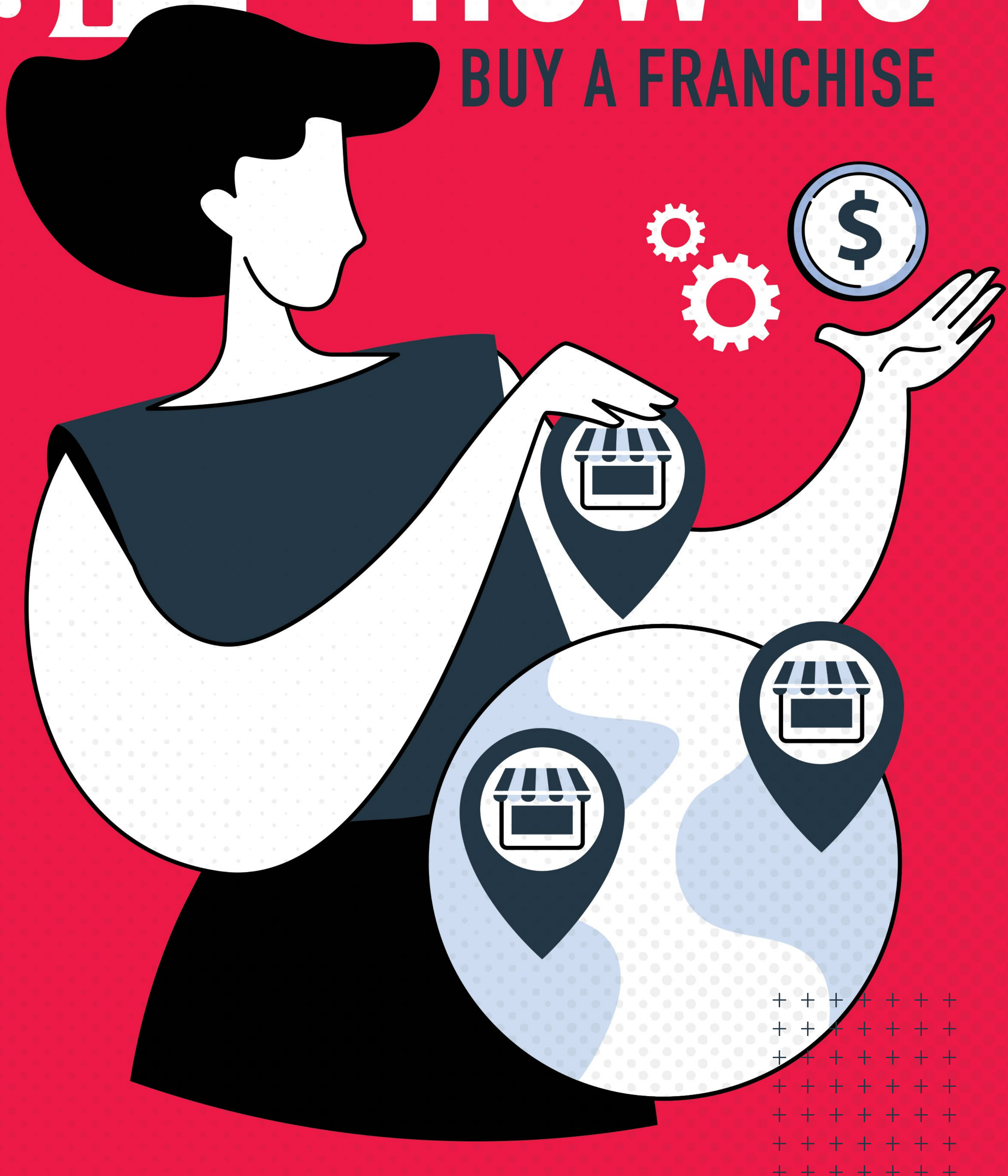
HOW TO
BUY A FRANCHISE



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WHY BUY A FRANCHISE?

Entrepreneurs have seen the value in franchise businesses for more than 150 years. You probably drive past a dozen franchise businesses a day. What makes them so attractive to investors?

To answer the question “Why buy a franchise?”, it’s probably best to start by looking at the question “Why not start my own business?”

The answer to that question is simple: **risk.**

Entrepreneurship comes with unmatched rewards and a sense of accomplishment. Entrepreneurs who invent a new product or service go down in history as innovators of the first order. But many, many more don’t go down in history at all — they just go down. According to the Bureau of Labor Statistics, 20% of businesses fail in their first year. By the fifth year, that goes up to 50%. This number does not account for the massive number of money-losing businesses or those that can’t provide a full income for the entrepreneur.

Franchises offer the perks of entrepreneurship with a lower level of risk. If you open your own restaurant, you’re on the hook for payroll, setting prices, setting the menu, legal support, advertising, staffing and much, much more. Franchises offer all of the corporate support but allow you to keep the profits, minus a small royalty fee. Because franchises are large organizations with consolidated corporate power, they can hire big-money advertising firms, pay legal fees, and even survive an economic downturn. Time and time again, franchised businesses have proven more resilient to market crashes.

That’s why there’s a market for tried-and-tested business models. That’s why there’s a market for franchises.

What You're Buying With a Franchise

"When you buy a franchise, you're buying a proven success. It's a model that has been developed over several years," said Jack Armstrong, a franchise consultant said.

"The franchise can be validated, and you can talk to other franchisees. You can get a sense of the business' headaches and speed bumps ahead of time."

McDonald's, perhaps the most famous franchise, has a proven record of success. When you buy a McDonald's, you don't have to worry about learning how to make a great burger or setting the price just right for the market, as the corporation behind you does that for you. A successful franchisee puts the franchise's business model into practice and handles day-to-day operations within their stores, but has legal, financial and business intelligence backing from a bigger organization.

But there are other franchises, thousands of them. As many as 4,000 new franchise brands pop up each year in every sector under the sun. Franchise owners aren't just successful entrepreneurs, they're systematic thinkers who can apply lessons and successes to a variety of contexts. If there's an area of work you're passionate about, there's most likely franchises in the space.

How to Make Your Franchise Purchase Successful

A successful franchisee enjoys all the benefits of entrepreneurship with few of the problems. Once a franchisee has mastered the art of running their territories, they can count on a steady income stream or even pass on the businesses to family members.

But to become a successful franchisee, you have to do your homework. Once you decide what type of business you want to go into, then the real research starts.

"I think in your initial research you have to talk to the other franchises and find out what their day is like," said Armstrong. "When does the franchisee get up in the morning? What's their day going to be like? Is this something they want to do for 10 or 15 years? Talk to at least three or four franchisees. See what their strengths and weaknesses are."

If you find the right match and apply yourself, the franchise has already done all the legwork to get you off to the races. Now you have a functioning business running and the experience and potential to open more.

But before you sign on the dotted line, Armstrong offers some pro advice.

"Have a game plan for the exit before you sign," he said. "The more recurring revenue you have coming in, the higher the resale value. A lot of people today are focusing on exit strategy. Talk to people who have sold. What kind of return did they get on their investment?"

The answer to the question: "Why buy a franchise" is really simple — to secure your financial future and find a business you'd be passionate about running, all with the support of a franchisor that will help guide you to success.

WHAT EXPERIENCE DO YOU NEED TO OPEN A FRANCHISE?

These are the two key career backgrounds that can help you succeed as a franchise owner.

When it comes to opening your own franchise, there's a dizzying array of opportunities available.

The problem is that so many opportunities may not align directly with your work history. Does that matter? Do you actually need to have worked in the specific industry your franchise is in to be successful?

Not necessarily, say franchise experts. While industry expertise is sometimes helpful — such as in highly technical areas like IT — for other types of franchises, it's less important.

"That's because you're not doing the physical work, you're managing the people who are," said, Jack Armstrong, New Jersey market president FranNet, an international franchise consultancy.

So what kind of experience do you need to open a successful franchise?

The best experience you can bring is the kind that can transfer from one industry to another, whether you're making donuts or repairing water heaters, said Armstrong.

"We have a lot of people coming in from the retail sector. They're used to managing people and dealing with customer service," said Armstrong. "But because of the economy, they don't want to go back into retail. But they can transfer their skills into some sort of service-based business."

Armstrong said there's a couple of backgrounds that well suited to owning a franchise: Management and sales and marketing.

Good Managers Wanted

With a bird's eye view of the business, managers have to help everyone do their very best. From HR to customer service to sales and marketing, a good manager should know how to deal with different personalities, respond to crises, solve problems, and generally just be comfortable around people.

In other words, a franchise owner's ability to hire good people or talk to customers is much more important than his or her ability to twist a wrench or fix a faulty hard drive.

"If you're in health care, for example, you're managing a team of health-care professionals," said Armstrong. "You're not doing the work yourself. You put your team together and run it. "

A Background Sales & Marketing Doesn't Hurt, Either

A background in sales and marketing is also good to have if you're thinking about investing in a franchise, said Armstrong, though it also depends on the industry.

"If you're doing something in temporary employment, you need to be very good at sales," he said. Information tech jobs may require some grounding in the field because you're managing IT professions and need to speak their language. But you also need to have sales skills. "If you don't have [both] those skills, you're not going to make any money," said Armstrong.

You have to be honest about what you're comfortable with, he cautioned. If you're not comfortable with making cold calls, for example, then something in the B2B world is probably not for you.

Armstrong also said it's also important to look at what the franchising company is providing you in terms of marketing and sales support because you need to hit the ground running with a solid marketing game plan in place.

> *"Marketing is the biggest challenge today in the COVID world," said Armstrong. "How are we generating leads? How are we getting people to contact us? How do we do the business?"*

But Armstrong said that experience alone isn't enough to make it as a franchise owner. You need drive and motivation, he said. "You can have a lot of management or sales experience, but if you don't have a get-up-and-go attitude you're dead in the water."

SHOULD YOU OPEN A NEW FRANCHISE LOCATION OR PURCHASE A RESALE?

1851 looked into the pros and cons of buying into an existing franchise location versus starting from scratch.

Partnering with a franchise brand allows entrepreneurs to open a business with a proven business model — a significantly less risky proposition than starting a business from scratch. But when buying into a franchise system, first-time franchisees often have the choice of opening a brand new location or taking over ownership of an existing location. While the latter option may seem like the safer bet, it has its downsides, too.

To help you determine which path is right for you, 1851 Franchise broke down the pros and cons of buying an existing franchise location versus starting from the ground up.

PROS

Built-In Reputation

Buying into an existing franchise means you're walking into a business venture with an existing reputation in the community — good or bad, people have an idea of what to expect from your store. If the previous franchise owners established a good reputation, then you're in good shape. If not, you may have some extra work ahead of you to prove to the community that under new ownership things will be different. Buying a franchise location with a poor reputation provides you with an opportunity to improve it and showcase your offerings to the community in the best way you see fit.

Established Customer Base

An established location comes with an established customer base. Depending on the kind of business you're operating, that customer base may have a relationship with the store and the staff who run it. Whether they're a regular or a more infrequent visitor, it's important to honor that relationship and give the customer a familiar experience when they engage with your brand. If you choose to buy into an existing franchise, make a point to build on that relationship with existing customers while you seek out relationships with new ones.

A Staff That Knows the Ropes

Just like its customers, an existing franchise comes with trained staff who know how the business operates. This may alleviate the need for training staff. Plus, working with a staff that's already well-aware of the day-to-day flow of business can help ease you into the transition, especially if you're a first-time franchise owner.

Outlined Expectations From Existing Business

From the moment the previous owner hands you the keys, you will know what to expect from the business. The previous owner will clue you in on revenue expectations, marketing plans, the flow of store traffic and notes on employees. From there, you can figure out where you need to make improvements to run your business as successfully as possible.

Immediate ROI

The brunt of the upfront cost of an existing business is a little easier to swallow when you know that you will see an immediate return on your investment. There's no ramp up time. As soon as you've completed training and gotten to know your staff, you enter a revenue earning environment.

CONS

Resistance From Established Customers

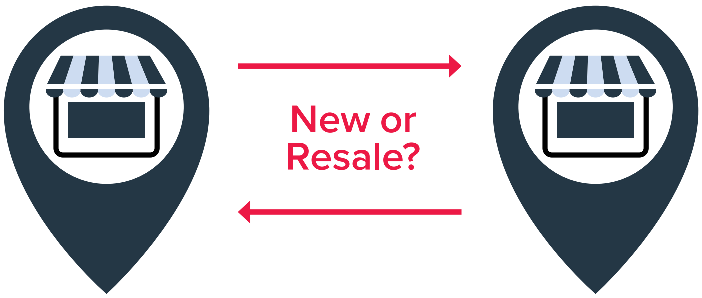
Humans are creatures of habit, and that may make the transfer of franchise ownership a little bit difficult, especially in the case of customer-facing businesses like a restaurant or retail store. Happy customers are the bread and butter of any local business, and that's why it's important to honor practices of the previous franchise owner's practices while introducing your own.

Problems With Existing Staff

Similar to a business's customers, the existing staff likely has an allegiance to the previous owners and an understanding of the way they expect the business to run. If you're looking to make changes to your store's work patterns and operations, be sure to communicate them clearly to your employees, explain why you're making them and show how they will improve business to avoid any issues.

Taking on Existing Issue

Buying into an existing franchise can mean buying into existing issues, and you could run into some hiccups when trying to set things on the right track. Whether the store was underperforming, demographics have changed or competitors have come into the market it's important to do your research and consider why the previous franchise owner has decided to sell. Additionally, if the business isn't operating at up-to-date standards, that could mean additional costs that you'll need to take on.



WHAT FRANCHISEE PROSPECTS SHOULD LOOK FOR IN A BRAND

Research the franchise's investment level, lifestyle benefits, operational efficacy, brand awareness and room for growth before you invest.

Deciding which concept to franchise with is a big decision. It's a sizable investment of both time and money, and finding the right franchise brand for your lifestyle might seem overwhelming.

To help find the industry and business model that perfectly fit you, 1851 Franchise has compiled the factors that should be taken into consideration when choosing a franchise.

Passion

Above all else, it's important to follow a career path you're passionate about. Theresa Huszka, CFE and senior consultant at MSA Worldwide told 1851 Franchise, "The biggest thing a franchise candidate really needs to focus on is what gets them excited. What is it that they can become passionate about? I don't care how profitable a business is, if you're not passionate, it's not going to be a good fit."

When deciding whether to invest in a particular franchise brand, it is imperative to believe in the company's overall vision. Investing in a franchise means investing in an already-established and successful system, so it's extremely important to embrace it — and that includes everything from the vision to the mission, people, culture and product.

Huszka continued, “You should really do some soul-searching and find out who you are as a person.”

Do you prefer to be hands-on or do you like managing people? How much money do you expect to make? What kind of lifestyle benefits do you want to have? These questions can help you narrow down the type of franchises you would like to focus on so you make a more thoughtful decision.

Investment

While franchising is an emotional decision, it also needs to be a practical one. One of the most important factors is the level of investment necessary for a particular brand. If prospective franchisees don’t have the specified amount of liquid capital outlined in Item 19 of the brand’s FDD (Franchise Disclosure Document), they must ask themselves how much they are willing to borrow and research the timeline on the return-on-investment for that specific brand.

Luckily, there are a few different loan options available to franchisees. However, it’s critical to figure out which loan options best fit with the lifestyle and the business of the prospect. Prospective franchisees need to understand all of the numbers associated with each of the franchises they’re looking at. For example, a lower start-up cost can be beneficial, as that could mean a faster ROI.

It’s important not to jump on a fad or into an established brand before doing your homework. You can first visit websites like the International Franchise Association or Franchise Gator to see what franchises are in your area and review pricing. You can also attend the International Franchise Expo to learn basic information about the different franchises available. Once you have an idea of what you think you want, it would be helpful to speak to a franchise broker or franchise consultant. They have the contacts and knowledge to help you find the perfect franchise to fit your financial needs and goals.

Availability

One of the most important things to consider when investing in a franchise is whether the concept fits the desired market. Franchisees should strive to be in a market they are familiar with, but the market also must fit the brand. It is essential to ensure the concept is located somewhere that aligns with your target demographics. If prospects — with the help of their potential franchisor — determine their product is going to be well-received, then they can discuss how many locations can realistically fit in the territory. If the brand is more established in the area, that level of brand recognition may also be a major selling point.

In regards to room for growth, Peter DiPasqua, CEO of DiPasqua Enterprises, a multi-brand operator who is bringing the emerging fresh-pressed juice franchise Pure Green to Tampa, Florida, notes that getting involved with a business at an early stage "allows for more opportunity to acquire large territories and the ability to build them out strategically in the future."

Validation

Most franchisees will tell you how crucial validation is when deciding whether to invest in a brand. Prospective franchisees are encouraged to take advantage of the resources given to them in the FDD, specifically the Item 20, which outlines such information as a list of the brand's current franchisees and their contact information. This is extremely valuable to prospects, as they can reach out to the current franchisees and hear their input on what it's like to work with the brand.

This is a chance to ask important questions such as: Did their investment fall within the range that is listed in the disclosure document? Are they happy with their current returns? Do they feel good about the decision that they made? How did the brand support franchisees amid COVID-19? These conversations can provide new insight into how the company functions and if it is delivering on its promises.

In fact, Dipasqua's most important piece of advice for those looking at investing in a franchise is to speak with and meet with everyone they can before deciding. "Before making a final decision, prospects need to speak with current franchisees, meet with people from corporate and visit several of the brand's locations if they really want to get a feel for the brand and understand what it's about," he said.

Competition

Once a prospect has narrowed in on a concept, there's one more factor that can solidify a decision: competition. It is likely your ideal franchise has a couple of close competitors in the industry. Take a look at their business models to determine what makes the brand you've chosen unique in the industry. It's important to truly understand your competition so you can make an educated decision and come out stronger right from the start. Analyzing these factors and doing due diligence on each individual concept will ensure that franchise candidates have the information they need to move forward with the big decision of choosing a brand.

WHAT TO LOOK FOR ON A FRANCHISE SALES WEBSITE

A franchise sales website should tell you everything you need to know about the brand, but not all franchise sales sites are created equal.

Buying a franchise should be one of the more heavily researched decisions in your life, so it's vital to not get distracted or confused by the deluge of information a brand provides its potential franchisees.

There is a range of critical metrics for franchisors to apply when designing their development sites, but for franchisees, finding the right information is not always so clear cut.

Here's what every prospective franchisee should look for — including red flags — when visiting a brand's franchise site.

Do You Sense A Bait and Switch?

If you're buying into a brand, it's fair to demand complete coherence and competence from all of the brand's public-facing literature. That means the site needs to make sense to you.

The first thing to keep in mind is: How did you find this brand? Did you encounter them in person? Did you see an ad on social media? Did a franchising broker present it as an option?

Jack Monson, the host of the Social Geek Radio, a Top 25 podcast on iTunes in Marketing and the Chief Revenue Officer at Social Joey, has been working with franchise brands and small businesses in social media marketing for 13 years.

According to Monson, prospects should always check for a consistent message.

“The brand should make it a seamless customer experience from the Facebook ad or LinkedIn ad to the franchise sales site,” said Monson. “I see a lot of people who are positioning their brand one way in some of their advertising, and then when you get to the franchise sales site it’s a different message, a different look, different content that doesn’t relate to the ads.”

If the brand has blown this first, vital step, it’s a bad sign. Monson said that if it feels like a bait-and-switch, trust your gut.

What Does The Website Prioritize?

Every brand has a story. Literally every one of them. Monson says to look out for franchise sales websites that spend too much time going through the brand’s narrative. Ultimately, you want to find out what the brand can do for you.

“‘What’s the opportunity for me? What’s my life going to look like? How much money can I make? How is this going to affect me and my future?’ These are the questions you need to get answered,” said Monson. “If I’m a franchisee candidate, I want you to tell me a story about how well the franchises are doing.”

Does The Website Talk To The ‘Zees?

Look for testimonials from other franchisees. Does the website provide details on who they are? If possible, connect with the franchisees and interview them yourself.

Do The Numbers Grab You?

Beware of averages and medians. A franchise sales site that deals only in averages, like the average revenue per location or median profits, maybe covering something up. Some franchises work great in one region and have several high-performing locations. This doesn’t exactly mean the brand would perform the same in your region. Dig into specific numbers and see if they seem relatable for you.

Does The Website Work As A Website?

When 1851 ranks franchise sales websites, it looks at three areas: First impressions, content, and ease of use. We’ve already talked about the first impressions and content, but now let’s talk about ease of use.

Does the website work? Does it load quickly? Are the contact info forms easy to fill out? Does it come up first in Google search results? Does it look good?

The website should function well as a website. With tens or hundreds of thousands of your dollars on the line, it’s ok to kick the tires a bit on the website.

HOW TO WORK WITH A FRANCHISE BROKER

Looking to invest in a franchise? These pros can help you navigate the vast world of franchising.

The prospect of opening your own franchise is thrilling.

With your hard-earned money on the line, however, you want to choose a franchise that's right for you. But, with thousands of franchise opportunities out there, how do you choose?

That's where the franchise broker comes in.

What is a franchise broker?

A franchise broker represents franchisors, which are companies selling franchise opportunities to franchisees. But they're a little bit like a matchmaker, too.

That's because it's not enough to sell you on their client's fantastic business opportunity. They have to find you the right opportunity. The franchisor doesn't want the broker to bring the wrong match, either. So, generally, the franchise broker tries to arrange a happy marriage between franchisee and franchisor.

To accomplish that task, the broker should get to know you and assess what interests you, what skills you'll bring to your new business, and what your goals are.

"I commonly call myself a life coach who helps you with the soul searching required to determine if business ownership is the best fit and, if so, what options (of the thousands available) set you up best for success," said Corey Elias, founder of Atlanta-based Franchise Captain franchise brokerage.

Why use a franchise broker looking for a franchise?

While Googling "franchise opportunities," will show you a vast number of leads, "it can be overwhelming," Elias said. "A franchise broker helps you pinpoint the one that's right for you. Brokers have a lot of expertise in the industry and can narrow down options based on the lifestyle and financial goals of the candidate."

Elias also said that there's another benefit of working with a broker: "Brokers also have access to funding resources, franchise attorneys, accountant introductions and tools to look at the backend health of a franchise system."

Do I have to pay a franchise broker?

A franchise broker usually earns a commission from the franchisor when he or she sells a franchise unit. So how do you know they're not out to get you to sign on the dotted line to make a quick buck?

"This is a highly referral-based business," said Elias. "So brokers are very incented to create great matches who will then shout your name from the mountain tops because they are so happy with the business you helped them find."

Research your broker. They don't mind.

Ultimately, it's up to you to sniff out a good broker. "Do your research," said Kay Ainsley, managing director of MSA Worldwide, a franchise advisory, which helps franchisors expand. "Find past clients and see if the broker helped them find the right opportunity. Is this someone that is part of a brokerage network? Somebody who has been around for a long time? Or is this somebody who is an out of work salesperson that is doing this until they find another job?"

Another tip: "Get to know them as a person," said Elias. A gut check shouldn't be the only research you do, but it shouldn't be discounted either.

HOW TO EVALUATE A FRANCHISE OPPORTUNITY PROPERLY

Buying into a franchise is a big life decision, so make sure to do your due diligence before committing to choosing one to sign with.

Looking to become a business owner but not sure where to start? If you don't have any entrepreneurial experience, then franchising is a good place. Franchise brands are backed by a proven system that can catapult franchisees toward success and profitability. But before you sign your life savings away, it's important to do your research on a brand to ensure it's the real deal.

1851 Franchise spoke with Steven Gardner, founder of QSR Franchise Development, about properly vetting a franchise and learning best practices to help you make a more informed decision when choosing a brand.

How to Review the Franchise Disclosure Document

After your initial inquiry into a brand, the franchisor may send you its Franchise Disclosure Document (FDD) — the brand's Bible, so to speak. Within the FDD you'll find important details like cost to build, the initial franchise fee, ongoing royalties, marketing costs, a list of existing franchisees and those who have left the system. These documents are usually pretty lengthy and overwhelming to someone who's unfamiliar with the jargon, so it's helpful to review it with someone who knows what they're talking about, like a lawyer or franchise consultant.

Who to Talk to About the Brand

No one's going to better prepare you for the franchising experience than franchisees who are already in operation. If they know you won't be encroaching on their territory, they'll likely be more than happy to offer advice and offer insights into their day-to-day.

Be prepared to call more than a few franchisees. You want the chance to talk to successful franchisees , those who might be struggling and even franchisees who might have sold their business to get the full perspective.

But Gardner says it's not enough to stop there. Talk to someone who works in franchise development or a franchise consultant as well. They can help you read through the FDD to spot anything suspicious.

"There are a number of people who you should be talking to, including people like me who can help you spot red flags," he said. "I put myself in the shoes of the franchisee so I can offer an overview."

How to Ask the Right Questions

Once you've got the right franchisees on the phone, it's just as important to ask the right questions.

It's helpful to learn the franchisees' history with the brand; how many units have they opened? How many have they closed? Do they plan on opening any more? If they did close any stores, what was their reasoning?

Inquire about their experience working with the franchisor; were they attentive? Did they provide support when they needed it, and what did that look like? How did they treat them and were they true to the promises they made early on?

Most importantly, are they making the money they expected to make? At the end of the day you're investing your savings in an opportunity to earn money, so if it's going to take you longer than expected to make a profit, perhaps it's time to start researching a different brand.

How to Research the Founders

Spend time looking into how the brand came about and who's behind it. Are there any wrinkles in the founders' story or in their financials? The more you learn about the founders, the more you'll understand the motivations of the brand and if its values align with yours.

"I'd want to know a lot about them personally," said Gardner. "Often the brand's financials are a big indicator, I would go to an accountant who's able to read through them."

How to Spot a Franchise With Strong Support

One of the main reasons to buy into a franchise is the built-in support system, so it's in your best interest to understand what exactly support looks like from the franchisor. If you've never owned a business before, you're likely going to need a lot of hand-holding, even if just at the beginning. Find out how extensive training is and how in-depth the brand's manuals are. Beyond training, find out what ongoing support looks like. A good franchisor will have your back every step of the way, and a bad one might leave you to fend for yourself when things get tough.

"Learn more about what their support team looks like and how they are going to support you from the time that I go into training and open my unit and beyond that. What kind of ongoing support should you expect, and do they deliver?" said Gardner.

HOW TO FIND THE RIGHT TARGET MARKET FOR A FRANCHISE

Establishing the right target markets can make or break a franchise concept — here are some tips from experts in the industry.

As a franchise brand grows, one of the most important factors is deciding where to focus expansion efforts. While finding the right franchisees may be step one, finding the best locations for franchisees is another question entirely. 1851 Franchise spoke with experts in the franchise development field to discuss what franchisors should keep in mind when deciding where to grow in 2021.

What Makes a Good Market?

Whether a retail concept or an in-home service, there are a couple of factors that can determine if an area is a strong growth market for a franchise.

"First, research the desired markets and determine if there is a need for your offering or business model. If the answer is yes, then proceed with exploring the demographics," said Jesse Curry, vice president of franchise development for Eat the Frog Fitness. "How do the demographics (population, income, education, etc.) match up to the brand's targeted audience? Simultaneously, and especially in today's environment, do thorough research on your competition in the targeted markets. Find out what differentiators you have or can easily implement. For example, on demand video, drive through lanes, 24/7 access, offer in-home services, stand out pricing, customer service, rewards program or other defining characteristics. If allowable, secret shop them yourself or hire an agency, especially if targeting multiple markets in a region."

Corey Elias, founder and franchise consultant at Franchise Capitan, agrees that the primary factor is ensuring there are enough qualified households to buy the product and make the franchisee successful. “Some of the best franchisors are in the business of data collection and analytics; they need to know their target demographic and ensure that any territory they are going to expand into has enough of their common buyer,” said Elias. “Still, one big hurdle to beware of is solely relying on the data. Each market has unique intricacies that the brand should do their best to understand.

According to Curry, there are several other factors that can determine a good market for growth. “Other factors that come to light include the labor force and economic outlook,” he said. “This will depend on the type of service you are offering. What are your needs, and what wages will it take to attract good people? More importantly, what will it take to retain your employees?”

When it comes to choosing a specific area or site, franchisors should also consider consumer traffic patterns. ”Is there an on and off-ramp or ease of getting in and out of the business park? Does your business cater to day, evening or both traffic opportunities? In most retail businesses, it is all about location, location, location,” said Curry. “With online shopping, COVID-19 and possibly a depressed real estate development period, suddenly today’s real estate environment can favor the tenant and save thousands of dollars over the life of the lease.”

What Should Franchisors Should Be Wary About?

In terms of common mistakes that brands make when growing, Curry mentions that franchisors shouldn’t expand just for the sake of making business headlines or boasting to friends and colleagues. “Before diving into certain target markets, franchisors should dial into all the areas where they can improve, such as franchise training, staff training, hiring the right people, improved digital and social marketing tools for your franchisees,” he said. “Heed the warning signals of under-performing franchisees and immediately address them.”

In addition, franchisors shouldn’t spread themselves too thin. “Brands need to have specific growth goals and focus on them,” said Justin Gordon, CEO of Amramp. “Pick one or two markets and commit to them. Don’t get distracted and listen to the noise of doubters or people who don’t have the brand’s best interest at heart.”

If the business relies on vendors or any distribution, franchisors also need to make sure that those vendors work in the new target markets. “It is important for a franchisor to ensure they have enough operational support in their back office to handle the growth as they expand into more markets,” said Elias. “This will set up their franchisees for success.”

How Franchisors Can Spread the Word?

Once the target markets are identified, franchisors can implement several strategies to get the word out for both consumers and prospective franchisees. “Building brand recognition in a new market is a cross-section of luck, referrals, excellent business practices, digital and local marketing, remnant radio, high customer promoter scores, great food, excellent service, partnering with like businesses, community involvement and more,” said Curry. “When entering a new market, franchisors need to find the one significant thing (or more) that separates their brand from the competitors, and promote that. That’s what customers are looking for: differentiators.”

According to Elias, the best place to start spreading the word is through current franchisees. “If you are building the system correctly, current franchisees will be your biggest advocates and would love to help grow the brand,” he said.

Lastly, Elias notes that once markets are established, franchisors should also involve the great groups of franchise brokers who can find and advocate for amazing candidates in a certain area and help to match them with great brands that fit their lifestyle and financial goals. In addition, brokers can guide franchisors and show them where there is a high level of qualified candidates or potential for growth.

With these tips and strategies, franchisors should be better positioned to go out and find the markets where their brands will thrive.

WHEN IS THE RIGHT TIME TO BUY A FRANCHISE?

Buying a franchise should be one of the most heavily researched decisions of your life, but timing is everything. Here's how to know when the time is right.

Prospective franchisees come from all lifestyles, backgrounds and careers, but they all have one thing in common: a dream of owning a business and the liquidity to make it happen.

In that respect, the right time to buy a franchise largely comes down to when you have saved enough money and found the right opportunity. Still, it's not always easy to find the right moment to pull the trigger.

Jack Armstrong, president and owner of franchise consulting firm FranNet in New Jersey, says there are a few key things he always tells prospects to consider when deciding when to sign on with a brand.

"Look at the reasons why you want to buy a franchise — what's your motivation?" asked Armstrong. "Are you just turned off from your corporate job, or do you really want more control and flexibility in your career? If you're just hating your corporate job and trying to escape it, you're probably not ready to own a franchise."

Really ask yourself if franchising is what you want, or if you'd be happier in another part of the corporate world. The old proverb better the devil you know than the devil you don't rings true here.

All Ages Welcome

And while there are franchising opportunities for people as young as 18, Armstrong says that typically franchising candidates fall in a certain age range.

"I think there's a franchise opportunity for most people, but it really depends on the economics," he said. "Generally franchise buyers are a bit older, in their mid-40s with a greater balance sheet and less responsibility. Maybe the kids have moved out of the house and they have more time for a franchise."

"Some millennials do have the money, but they don't have the resources to buy what they want or make a full commitment," said Armstrong.

Finding the Right Time in Your Career

On the other end of the spectrum, franchising makes a great fit for many going into retirement, said Armstrong. "It used to be, you spent part of your life getting educated and prepared, then you start working, and then retire. But because people are living longer, they're outliving their resources, they're outliving their retirement savings."

For that reason, buying a franchise can fit ideally with retirement, provided you can find good staff to take over most day-to-day operations. Many franchises market themselves towards these older entrepreneurs, while others demand full-time devotion.

Knowing When To Pull The Trigger

Let's say you've found a brand you love, you have the money for it, and you're anxious to get going. Do you wait for a brand to produce a new FDD, or do you sign on to the original terms? This may seem the ultimate gamble, as you don't know if the new terms will be better or worse.

But, according to Armstrong, there's a simple rule of thumb to follow.

"If you're looking at a well-established franchise, go ahead with the old FDD," he said. "If it's a newer brand, wait for the new one."

Measuring Risk vs. Reward

The right time to buy a franchise is the time when you feel comfortable taking a risk. While franchised businesses are much less risky than traditional startups, all business deals in some level of risk.

Being a brand's first franchisee can be exciting and afford you complete attention and close partnership with the corporate office, but in this case, you're taking on less of a proven concept.

Opening the one-millionth Subway franchise, on the other hand, won't be as exciting and won't get you in on the ground floor. That said, you'll know for a certainty you're backed by a major brand with tons of capital and resources.

According to Armstrong, you have to figure out what level of risk you can stomach. "You have to look at the risk nature of the person," he said. "Some people are real risk-takers and others are not. I don't think risk is related to age. It's not related to wealth either. It comes down to individuals: Some are willing to risk it to get ahead, and some scared to lose what they have."

WHAT KIND OF SUPPORT SHOULD FRANCHISEES EXPECT FROM FRANCHISORS?

Before you invest in a franchise business, find out how the brand will invest in you.

It's always good to have someone in your corner. Particularly when you're opening a business.

That's exactly why people turn to the franchise model. They get to be their own boss, but they also have some support and guidance with the business from a corporate office.

But exactly how much support — and what kind of support — should you, as a potential franchisee, expect from the home office?

1851 Franchise asked Kay Ainsley, the managing director of MSA Worldwide, a firm that advises franchise businesses, to help us understand what franchisees should expect from their franchisor's corporate headquarters.

1851 Franchise: What is the franchisor's role and responsibility for a new franchisee?

Kay Ainsley: I think that the franchisor's primary responsibility is to protect the brand. Therefore, they need to provide their franchisees with the tools necessary for the franchisee to operate the business to the standard set by the franchisor.

1851: And the franchisee?

Ainsley: The franchisee is ultimately responsible for the day to day decisions, who to hire, who to have on their staff and financial management. The franchisee is ultimately responsible to manage that business's bottom line.

1851: Should a franchisee expect to have an on-site visit with the corporate office before they start?

Ainsley: I think that bringing trainees into a corporate location is beneficial because the trainee gets to see the corporate culture as well as the nuts and bolts of managing the business. I think good training programs incorporate classroom as well as on-the-job training. It's one thing to have somebody explain to you how to do something, and it's another thing to get your hands dirty doing it.

1851: Is the training usually enough to get ready to open?

Ainsley: When a franchisee goes to training, in some cases, it's like drinking from a firehose. There's a ton of information that's provided in a short period of time, then when they actually go to open their business, it's like, "What do I do next?"

1851: What is a typical opening-day concern?

Ainsley: I always say, a franchisee's first panic, is "What if I, what if I open my doors and nobody comes?" The second one is, "What if I open my doors and everybody comes!" Franchisors will often send somebody to help with those first few days of getting open and settled. And I think that's a good thing for a franchise to do.

1851: What sort of marketing support is typical at first?

Ainsley: I think the franchisor should provide the initial plan. In our firm, we call it "a market introduction," rather than a "grand opening." We try to make sure the franchisee has thought about advertising plans and budgeted enough money to get them through the first several months of getting their business open, rather than just the week of the grand opening.

1851: After that first week, that first month, should franchisees expect to have somebody to call if something goes awry?

Ainsley: It may depend on what goes awry, but I think in most cases franchisors want to get somebody off to a good start. If you ignore somebody or their questions in the early stages, it's not gonna get any better. It's easier to train them well to give them opening support to get them not only walking but running by themselves. It eliminates headaches down the road.

1851: What about having business coaches available to work with franchisees? Is that a reasonable expectation to have?

Ainsley: I think that's a competitive advantage in some systems. Certainly, if a franchisor were going to provide that, you would highlight it during the franchise sales process. And again, all of this depends on the concept and the industry.
I wouldn't say there's ever a one size fits all

1851: What's a reasonable level of training?

Ainsley: If you were franchising a pharmacy, you're not going to teach somebody to be a pharmacist or a chiropractor. You're going to give them the brand to operate under, the marketing plan and maybe some business guidance, but they have to have those skills.

1851: What should a franchisee not expect from the corporate office?

Ainsley: They can't make you successful. They can give you the tools they can show you how to use the tools, but they cannot manage your business for you. They give you the tools, but you've got to work the business and you've got to take responsibility for it.

HOW TO MAKE THE MOST OF A FRANCHISE DISCOVERY DAY

Discovery Days can make or break a franchise deal, so it's best to be prepared. Here's how.

In the process of buying a franchise, Discovery Days are a big deal.

The trip to corporate headquarters will introduce you to franchisees, help you learn about the day-to-day operations and help you make the connections necessary to pull the trigger should you choose to buy. But how do you make the most of such a potentially overwhelming day?

It starts with knowing why you're there in the first place.

What is a Franchise Discovery Day Anyway?

Discovery Days are opportunities for franchisors to show off what they have to offer. For the prospective franchisee, it's an opportunity to learn more about a concept, get to know who's behind the brand and it will support you if you choose to sign on.
Discovery Days are invitation-only, so only qualified prospects attend. While it's important that the brand be impressive, it's also important to remember the brand's leaders are scrutinizing prospects as well.

With that in mind, the following tips should help you feel prepared for the big day.

Research The Franchise

Discovery Days are for learning, but that doesn't mean go in blind. Do research on the history of the brand, its founders and its mission. With that knowledge, come to the event prepared to ask informed questions and follow up on any gaps in the data the brand has already shared.

Steven Gardner, the founder of QSR Franchise Development, told 1851 that learning more about the history of the brand is key in the decision process, and it's especially important even prior to your corporate visit.

"It's important to research the founders and their experience, are there any wrinkles? I'd want to know a lot about them personally," he said.

Look at their financial history. Any bankruptcies? Other failed businesses? Debts to pay? Make sure the franchisor's founders are on the level.

Clue Into Company Culture

During a Discovery Day visit, prospects will meet both prospective franchisees and corporate level staff. Prospects should feel at ease with the company culture, and franchisors should make an effort to make them feel that way while still being candid.
This is still business, you're not here to make friends, but ultimately you want to be working with people you share a mission with. The business leaders make up the brand's culture, so if they're not the right fit then it might be time to research a new concept.

Gardner also said that paying attention to what corporate support looks like can be a big indicator of company culture: "Learning more about what their support team looks like, and how they are going to support you from the time you go into training and beyond is key. What kind of ongoing support can you expect? New franchisees need a lot of hand-holding and support, but do they deliver?"

Don't Get Overwhelmed

Prepare for information overload. There are numerous introductions to people, lots of talks, demonstrations and plenty of literature on the concept and opportunity. But having too much information is better than not having enough. So, take notes, collect brochures and review the information after the event. Don't feel pressured to decide on the franchise sale right away.

Many franchisors appreciate a cautious franchisee.

Maintain Good Judgment

Remember, franchisors are looking to sell their concept, so try to analyze their pitch objectively. At the end of the day, it's your money that you're investing and you shouldn't feel obligated to buy just because you've heard some impressive demonstrations. After the event, take some time to gather your thoughts and make the decision that's going to make you happiest. If it's the right fit, great. If not, there are other Discovery Days waiting to be attended and other brands that will be happy to welcome you.

HOW TO GET FINANCING TO BUY A FRANCHISE

From commercial and SBA loans to leveraging 401(k) accounts, here are some tips into how franchisees can finance their new business.

When looking at a franchising opportunity, understanding the different types of loans available makes a world of difference.

Financing a franchise is not one size fits all — what's best for one franchisee is not always feasible for another. Often, financing is the single biggest obstacle prospective franchisees face in the industry. Typically, financing options range from commercial and SBA (U.S. Small Business Administration) loans to tapping into 401(k) accounts through rollovers as business startups, or ROBS.

That's where franchisors come in. Each brand has its own unique way of guiding its franchisees through the financing process. Some companies get involved with financing from start to finish.

"Franchisees need help and guidance. A lot of times they're first-time business owners who have never applied for a commercial loan before. There's quite a bit of fear in that process," said Jonathan Pace, co-founder of BizFranHub. "There a number of franchise brands on the SBA approved lending registry, and they can help walk the franchisee through the process."

Brands who are on the SBA approved lists should provide their prospects with a list of lenders who they have successfully worked with in the past. When banks are familiar with a franchisor's business model and trust that it's a good investment, they're more likely to approve a new loan.

"One of the best financing options is through the SBA 7(a) loans, they also have the SBA express loans for over $150,000, which can also go up to $5 million," said Pace. "With COVID-19, interest rates are at an all-time low, and the government has been offering different promotions through the CARES Act. Those SBA 7(a) loans are great for start-ups right now."

It's also key for franchisees to think ahead when it comes to financing. Prospects need to establish a relationship with a lender whether they're looking to open their first franchise or are considering taking on more than one unit. Without that connection, a franchise will never be able to expand its business.

"The SBA doesn't actually do the lending, the bank does, but the SBA offers the guarantee," said Pace. "For those pre-approved franchises, prospects may only have to put down 30% depending on their credit score, experience and other factors. That is why it is the most popular financing option."

Depending on the situation, Pace also points to the rollover as business start-ups compliance project as a good alternative that not all prospects know about. "ROBS allows prospects to use their 401(k) retirement savings and roll them over into a new business," said Pace. "Then, you can use those funds from your retirement account to fund the franchise."

Financing doesn't need to be left up entirely to the banks — there are also a number of financial partners available to potential franchisees. Companies like BoeFly help match franchisees with the financial option that is most likely to work out for them. But no matter what information franchisors provide, or what lender a franchisee pairs up with, the decision lies with one person: the prospect.

This cursory understanding of financing options better equips prospects to start the process and gets them one step closer to the business of their dreams.

HOW TO PLAN FOR FRANCHISE GROWTH

Thinking about growing a franchise in the new year? Here are some practical tips.

Once they have their first franchise up and running, new franchisees may soon start to think about expanding their territories or opening new units.

But initial success does not guarantee future growth. Expansion takes careful planning. That's especially true now. While the first glimmers of hope for the end of the pandemic from the vaccine rollout have presented a light at the end of the tunnel, COVID-19's effects on franchise expansion may linger.

"This is a unique time in history," said Adam J. Siegelheim, a shareholder at Stark & Stark law firm in New Jersey, who represents and counsels franchisees, including on matters related to growth.

> ***"COVID-19 considerations are going to remain a driving force in determining business expansion."***

That means that for businesses that have held off expanding, or for businesses that are considering franchising their brand, the timing may work out perfectly.

For brick-and-mortar businesses, it can take about a year to secure a location and get the space up-and-running. So by starting now, by the time new locations are ready to open, the pandemic may well be in the rearview mirror.

How To Expand Within A Franchise

Expansion begins with a conversation with the corporate office.

"The first step would be to reach out to your franchisor to determine what other territory is available and to begin discussing the potential signing of additional franchise agreements for such other locations," said Siegelheim.

How To Expand by Becoming A Franchisor

And independent business owners who think their brand would make a good franchise should also start getting their ducks in a row. For one, they need to fully document business operations in a single manual. That way their franchisees will have a clear formula to follow — and a clear path for success.

"In franchising, you are licensing your intellectual property and your systems. You need to ensure that your trademarks and other intellectual property are properly registered and protected," said Siegelheim.

Those businesses thinking about expanding by becoming a franchisor need legal support to get all documents in compliance and may follow any state regulations, said Siegelheim. He also advises franchisees to get ongoing marketing support to help ensure that they deploy their marketing dollars effectively in their new territories. Ultimately, growing a franchise starts with a plan. And there's no time like the present to start planning.

HOW TO READ A FRANCHISE DISCLOSURE DOCUMENT

An inside look at the FDD, including how to read it and what to pay the most attention to.

Whether you are an experienced franchisee or first-time candidate, reading a franchise disclosure document can be overwhelming. Made up of 23 sections called "Items" and consisting of hundreds of pages, FDDs provide prospective franchise buyers with a detailed analysis of the business ownership opportunity they are considering.

1851 has written many articles that can help first-time readers break down each section. While each item is important, some are more essential than others. Here's what to look for in an FDD.

The All-Important Item 19

While it is important to read the whole document, most people start by skipping to the end for this one reason: Item 19. This section is the bottom line of financial performance metrics for the franchise.

"Item 19 is arguably the most important section of the FDD, however, franchisors are not required to disclose information about potential income or sales," said Rob Flannagan, President of Wag N' Wash. "If they do, the law requires they have a reasonable basis for their claims. It is up to candidates to examine this section very closely."

Flanagan suggested looking for the highs and lows in figures from corporate stores, gross sales, average sales and earnings, as well as noting geographic differences between locations and the number of years the franchise has been in operation.

Other Key Areas To Consider

John Gotaskie, partner at Fox Rothschild LLP, works with franchise brands of all sizes and is no stranger to the FDD. He advises franchisees to read through the entire document but to focus on a few key areas that could make or break their decision to buy.

"Item 1 gives an overview of who the franchisor is — who is the parent company and its affiliates," Gotaskie told 1851 Franchise. "But don't take that information at face value. Do some Googling. Do some research. Find out all you can about the company. Does it have a good track record? If there were problems in the past, were they related to things beyond control?"

Item 2 covers business experience, and this is another area in which prospective franchisees really need to do their homework. For example, brand executives may be selling themselves as more accomplished than they are.

Items 3 and 4 cover litigation and bankruptcy, respectively, and Gotaskie noted that, "Every system is going to have litigation, it's a fact of life. It's more important to figure out whether a brand has a lot of litigation, and what the character of it is. Is it disgruntled people who joined the system 30 years ago and are unhappy now that there's more structure and less autonomy? Or does it suggest fundamental differences in the system?"

Prospective franchisees should also closely review Item 7, which is a summary of start-up costs. Gotaskie suggested that prospects look at financial statements and get a copy of the franchise agreement and compare it, line by line, to what the FDD says.

Why You May Need An Attorney

Items 13 and 14 relate to trademarks, another thorny legal area as franchisees can get caught up in third-party lawsuits if the assets aren't protected. "If you want to take the step of buying a franchise, it's important to know how well their assets are protected," said Gotaskie. "Does the brand license a trademark from someone else? In most franchise operations, [the trademark] is one of the most valuable things you're going to be licensing. You want to make sure that is rock solid, so you don't get dragged into a third-party lawsuit."

While the FDD contains a lot of information, the language used should not be overly technical. If prospective franchisees have questions after reading through the FDD very carefully, they shouldn't be scared to ask an expert, franchise attorney or the franchisor for help.

Contracts Besides The FDD

"Outside of the franchise agreement itself, there are a lot of other contracts that franchisees have to sign, like a POS operator, product supply company, or non-compete agreements," Gotaskie said. "Compare those contracts with the FDD itself to make sure it's in line. You might have to sign a POS operator, or make a personal guarantee in regard to financial issues. Or maybe you and your spouse and senior managers have to sign non-compete agreements. All of those are disclosed in the FDD, so make sure you understand those forms and that they match with what is outlined in the FDD."

Conclusion

"The document is written to protect the franchisee and the franchisor, but it in no way can fully encompass the depth of the franchise partnership," said Flannagan.

> *"We think of it as a marriage agreement — no one builds their marriage off of the legal paperwork, right? There is no way an FDD can predict what is going to happen in a sector, it simply details the guidelines and guard rails to protect the relationship."*

Now, with these insider tips, candidates should be better equipped to crack open the franchise disclosure document and start the process of determining whether the franchise is a match.

HOW TO MAKE SENSE OF ITEM 19 IN AN FDD

Of all the items in a Franchise Disclosure Document, Item 19 is an outlier. Here's how to judge how much money you'll make with a franchise.

For prospective franchisees researching the brand of their dreams, the Franchise Disclosure Document (FDD) is a key component in the decision-making process and Item 19 is perhaps the most influential piece of that puzzle. Item 19 answers the all-important question for investors: How much money can I make?

But beware, some franchisors may make generous earnings projections based on a small sample size in a single market, while others may not make projections at all. Here's how to make sense of this critical information.

What Is Item 19?

Item 19 is the section of the FDD known as the "Earnings Claim" or "Financial Performance Representations." It's the section that addresses return on investment, so for many investors, it represents the bottom line.

For franchisors, this section is tricky. While not mandatory to even include, Item 19 showcases just how profitable a franchise owner can expect to be. And because there's no standard for how this section should read or what it should look like, the information listed can vary from brand to brand.

To Include or Not To Include?

Brands that do choose to include finances in Item 19 offer prospective franchisees a certain level of transparency other brands might not.

But just because a brand chooses not to include financial information in this section doesn't necessarily mean it's untrustworthy; there are a number of reasons this could be the case. Perhaps the brand is a newer franchise without enough data to confidently project into the future, or maybe it just doesn't think its numbers would translate to other markets.

"If you can't stand behind your numbers, then you shouldn't put them in, but it's not necessarily a red flag just because they're not there," said Kay Ainsley, managing director of MSA Worldwide, a franchise advisory group. "The franchisor may be just starting to franchise. Or, they may only have locations in one market and don't want to mislead people. It may not be that the numbers are bad. It could be just the opposite. It may be that they're really strong in that one market and the franchisor doesn't want to set unrealistic expectations."

What To Look For

Remember that no two Item 19s look alike, so comparing a few won't necessarily make one brand more appealing than another. What you should look for is the bottom line: a breakdown of top-line revenue, profitability and profit and loss data per location. This information can help you understand what you can expect your business to earn if all goes according to plan.

From there, continue to vet that data. Is the statement including numbers from every location, or are some data points missing? Has the franchisor cherry-picked a couple of corporate-owned locations to show off or are you really getting a representative sample?

"Is the data an average of all locations? If so, are they all in New York City or in South Dakota? Are they in markets that are similar to the one you'd like to open a franchise in? These are important questions to ask when reading through Item 19. Franchisors aren't trying to mislead people, but the data can be confusing. Because of that, prospective franchisees need to know what to look for," said Ainsley.

Some brands are proud of their financials and eager to offer potential partners their projections, while others are a little more protective. But just as they are, you should be protective of your finances and make a decision that makes you feel safe and comfortable with who you're investing your money in.

WHAT YOU WON'T FIND IN A FRANCHISE DISCLOSURE DOCUMENT

A franchise's FDD is a critical resource for prospective franchisees, but it won't tell the whole story. Here's what else you need to know before you sign.

A brand's Franchise Disclosure Document, or FDD, provides hundreds of pages of details regarding nearly every facet of the operation, and yet, it won't tell you everything there is to know about a brand. There are other, essential factors not included in the document that every prospective franchisee should weigh.

Jack Armstrong, the New Jersey market president of FranNet, advises franchisee candidates to ask the company to go above and beyond the legal requirements of an FDD. After all, it's your money, Armstong says, and if a franchisor has nothing to hide, it should be more than willing to assuage any concerns with a little extra info.

Ask For More Data

For example, while the FDD requires the franchisor to estimate the level of working capital franchisee candidates need for the first three months, but feel free to ask for more than that.

"Working capital is basically the revenue coming in versus the expenses," said Armstrong. "When you open a new business, you're probably losing money for the first three to six months, sometimes up to a year. The FDD gives the first three months worth as an estimate, but if losses continue past three months, you'll need more working capital."

For a franchisee who puts their entire life savings into entering a franchise, the prospect of needing an additional injection of cash in just three or six months could make the entire enterprise untenable.

For that reason, Armstrong recommends figuring out not just the first three months of working capital, but how much working capital the business needs until it reaches the break-even point, which could be a year away.

Additionally, dig into Item 19 of the FDD.

How To Read Item 19

"I think you need a better disclosure and itemized fees," said Armstrong. "Tech fees, marketing fees, anything that's going to come at you is going to be disclosed in detail in item 19, but make sure you get an itemized list."

Finally, beware of broad averages and median figures. A franchise may say their average franchisee brings in $500,000 annually, but upon closer inspection franchisee candidates may find that only one region is making $1,000,000 a year while the rest of the franchisees are scraping by on $200,000.

Armstrong advises candidates to look at a brand's top earners and make sure they're not corporate stores.

"Some FDDS are putting earnings claims without royalties because they're showing corporate-owned units, but you'd be paying that royalties as a franchisee, so look out for that," he said.

Ask The Franchisees

A good franchise should make other franchisees available during the signing process. Talk to as many other franchisees as possible. Prospective franchisees can directly ask them what the FDD didn't prepare them for and find out how they feel the advertised numbers match with the real ones. Franchisee candidates should look to talk to existing franchisees in their region or in comparable markets, if possible.

Importantly, franchisee candidates should never feel like they're asking too many questions. Buying a franchise represents a huge life decision and should be treated as such. By asking questions, and even kicking the tires a bit on a nearby franchise, candidates show the franchisor that they're diligent and mean business.

FRANCHISE INVESTMENT: DIVERSIFY, OR STICK WITH ONE BRAND?

Investors looking at the franchise space may find themselves spoiled for choice. But is it better to choose one brand and invest heavily, or to run with a few brands and hedge your bets?

The franchise industry produces thousands of new concepts each year, and with so many to choose from, it makes sense that some investors may favor a diversified approach.

But according to Adam Goldman, the franchise consultant behind franchisecoach.net, there's an art to investing in the franchise space.

"I believe in franchising you can expand either horizontally or vertically," said Goldman. "You can have multiple units, like if you open three OrangeTheorys in one market, or you could have a home service brand and maybe go ahead and have a painting franchise and a mosquito control franchise that all feed off each other."

Franchise investments differ from investing in a retirement fund or stock in that they require your time and physical management. In that sense, for many investors, buying multiple brands' franchises could be biting off too much to chew.

"If you're looking for something semi-absentee, it's pretty hard to run one service business, let alone multiple," said Goldman. "Instead, buy a salon fleet where you don't have any employees, it's a real estate play. Like a WeWork for salon professionals, you're just subleasing that space. It's a great type of franchise for the person who has a day job."

The equation changes if you're looking to spend your days actually running the business. In this case, more options open up.

"If you're someone who has a few hundred thousand to spend and you have some time on your hands, maybe you could have a tree removal service," said Goldman. "You'd spend a lot more time on this, but you'll be able to run it as an owner/operator vs. a semi-absentee."

Running a business as the owner/operator comes with the bonus of not having to pay a manager, so it can help your franchise investment see a greater return on investment, but the cost is hours out of your day.

For the pure investor, say, somebody with a management company looking to buy into trusted brands, the option of picking unrelated brands becomes viable.

"There could be a situation where someone wants to prepare for risk in the market," said Goldman. "They want something COVID-19 proof and not COVID-19 proof. Something where they might have bought a boutique fitness situation and now it's going through a rough patch, so they want something that's more of an essential business."

But, overall, Goldman says these investors represent a small percentage of the total community. For almost anyone besides an institutional investor or a wealthy heir, investing in franchises should be a careful, controlled process where the investor waits to see how one brand pans out before jumping into another.

> *"I like the whole idea of having all your eggs in one basket, and then protecting that basket," said Goldman.*

3 MISTAKES TO AVOID WHEN BUYING A FRANCHISE

Steer clear of these three rookie franchising mistakes that can sink your new business before you start.

Opening your own franchise is a big opportunity, but it can be tricky. It's easy to get caught up in the excitement or lost in a dizzying array of details. That's why first-time buyers often make a number of franchising mistakes when they're starting out.

Mark Siebert, owner of iFranchise consulting in Homewood, Illinois and author of "Franchise Your Business," says that there are three common mistakes that new franchise owners make when opening their business.

1.) Be Honest With Yourself

"The first mistake that people make is that they start by examining the franchise, and not examining themselves," said Siebert. "People should really start the process with a careful self-examination before they start buying."

He said owning a franchise is hard work, and not everyone's cut out for it. Siebert said that the success of a franchise is very closely tied to who the franchisees are as people and as managers: What are their strengths? What is their risk tolerance? What are their desired earnings? What is their desired lifestyle?

Franchise owners should ask themselves those questions and answer honestly before they consider investing what could be their life savings in a business opportunity. In other words, if you're looking to own a franchise because you think it will be a chance to sit back on a beach somewhere while others do your work, you may need to reconsider it as your next career move.

2.) Don't Let Emotions Blind You to the Risk

It's okay to be passionate about a new opportunity. But too many people will let emotions blind them to the complete picture of a business.

"What some franchisees do wrong is that they buy a franchise emotionally, without taking risk/reward into consideration," said Siebert. "They fall in love with the concept, but they don't look at it from the standpoint of how great the risk is, how much the reward is and use that as a guideline for decision-making."

Siebert says he examines the risk/reward proposition carefully with his clients. "There's nothing wrong with buying a franchise that has a higher level of associated risk. They can't all be McDonald's in terms of low-risk franchises," he said. "But you should certainly take a look at making sure that you get a higher return."

But even so, emotion does have a part to play.

"I think that to the extent that you are going to be an owner operator of a business, you have to recognize that this is going to be your life for the next 10, 15, 20 years, it's important to be emotionally connected to the franchise," he said. "But at the same time, when you are in the process of buying a franchise, you want to look at it from the standpoint of making a good sound business decision.

To do that, you need to at least remove some of the emotion from it by doing your homework and getting outside advice.

3.) Don't Skip the Homework

Due diligence is an important franchise-investment process. You need to dig deep and really understand the background of the franchise to understand what you're getting into, what effort you will need and what your expectations as an owner should be.

But, it does require a lot of leg work, and according to Siebert, a lot of potential franchisees want to rush ahead without it. The prospective franchise owner is so in love with the concept and so excited to get going, they sometimes fail to do their research.

Siebert says that they fail to call all the other franchises to get first-hand information about their experience as a franchisee. They won't go and visit locations to see with their own eyes the reality of the situation on the ground. They won't sit down and develop a more-detailed business plan of how they will operate their business. They won't talk to bankers and lawyers and accountants.

Siebert says up-front research can save a lot of headache — and heartbreak — down the road.

5 WARNING SIGNS TO LOOK FOR WHEN CONSIDERING A FRANCHISE

Owning your own business is exciting, but don't let that blind you from these warning signs.

For many people, the prospect of owning their own business is an exciting one. Investing into a franchise gives one a sense of security, knowing there's a business model in place and other franchisees have been successful with it. Franchises account for over $1 trillion in U.S. retail sales, and while this number is compelling, potential franchisees need to do their research on the brand they plan on investing in and highlight any warning signs.

Given that you will be putting a large chunk of change into this business, it's necessary to take a look into the franchise to ensure the corporate team is just as invested in seeing you succeed. Here are the warning signs to look for when considering a franchise:

1.) Legal Trouble

Most large franchises in the U.S. are likely to be sued, and franchising itself is a litigious industry. But the questions you need to ask yourself when researching the brand are: Why were they sued? Did the lawsuit come to a resolution? Is this a recurring lawsuit topic from many different franchisees? Has the franchise made an effort to correct the wrongdoing that got them sued in the first place?

Lawsuits are not uncommon in the business realm, and franchises are required to be upfront about ongoing litigation in the franchise disclosure document; but how a franchise learns and shows growth following the lawsuits can tell you if this is a good business venture for you.

2.) Personal Bankruptcies Within The Management Team

One of the most appealing aspects of franchising is the support and guidance you receive from the franchise management team. In many franchises the franchise management team consists of the CEO, general manager, franchise support manager, franchise founder and other support representatives. However, how can you confidently invest your money into a franchise that has members of their management team with personal bankruptcies?

3.) A Record of Failures

Whenever you're exploring a potential venture, you should look not only at the venture's successes, but its failures too. Ask the franchisor about franchises in the system that have gone under and why. Google the brand and add the phrases: "out of business," and "bankrupt." If you find yourself looking into a brand that has multiple failed franchise locations and a management team that is all too eager to bring you on board, push the pause button and think this through.

4.) Poor Statistics on Current Units

The franchisor should provide you the current number of units the brand has, how many are making money, breaking even or losing money. Speak about this in depth and ask questions about why particular locations are losing money or only breaking even. These are the franchisees you should contact and ask if they feel as if they have enough support from the franchise management team.

5.) Mixed Signals

Once you're in a serious discussion about coming on board with the franchise, are they overly eager and pushy to have you? Do they clam up and take unusually long to respond when you ask difficult questions? Ensure that you have all components of the FDD, which includes the franchise agreement, the franchisor's audited financial statement and a list of all current and past franchisees. With this information, you should be well equipped to research and verify this information is accurate.

NLRB'S JOINT EMPLOYMENT DECISION: WHAT FRANCHISEES NEED TO KNOW

The National Labor Relations Board's decision on the issue of Joint Employment continues to send ripples across the franchising space. Here's what you need to know.

Perhaps the most intimidating part of becoming a franchisee as a novice entrepreneur is sifting through the legal jargon. Potential franchisees should hire a lawyer to help them navigate the dense, wordy franchise agreement and the legal norms of their industry at large, but some legal issues remain unsettled.

Perhaps the biggest example of one such issue is the Joint Employment decision by the National Labor Relations Board (NLRB). Here is everything franchisors and franchisees need to know about the legal issue.

What is Joint Employment?

Joint employment is when more than one entity is a worker's employer, which is a primary feature of franchising. In 2015, the NLRB decided to broaden the interpretation of joint-employer status, resulting in a threat to the franchised business model's mode of employment. Basically, the ruling meant that companies (franchisors) could be held responsible for labor violations committed by their contractors (franchisees). After the NLRB expanded the joint employer definition, joint employer lawsuits increased 93% and cost individual franchise businesses an average of $42,000, according to the International Franchise Association. In fact, many foodservice franchisors considered cutting back on or halting franchising entirely to avoid this increased liability. This issue impacts both franchisors and franchisees from a hiring and potentially a financing standpoint.

How Does It Relate To Franchising?

Most franchise systems grant that franchisees, while having to comply with certain system standards, are independent businesses charged with the responsibility for the day-to-day operation of their own businesses. That independence is important for both franchisor and franchisee — the franchisor is often able to use the independence to avoid liability for claims arising out of the operation by the franchisee of its business, and the franchisee counts on that independence for things like qualifying for loan guarantees from the Small Business Administration.

With the NLRB's changes in the perceived relationship between franchisee and franchisor, franchise brands would be responsible for issues directly related to the local franchisee. This disrupts the core foundation of franchising.

Since employees are the foundation of most businesses, maintaining a certain distance between franchisor and franchisee on the matter of the franchisee's employees (hiring, firing, and other terms of employment) ensures the franchisee's independence.

In February, the National Labor Relations Board (NLRB) published a rule updating its joint-employer regulations. According to the new ruling, franchisees could be considered a joint employer of an operator's employees only if the franchisee maintained "substantial control" over the workers' essential terms of employment. The NLRB defined these essential terms exclusively as "wages, benefits, hours of work, hiring, discharge, discipline, supervision and direction."

This meant that franchisees could continue to oversee the responsibility of recruiting and maintaining a staff, instead of having to involve a franchisor that might have no familiarity with the local labor market. Still, many worried these updates could be discouraging to labor groups that have tried to hold corporate restaurants accountable for the bad actions of their franchisees.

This summer, the U.S. District Court Judge Gregory Woods overturned the NLRB redefinition of Joint Employer, saying Labor failed to explain adequately why its interpretation of "joint employer" changed.

Should a Franchisor Be Afraid of Being Labeled a Joint Employer?

According to Jonathan Barber, Esq., Managing Attorney at Franchise.Law, this overturning of the redefinition, while inconvenient, won't really change much. "It was nice for the NLRB to clarify its definition of a joint employer, however, the real test is whether a franchisor has too much involvement in its franchisees' human resource practices," he said. "If a franchisor prescribes a minimum number of employees and basic qualifications for them, they shouldn't be afraid of being labeled a joint employer."

However, Barber notes that if a franchisor itself interviews each of its franchisees' prospective employees, conducts background checks, trains the employees and otherwise participates in the overall management of those employees, they'll most likely be found to be a joint employer.

How Can a Franchisor Avoid Joint Employer Status?

"The best practice is for franchisors to give minimum staffing guidelines and to let their franchisees handle all of their employment needs," Barber said.

Luckily, the recent NLRB ruling doesn't necessarily spell disaster for franchisors or franchisees. "Woods' decision basically challenges whether the NLRB properly implemented its new definition of a joint employer," said Barber. "It doesn't set a new standard, holding that all franchisors are joint employers simply by virtue of their franchise relationship. That would be catastrophic."

The back-and-forth of the NLRB ruling is a prime example of why it is so important for franchisees to understand all of their rights and obligations before signing on the dotted line. Whether it be an attorney, a broker or even an established franchise owner, reaching out to experts and asking about obligations is an important step in the due diligence process.

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