children, this is a popular sector. In January of 2002, President Bush signed the **No Child Left Behind** bill, which increased funding for school systems. Since then, the school systems have reached out to the franchisees of **Sylvan Learning**, ($179,069 – $305,090) and **Huntington Learning Centers**, ($197,450 – $382,450) to help them with students who may be struggling in school.

Parents that need a place to hold their children’s birthday parties can go to **Pump It Up**, which offers an indoor arena featuring giant inflatables. Child safety is an important topic these days, and the 250 locations of **Ident-A-Kid**, ($34,005 – $44,205) work with schools and community centers to provide identification cards for children.

*Editor’s note: The investment ranges above were accurate as of the time of writing, but may have changed. They are provided here for general information only.*
The World of Mobile Franchise Opportunities

Mobile franchises. This diverse sector of franchising offers two things:

- A low initial investment
- Much needed products and services

When I first started in the consulting and brokering part of franchising, I was struck by the sheer number of different concepts available to prospective franchise owners. It seemed that there was a franchise for everything.

My role is one of matchmaking. I match would-be franchise owners with franchise opportunities that make sense for them based on lots of different criteria. Mostly *their* criteria.

My first successful placement was a mobile dry-cleaning franchise called **1-800-DRY-CLEAN**. The couple I worked with wanted something that (1) had a fairly low investment, (2) did not require real estate, and (3) would not require a lot of employees.

His franchise offered those three things — plus offered a service that could help busy consumers with the one thing that they crave: convenience.

Today, more and more mobile franchise concepts are popping up, and I see this trend continuing. Let’s take a look at some of them.

- **Cartridge On Wheels** - This franchise offers to “Feed your customers voracious appetite for printer supplies.” This is a Monday-Friday business, and your wrapped van is your fully stocked mobile store.

- **Kona Ice** - Featuring the KEV, {Kona Entertainment Vehicle} that’s equipped with a BOSE sound system and specially created tropical music. This mobile franchise cruises the local carnival and little league circuits, dispensing frozen ice treats with a tropical twist.
- **Furniture Medic** - Dents, dings, and scratches are repaired while you wait. Your mobile “technician” drives over to take care of your furniture repair needs. There’s over 300 of these franchises in the US, Canada, and Europe.

- **The Grout Doctor** - This franchise provides “Aftermarket care of tile installations.” This home-based opportunity requires no major inventory investment, and according to the website, is not a seasonal business.

- **Canine Dimensions** - As a franchise owner, you’ll be training dogs in your clients homes. This franchise offers obedience training for puppies and adult dogs, as well as “behavior modification.”

- **Weed Man** - You’ll be providing “Environmentally responsible fertilization, weed control and integrated pest management services.” Some franchises offer only one-time income opportunities. Weed Man offers recurring revenue streams several times a year.

- **Oil Butler International** - This franchise comes to you, and does oil changes and windshield repair while you are at your office. They can also service small and even large fleets of vehicles of almost any business.

- **WIN Home Inspection** - Even during down cycles in the housing market, transactions are taking place, and most consumers want a thorough home inspection before they sign on the dotted line. As a franchisee, you’ll even have an opportunity to receive training for add-on services like mold inspection, and water quality testing.

- **Showhomes** - Showhomes contracts with owners of *vacant homes* to fully furnish the homes, so that the homes can sell faster. Franchise owners can even contract with families looking for a temporary housing situation who will stay in these *staged* homes. I wonder if their busy, now.

- **ReNEW Softwash** - As a franchise owner, you’ll be using a proprietary low pressure exterior home cleaning technique that will remove things like algae, fungus, mildew and more. According to their website, there have been numerous damage complaints concerning the use of high-pressure exterior house cleaning, hence their soft touch technique could be the way to go.

When you are considering franchise ownership, some of the lower-cost opportunities like the ones above could be attractive. But a low cost of entry doesn’t necessarily
equate to a quicker return on your money. Especially if the franchise you end up buying is a poor fit for your skill sets and future goals.

Franchise selection comes down to finding one that is a fit for your personality traits, your professional skills, the investment amount you are comfortable with, what you would like your daily activities as a franchise owner to be like, and finally, your long-term goals.

If you would feel more comfortable investing $50k-$75k on a mobile franchise, in which you are the only one that is doing the work, and you are satisfied with that, then that is what you should be looking at. It could beat working in a corporate job, and it is your business.

On the other hand, if you have a bigger dream, and you only want to do the actual work during the beginning stage of your businesses start-up, make sure you look for a mobile franchise that can turn into something more substantial.

More substantial may mean investing in a mobile franchise that can grow into a multi-vehicle, multi-territory operation in which you are doing business development and business management activities, instead of doing the hands-on work.

Nowadays, consumers’ lives are harried. Finding a franchise business to own that allows you to bring a superior product or service to them, could just be a winner.
Franchise Machines: DVD Kiosks, ATMs, Photo Booths, Vending

It's 7:00 PM on a Friday night. You've been flicking from channel to channel on your 46-inch 3D LED HDTV for the better part of 20 minutes, and as usual, nothing is on. You aren't asking for much; after a long week at work, you just want to kick back, relax, and maybe watch a movie....

Then it hits you; you remember seeing a movie kiosk in front of the grocery store that you frequent. So you jump in your car, and a mere 10 minutes later, you're stretched out on the couch, enjoying a newly released movie.

You've just purchased 2 hours of chill time for $3.50 … from a machine.

**BE THE MACHINE**

On the way back from that DVD movie kiosk, did it occur to you that it may be kind of cool to own one or two of these kiosks yourself? After all, you're probably not the only person in your area who is looking for a fast, convenient way to watch recent movies, right? Plus, it can't be too difficult to run an automated little business.

Let's look at the pros and cons of being the owner of an automated business:

**The Pros**

**Low start-up costs:** The major player in the DVD kiosk industry is DVDNow, an outfit out of Canada. From their website: “You can be in your own business in less than 45 days for under $25K.” That puts the business on the lower end of the investment range for a franchise business.

**It's not a franchise:** DVDNow is a business opportunity, not a franchise opportunity. Business opportunities offer a degree of flexibility that won't usually be found in the mostly-rigid franchise business model. In addition, the laws are different for business
opportunities. That translates into a much simpler contract than you would have to sign to become an owner (2-3 pages vs. 25+ pages for a franchise business contract). Finally, there are no ongoing royalties; you won’t have to pay a percentage of your gross sales to corporate every month, since it’s not a franchise business.

Flexibility: You can keep your job. That’s right; you can keep a full-time job while you launch this part-time business. Once the kiosk is installed, all you really have to keep it stocked, and collect the money.

The Cons

Name brand competition: Have you ever heard of Netflix? While they’ve had their share of problems, and pundits feel that the Netflix mail-order system will soon become passé, not having to leave the house to pick up a movie is really convenient.

It’s not a franchise: One advantage of the franchise business model is what I call “tightness.” Franchisees buy into a very tight and proven business operating system that includes things like detailed operations manuals, specific marketing plans, grand opening assistance, and dedicated corporate support. It’s a cookie-cutter model, and it’s been proven to work. You’re not getting the same tight system with a machine.

The location: While companies like DVDNow offer location assistance, (for a fee) in the kiosk business, it really does come down to location. A great location = great revenue. A poor choice equals disaster.

OTHER MACHINES

DVD rental kiosks aren’t the only automatic money machines currently being offered to franchise and business opportunity seekers. Low-cost businesses are always popular, especially in an unsure economy like the one we’re in now.

Mike Handelsman, the Group General Manager for BizBuySell.com told me that a lot of the unemployed have a lot less capital to invest in entrepreneurial ventures these days;

“Theyir savings accounts have been depleted and they have less equity in their homes. Also, capital loans continue to be difficult to get, so low-cost ventures are definitely attractive.”
Here are some examples of other low-cost franchise and business opportunities:

- **ACFN:** franchisees of this electronic financial services company have placed over 1600 ATM’s in hotels, hospitals, museums, sports venues, and restaurants. ATM’s really are money machines, and this is another opportunity to keep your job while you start your own business.

- **Fresh Healthy Vending:** healthy drinks, snacks, and organic coffee are the products featured in attractive and cashless vending machines that franchisees place in health clubs, corporate offices, hospitals and even schools. Today’s consumers are looking for non-junk-food types of snacks and beverages; this young franchisor provides 500 different products for its franchisees to offer.

- **Mojo Photo Booths:** the company website states they offer: “The only commercial-grade photo booth on the market that offers a true turn-key business with one-person portability and operation.” The booths fit up to 10 people, and owners bring them to corporate events, parties, and weddings. The photos are printed instantly, and can be customized on the spot.

There are lots of low-investment franchise and even non-franchise opportunities available these days. Savvy entrepreneurs are marrying their ideas to the latest technologies to provide what some of the "be your own boss" crowd seems to want these days; low-cost, part-time automatic businesses.
Work-At-Home Franchises: Real Opportunities or Scams?

Make sure you understand the difference between a home-based franchise, and a work-at-home "opportunity." The differences are huge. . .

A franchise is a licensing system by which the owner (franchisor) of a product or a service licenses others (franchisees) to market and sell the product or service within a defined territory, following the guidelines established by the franchisor.

There is an up-front franchise fee, and you'll be paying a percentage of your gross sales to the franchisor. Franchises are regulated by the government, and the seller must give you a detailed disclosure document at least 10 business days before you pay any money or legally commit yourself to a purchase.

Here are some examples of some home-based franchises:

Kidzart- Children's art instruction

Plan Ahead Events- Local event planning

Bark Busters- Dog training

Then there is the "Business Opportunity," which operates differently from a franchise business. The investment amount is a lot lower. Some business opportunities can be purchased for a couple hundred dollars.

A business opportunity generally doesn't have the tight structure that a franchise business inherently has (and needs). There are usually no territory restrictions with a business opportunity, and there are no royalties. Some business opportunities are actually MLM (Multi-level Marketing) types of businesses.
Some examples of business opportunities are:

- **Vendstar** - Vending machines
- **Stuffing Envelopes.net** - Envelope Stuffing eBook
- **Carbon Copy Pro** - Direct sales

Could any of the franchises or business opportunities that I gave an example of above be considered scams? I'm not sure, actually. Here's the definition:

"A scam is a scheme for making money by deceptive, dishonest, or fraudulent means."

The word "scam" tends to be bandied around by people who lose something they didn't think they would lose, or know someone that did.

- "I was scammed by that car salesman."
- "Investing in that penny stock was a scam."
- "This 2-For-1 Pizza Special is nothing but a scam."
- "I heard that Nancy's work at home medical billing business was just a scam."
- "I see that Harvey's coffee shop franchise turned out to be a scam."

Is it possible that any of the folks making these statements missed something? Is it possible that their emotions got in the way of fairly simple logic? Did they forget to do the necessary research that is required to make a fact-based decision? Have you ever done something similar? I have.

If you are going to look at any type of home-based business, it's really up to you to do the research that's required, in order to make an intelligent choice. The internet has made it possible to do almost all of your research right from your home computer. There are several good resources, including this one at Business.gov on home-based businesses, both franchise and non-franchise types.

Dig in. Don't let yourself get scammed.
Multi-Unit Franchising: What You Need To Know

Multi-unit franchising sure has a nice ring to it. Especially if you happen to be the franchise owner of 3-4 units. It’s a stunning visual.

You can drive around and see what you own. That could be why a lot of prospective franchise owners get quite energized when looking at opportunities. They picture a growing business, and with it, multiple locations.

According to an independent research firm, (FRANdata) 52% of all franchises are now multi-unit operations. The top 50 multi-unit franchisees increased the number of units they operated by 10% between 2005 and 2007.

Fast food continues to be the most popular industry, claiming 35% of all multi-unit franchises, with the restaurant, beauty and baked categories each capturing 28% of all multi-unit operations.

Multi-unit business owners seem to be able to create some wealth, too. A research study by the Small Business Administration showed that multiple business owners still appeared to be the most prosperous small business group, with nearly three-fourths of them classified as high income and nearly one-half classified as high wealth. (But that did vary a lot during down times in our economy.) Here’s the SBA report.

Are you familiar with the famous sentence “You have to spend money to make money?” In multi-unit franchising, it’s really true.

I am going to use a fast food franchise as an example. Let’s call it “Frankie’s Franks.” The total investment for this hypothetical casual fast food franchise is about $375,000.

“You have to spend money to make money. In multi-unit franchising, it’s really true.”
Your initial investment will include:

- Franchise fee
- Training and travel
- Computer/point of sale systems
- Leasehold improvements
- Rent and utility deposits
- Food fixtures
- Other equipment and fixtures including, furniture etc.
- Inventory including food and supplies
- Signage-graphics
- Advertising
- Insurance
- Working capital

Hot Dog! Your first Frankie's Franks is going gangbusters, and it is almost time to open your second unit.

But first let’s revisit your franchise contract. Most multi-unit franchise contracts have what’s called a development schedule. This means that you agree to open a new store on this date every year, or sometimes every year and a half. It depends on the franchisor. The point is that you can’t just open another store when you are totally comfortable doing so. You own a geographical area when you sign a multi-unit agreement up front. The franchisor cannot let anyone else open a store in your protected area. You are obligated to open a certain number of stores in a certain amount of time.

One great thing about signing a multi-unit agreement up front is that in most cases, the franchise fee is discounted for every unit you agree to open after your first one. But, you pay all the franchise fees up-front, not as you go. Still, it’s a nice deal for both parties. The franchisor locks up a certain geographical area that he or she knows will have a
certain number of units, and the franchisee gets a discount, and a great opportunity to own an area.

I talked with Mike Bursminski, who is a multi-unit owner of Batteries Plus, a retail battery store (which has a commercial component to it). He shared some positives and negatives with regards to being a multi-unit franchise owner, and I’ve included them, below.

**The Positives**

- You’ve been through this before and you are much more ready for most of the surprises with the new store expansions.
- You have a much better feel for how to market and grow your business.
- Economies of scale (i.e. marketing and inventory purchasing) start to work in your favor.
- Your training of new employees is more honed in.
- You are treated with more respect from the franchisor (more units, more revenue, more importance)
- You have a much greater revenue (and hopefully profit) stream.

**The Negatives**

- Cash flow can initially become more of a critical issue.
- You no longer have the time to devote to any one unit or store…you have to really let the control go to your managers.
- Personnel issues and risks magnify.
- Risk/Reward comes into play more strongly. You now have a lot more of your investment into the business and therefore have more of your money at risk. However, you hope that with that risk, you also have the opportunity to reap the rewards of a larger and growing business.

I also talked with a large multi-unit franchisor. Here is what Jay Mitchell, the Franchise Sales Director at Fantastic Sam’s told me they look for in a prospective multi-unit franchisee:
“As a multi-unit franchisor, we seek multi-unit operators with the desire and ambition to expand from a single location to multiple stores within (or ahead) of a defined development schedule. Many successful multi-unit business owners have had a progressive careers within the corporate world with an emphasis on financial planning, business development, developing/implementing marketing strategies and developing people.”

So, could multi-unit franchise ownership be right for you? Is it worth exploring? Do you like the visual? Do your due diligence, which must include talking to several multi-unit franchisees. Good luck!

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**BECOME A FRANCHISE OWNER!**

Need more advice about buying a franchise? This full-length book walks you through the details.

**The Reviews Are In:**

“Finally there is a book that gets into the nitty-gritty of what you have in store for you if you go down the franchise path…..”

- Carol Roth, Author of The Entrepreneurial Equation

“Each chapter leads you through the franchise decision-making process in a way that doesn’t stomp all over your dream of becoming a business owner.”

- Ivana Taylor, Author of Excel for Marketing Managers
A Few Words about the Hottest Franchises

The other day, a reporter for a Hispanic business magazine asked me what I thought the hottest franchises were. I hesitated, like I always do when I get asked that question, and shared a couple of “categories” that are currently popular.

When he pressed me for the names of specific franchises, I hesitated again, but this time, I spouted off 2-3 concepts that have been getting a lot of PR, or have been selling a lot of new franchises lately. But, I really don’t like naming names. I’m much more comfortable naming some of the trends in franchising.

A “hot” franchise opportunity can mean a number of different things. It depends on who you are and where you are in the franchise buying process. Take a look at the three things I listed below that could make a franchise concept “hot,” and maybe you’ll understand where I’m going with this important topic:

**High New Unit Sales**

In my industry, things are measured in units. Franchisors are always on the hunt for new franchisees. New franchisees open new units. New units create new franchise fees, and a new stream of monthly royalty income.

Fees are the lifeblood of the franchise model. If a franchisor is selling a lot of new franchise units, it could be considered to be a “hot” franchise concept.

**Locations Everywhere**

Let’s say that you travel a lot for business. Let’s also say that you’ve been thinking of leaving your job and becoming the owner of your own business, maybe even a franchise. Since you’re in the “looking for an opportunity” mode, you’ve been keeping your eye on certain businesses that populate all the places you travel to. And, there’s this one restaurant franchise that you keeps popping up everywhere you go. Not only
are these franchises everywhere, they all seem to be new. In your eyes, this franchise seems like a “hot” one.

Publicity

Some franchises get a lot of publicity; the reasons for it vary. Let’s look at three examples:

**Dunkin’ Donuts** tends to get a lot of PR. Like this story featuring *two very-well known sports figures that just purchased the rights to 50 Dunkin’ Donuts franchises*.

Earnings announcements can be turned into PR, too. Here’s a story that discusses **Burger King’s 2Q profit going up 60%**. (The reasons include their new menu, and recent marketing initiatives.)

Then there’s the recent publicity surrounding a certain *chicken-sandwich franchise*, that may or may not be considered what’s termed, “good” publicity.

So, based on the publicity that those three franchises have been getting as of late, one could say that they are pretty “hot” franchises. The reason I chose to attempt to define what a hot franchise is by using the examples above, was to get you to stop and think for a minute.

Now, I understand why you want to find out what the hottest franchises are these days. **You’re equating popularity with higher income opportunities.** But, it’s not necessarily the case, every time.

Look at the recent **Facebook IPO** for a moment. Didn’t you want to secretly “get in on the ground floor,” so that you’d have a chance to make a lot of money on a brand new stock? And, wasn’t the fact that Facebook has been considered a “hot” social media site-a hot company the main reason for your interest in it?

Investigating a franchise because its “hot,” and using whatever criteria you’re using to make it so, can be really tricky.

- Will the franchise concept you’re interested in be a short-lived fad?
- Are there too many locations nearby for you to have a chance to make money?
- Can the franchisor keep up with all the new units being opened?
Those are all great questions that you need to ask yourself before you sign on the dotted line.

Of course, one of the best things about franchising is that you get to ask actual franchisees, the ones that took a risk already and that are in business, all the questions you want.

But, in your excitement to become an owner, to finally be in control of your career, don’t forget to ask yourself this question:

“Is the franchise I’m thinking of purchasing right for ME?”

If so, maybe it can become a “hot” franchise for you and your family.

Make sense?
Top Franchise Trends for 2012

There’s certainly no shortage of dynamic concepts to explore in franchising in 2012 to 2013. Finding opportunities to get into a business of your own is the easy part. Finding a willing financial partner to help you invest in a franchise business is still a bit more challenging.

For example, if you want to get involved in a franchise business that’s focused on renewable energy and maybe even sustainability, no problem; do a Google search of “green franchises.” Maybe you’re comfortable calling on customers and giving sales presentations; there are several opportunities (such as Sandler Training) available for you.

Do you like food? (Silly question!) If you’ve always wanted to own your own restaurant, there are hundreds of unique food franchises, such as these gathered by Franchise Direct, to choose from.

Not all franchises require a commercial space; Pillar to Post and Mosquito Squad offer ways to be your own boss without having to negotiate a lease for the business. Another advantage of investing in a home-based franchise is that you can be up and running pretty fast.

One more thing: Remember that your customers aren’t going to find you if you’re sitting at home. You’re going to have to do some serious networking. Your networking should always include being on the lookout for strategic referral partners, as John Jantsch suggests.

Some Things Haven’t Changed

In my 2011 edition of the top franchise trends, I wrote about the fact that small business lenders weren’t all that excited to lend money for franchise startups. As much as I don’t want to start going all negative here, it’s still true today; lenders aren’t lending enough, The New York Times reports, especially to small businesses.
I also wrote about the fact that homes had gone down in value:

“Real estate is usually a major part of a franchise candidate’s net worth statement, and that’s now a problem. Home values are low, and in some cases, homes are underwater.”

According to Carole Cohen, a Cleveland Realtor who’s really dialed into the market, “Home prices in our area are down 26 to 28 percent.” (Her income took a hit because of the low prices.) Carole works for a family-owned real estate company, but there are real estate franchises, too, as this Realtor.org report points out.

What Has Changed?

The franchise industry’s focus has changed. By “industry,” I really mean only one part of the industry, but it’s a big one: The International Franchise Association, which is an association that promotes franchising.

I’m still trying to decide whether the combination of social media, and the business transparency that tends to be associated with it, has turned the IFA into a more powerful industry force, or not. On one hand, some of the higher-ups from the IFA, like Matt Haller, the Sr. Director of Communications, are starting to get a bit more active on Twitter, and have started to write some blog posts.

However, the growth of social media has evened the playing field in the franchise industry; now voices outside of the IFA – independent ones – can be heard loud and clear, too. The industry is changing, and anyone with an Internet connection can watch some of the changes that are happening in real time.

For 2012, the IFA has decided to focus on two areas; one is nothing new, but the other one…

1. Military Veterans

Veterans who are interested in possibly becoming franchise owners will undoubtedly run across the VetFran program. This program, founded in 1991, features 400-plus IFA member franchisors that offer training, mentoring and financial incentives to veterans interested in small business ownership and/or a career path in franchising. To date, approximately 2,000 veterans have become franchise business owners through this popular program.
I’ve personally assisted with our veterans, and have even been able to help a few of them become franchise owners. Today’s veterans have three things going for them when it comes to operating a franchise business. They are:

- Finely-honed leadership skills
- Personal discipline
- Comfort with technology

I’m all for helping the men and women who’ve made major sacrifices to help us keep our freedom. Thousands of veterans are returning home from our wars, and need jobs and opportunities. For veterans who want to become business owners, franchising is certainly one path that they should look into.

Of course, they’re going to need small business loans in order to start these franchises, and that’s the part that worries me. That’s because a large number of veterans have had several tours of duty. It’s not like they’ve had a chance to build up their nest eggs. Hopefully, banks will come up with some creative loan programs to help veterans get into business for themselves.

2. Pro Athletes

There’s really only one reason that the IFA is courting professional athletes, and it’s pretty obvious: the athletes don’t need small business loans. Can you think of any other reason?

According to the Bureau of Labor Statistics, there were about 16,500 professional athletes and sports competitors who held jobs as of 2008. This includes every sport, including all of the athletes who aren’t ready for prime time yet (that is, the minor leagues).

The thought of having 16,000 wealthy prospective franchise owners eventually searching for business opportunities in the world of franchising is a nice one. After all, what franchise development director wouldn’t want to have a slew of highly qualified candidates like Magic Johnson requesting information about a particular franchise concept?

While I don’t see hundreds of former professional athletes clamoring to become franchisees, if enough of them do, it could be terrific publicity for the franchise industry. I just don’t see it as a game-changer. (That sporting reference was unintentional!!)
2012 will be a very important year in franchising. If the U.S. economy continues to struggle, growth will continue to be sparse in the franchise industry. But if things finally do start to turn around, there’s a lot of pent-up demand for the great products and services that franchises provide to both consumers and businesses.

If lenders start making more loans available for people who want to start businesses, there’s a large pool of prospective franchisees sitting in the wings, waiting to take their shot at The American Dream.

The franchise community is ready and waiting to help them do just that.
How to Research Franchises

The internet has made information about specific franchises readily available. There’s no shortage of franchise opportunity websites in which one can see what’s available in the franchise world.

Here’s a few franchise websites that are worth a look:

- FranchiseDirect.com
- Franchise.com
- FranchiseOpportunities.com
- GreenFranchiseDirectory.com
- FranchiseGator.com
- Bison.com

Using franchise websites like the ones mentioned, are a great way to explore opportunities in franchise ownership. But, there are a couple of other ways, too.

Searching for franchise business press releases can be quite fruitful. New franchise opportunities are always being announced, as well as useful and informative announcements from franchises that are expanding, or are offering new products and services.

Here are a few places to find current franchise business press releases:

- FranchiseWire.com
- Franchise-Chat.com
- PRNewsWire.com
- BusinessWire.com
- PRWeb.com
If you’d like a more personalized approach to finding appropriate franchises, using a franchise broker may be something for you to look into.

Franchise brokers try to match folks with franchises in their portfolio, and they get paid a commission when they make a successful match. It’s important to remember that brokers only represent a relatively small number of franchises (typically 100-200), out of the 3,000+ different choices available. Brokers tend to shy away from high-investment opportunities like the ones you’d find in the multi-unit food franchise sector.

If you’re going to use a franchise broker, it’s important to remember that they’re only going to present franchises that they work with.

When it comes to researching franchises, The Franchise Disclosure Document (FDD) is where the majority of the data about the franchise will be found. During the franchise discovery process, the franchisor will eventually send the FDD (via mail, or electronically). It’s a clearinghouse of important information about the franchise that you’re interested in.

Here are the 23 items that are included in the FDD:

- The franchisor, its predecessors, and its affiliates
- Business experience
- Litigation
- Bankruptcy
- Initial Franchise Fee
- Other fees
- Initial investment
- Restrictions on sources of products and services
- Franchisee’s obligations
- Financing
- Franchisor’s obligations
- Territory
• Trademarks
• Patents, copyrights and proprietary information
• Obligation to participate in the actual operation of the franchise business
• Restrictions on what the franchisee may sell
• Renewal, termination, transfer and dispute resolution
• Public figures
• Earnings claims
• List of outlets
• Financial statements
• Contracts
• Receipt

It’s important to go through this document step by step. A lot of the items are filled with legal jargon, so it’s wise to engage an attorney that’s familiar with franchising, who will help you decipher it.

For research purposes, the most meaningful areas to concentrate on are:

Litigation: If there are a lot of lawsuits relative to the number of franchises in the system, buyer beware. Example; 20 lawsuits against the franchisor, in a system that has 200-300 franchisees is a little excessive. All types of businesses get sued. If a franchisor gets sued a lot, find out why. Sitting down with as franchise attorney will prove to be really helpful, when it comes to finding out about franchise lawsuits. It will open up the door for questions that you may have about being sued, yourself.

Franchisee and franchisor's obligations: It’s good to know ahead of time what obligations both parties have in a franchise relationship. For example, franchisees may be obliged to submit monthly sales reports, achieve minimum sales revenue amounts, submit all proper state and local licensure documents, and to only use pre-approved marketing materials.
The franchisor may be obliged to make available suitable training programs, continuing business advisory assistance, a copy of the Confidential Operating Manual, and make available all marketing and advertising materials as needed.

**Earnings Claims:** Approximately 20% of franchisors actually includes earnings claims. (Earnings claims are now called Financial Performance Representations.) Earnings claims can be disclosed in a few different ways.

99 percent of all systems making earnings claims provide sales/revenue data, only 49 percent give some type of expense data and only a few provide what is essentially a complete franchise unit income (From *The Profile of Franchising, Series VI*, January 2007.)

If the franchise concept that you’re interested in happens to be in the 20% of franchisors that do disclose some type of earnings claims, it’s a nice head start on the research phase of investing in a franchise. But to really get the answers, look no further than “the list of outlets” in the FDD.

**List of outlets:** This really important list contains the name of all the franchisees currently in business, their business addresses and their phone numbers. This is where the rubber really hits the road. At this point in the research process, it’s time to shut out all that non-essential noise that’s going on in your head. It doesn’t matter what you feel or think about this opportunity, right now.

It doesn’t matter what the franchise salesperson has shared. What matters now is what the franchisees that have invested their own money in the system have to say.

**Here are a few questions to ask:**

- If you had to make this decision again, would this be the franchise business that you’d choose? Why?
- Is the franchisor providing the level of support that you expected?
- Is the stated “total investment” amount correct?
- How do you rate the marketing and advertising?
- How is their technology?
- Is there more or less competition than you expected?
What’s your favorite part of the business?

What’s your least favorite part of the business?

Do you plan on growing your business by adding employees, space, or more locations?

Do you know of any really unhappy franchisees? (Why are they unhappy?)

Those are just a few of the many questions that you’ll need to ask, when you’re reaching out to current franchise owners. (More franchise selection information and franchise research techniques can be found at the Franchise Online University.)

Conclusion

Investing in a franchise can truly be a life-altering event. There is obviously a level of risk involved, but that risk can be mitigated by getting all the facts needed to make an informed decision. We hope that the Small Business Trends Franchise Business Guide has provided more than a few. Good luck!

Additional Resources

- **SBA** – This comprehensive US Government website provides just about everything one needs to start a business, including small business loan information.

- **Business.gov** - This US Government resource provides small business information, with the addition of a Community area.

- **Small Business Trends** – Numerous franchise business articles can be found in the franchise category, including the top franchise trends, which come out at the end of every year.

- **Score.org** – This website features resources and information for the would-be small business/franchise owner. Score counselors are retired small business owners and executives who provide free and confidential small business advice.
I opened an account on Twitter in May of 2007. (@FranchiseKing) At first, I really had no idea what I was doing. I just knew that if I was going to get on board with this new thing called “social media,” I’d better learn all I can about Twitter, and watch how others were using it.

I learned that following others on Twitter who had similar interests was a good first step. I searched Google to find small business and franchise folks that were already on Twitter, and I followed them. I engaged in 140 characters or less micro-conversations, a little at a time. I found that if my Tweets included some of my franchise and general business knowledge, a few other like-minded folks would follow me back.

I tend to be a bit snarky and sometimes I’m even sarcastic (no… really?) in my posts, and more importantly in my Tweets. I have found those two qualities to be very beneficial on Twitter. If I add some humor to the equation, I usually get several new followers within hours.

The best part of being active on Twitter has been the chance to meet people from all over the country, and even throughout the world, that are part of my industry, the franchise industry. Here’s a list of 25 franchise folks and companies that are really good at what they do, and that are quite active on Twitter. (In no special order)

1. @NAKEDpizza – Mark Cuban, the flamboyant owner of the Dallas Mavericks invested some of his own money into this up and coming Louisiana franchisor. Tweets about how healthy their pizza is, and announcements about new franchise locations, are properly Tweeted.

2. @Camp_Bow_Wow - If you guessed that this franchise is in the pet sector of franchising, you guessed right. Colorado based Camp Bow Wow is a fast growing boarding kennel that provides 24 hour care for your dog. Their Tweets include special messages sent to their customer’s dogs, along with news items deemed important to their customers.
3. **@rocketrobin1** - Robin Harrison is the managing director of UK based Dolly Char, a residential cleaning services franchise. Robin provides lots of cleaning tips, along with updates on new franchise being sold. He also gives his franchisees lots of kudos for jobs that are deemed well done. Well done, Robin!

4. **UrsulaBarzey** - Another Twitter user from the UK, Ursula and I have been having conversations on Twitter for well over a year, now. She provides great insights for prospective franchise owners, and gives a lot more than she takes. (New Twitter folks take note)

5. **CoachFloSchell** - Flo Schell may not have 3,000+ followers on Twitter, but that doesn't mean that she's not providing value to the franchise community. She has many productive years of franchise sales and development behind her, and shares a ton of tips that franchise organizations of any size can use in their new unit sales activities.

6. **@FranchiseHdbk** - The Franchise handbook is actually a printed publication, that comes out four times a year. Lots of Tweets about their advertisers populate their stream, but it's a good resource for prospective franchisees.

7. **@subwayfreshbuzz** - This is the official Twitter page for Subway. You’ll find news about their stores, and get up to date information about upcoming promotions and specials. Lots of updates all day long. Five minutes watching their stream of messages may induce hunger.

8. **@TopFranchises** - Franchise Direct (Disclosure; They're a strategic partner of this author) Tweets out franchise news and views, mixed in with information about some of their franchise website portal advertisers.

9. **@McDonalds** - The officially sanctioned Twitter account of McDonald’s has a lot of interaction between the folks at corporate, and fans of this rather well know franchisor. I’ve seen folks from corporate give a fan or two some freebies, once in awhile. (I’ll take a large fry, please)

10. **@FranchiseMall** - Tweets from this franchise directory website include general information about specific franchise concepts that advertise at The Franchise Mall. There’s also some really good marketing advice sprinkled in.

11. **@DunkinDonuts** - These folks do a nice job with Twitter, and social media marketing, in general. Now, meet Dunkin Dave; “Dunkin’ Dave here, tweeting on
the behalf of the DD mothership. I'm an American and I'm certifiably running on Dunkin'." I'm thinking that Dave may want to drink decaf coffee, occasionally.

12. @FranchisePick- I've never actually met Sean Kelly. But I will. We've done some franchise marketing for franchisors together, and this franchise marketing veteran’s Tweets are intelligent, funny, and downright bizarre. I promise.

13. @ChurchsChicken- This growing fast food chicken franchise started in San Antonio, Texas in the 1950’s. The folks at corporate gave away an XBox 360 to their 1,000th Twitter follower in 2009. This is a pretty active Twitter account.

14. @PaulSegreto- Paul and I did a franchise radio show together for a while. He’s a franchise marketing guy at heart, and mixes up his thoughts about our industry with franchise news, and terrific social media marketing tips.

15. @PizzaHut- The “Twintern” at Pizza Hut Tweets a lot. You’ll always find some interesting Tweets here, and transparency isn’t a problem. At all. Positive and negative customer service experiences are discussed openly. They get it.

16. @cherrygarcia- Can you take a guess at who’s behind this Twitter handle? This socially conscious ice cream chain was an early adopter of Twitter, and Tweets out some great ice cream information with visuals. It’s Ben & Jerry’s!

17. @SandersonPR- Rhonda Sanderson, a friend of mine, and the president of Sanderson PR in Chicago, has been helping franchisors tell their unique stories for 27 years. She’s been Tweeting out franchise information for a few of those years, too. She’s very influential in the franchise community.

18. @pancheros - This young Mexican food franchise chain has wisely hired a social media manager. Reid Tweets out interesting things on a daily basis. Currently, it’s all about purple burritos. Purple?

19. @expansionexpert- Lizette Pirtle’s Twitter profile states that she’s passionate about franchisee & franchisor success, small biz, Asheville, spiritual growth, veggies, yoga, sharing & helping others. She shares some great motivational quotes, too.

20. @ToddWeissCFA- This New York franchise consultant is also a Chartered Financial Analyst, and ex Wall Street guy. He Tweets about franchise opportunities and readily gives free tips out.
21. **@egennicks** - Elza Gennicks is a Phoenix, Arizona area franchise owner, as well as a franchise development executive. His Tweets are a great mix of his business and personal life. He’s quite the positive guy.

22. **@drjohnhayes** - This franchise expert and published author has been pretty active on Twitter as of late. He gives out plenty of advice for would-be franchise owners. He really *is* a doctor. (Ph.D) He was the President and CEO of HomeVestors of America Inc. for a few years. (We Buy Ugly Houses®)

23. **@MarriottIntl** - With over 31,000 followers, the team over at Marriott International has obviously done a nice job integrating Tweets into it’s daily media stream. More importantly, this is one brand that has done a superb job using it’s Twitter account to solve any customer concerns that come up, much like @dell has been able to do.

24. **@balihoo** - This local franchisee marketing company has a software product that helps local franchise owners automate their marketing activities. You’ll find lots of technology focused Tweets, along with up to date franchise marketing news and views.

25. **@Valpakcoupons** - Gila Fox from ValPak’s corporate office, seems to use Twitter as the central social media hub for the company. Its direct mail coupon customers can connect with the corporate office here, and so can businesses that are interested in advertising their products and services. Gila is really good at spreading her own special brand of Florida sunshine.

If you follow this diverse group of franchise industry related professionals on Twitter, you’ll add to your franchise and small business knowledge in a big way. There’s never been more information readily available like there is now, because of the Web. Twitter brings it all in to view, faster.
About the Author

Joel Libava is a Cleveland, Ohio based franchise expert and consultant. Joel is known online under the brand “The Franchise King®.”

He provides franchise advisory services to people considering franchise ownership.

Joel's business was started by his late father in 1991 and at that time was called International Franchise Development. Joel joined him in 2001, after 10+ years in automobile franchising and prior to that a variety of management positions in the restaurant business. He changed the name of the company in 2004 to Franchise Selection Specialists, where he serves as President.

To meet customer expectations, he increasingly has transitioned his business model to do more online. As a result, he is very active, maintaining several franchise-related websites, including The Franchise King. He is also active on Twitter @FranchiseKing.

Joel also is the franchise expert-in-residence at Small Business Trends, where he writes informative articles in a conversational manner for entrepreneurs and small business owners considering franchise ownership. He is the author of the full-length book “Become a Franchise Owner” (Wiley, 2011).

Now – are you ready to take action? Contact the author, Joel Libava, for a personalized consultation.
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