



Becoming a Franchisee: An Alternate Path to Business Ownership

1. Pathways to Business Ownership
2. Definition: What is a Franchise?
3. Analyze Advantages and Disadvantages
4. Funding a Franchise
5. Opportunity Recognition & Discovery
6. Becoming a Successful Franchisee

To view Part 1, click here:

https://us02web.zoom.us/rec/play/CPS98SsAjSnZtejsrZBaoDdtTbL7kK3qngCc-43DtPn_MywQyOWjI3nd6aR8tB6xqs50deT0yKwrAH4.LhyCcCK8sJXrx_II?startTime=1660230108000

Jason Nitschke; MA, EDFP

Vice President/Regional Director - Great Falls SBDC

Education

- 1997 -- University of Montana -- BA Journalism/Pol. Sci.
- 2002 -- Hawaii Pacific University -- MA Communications

Entrepreneurship

- 2000-2002 -- JNitschke Photography; Denver, CO
- 2011-2012 -- Carondelet Estate Services, LLC; St. Louis, MO

Certifications

- 2021 -- Certified PeerSpectives Facilitator
- 2017 -- Certified Export Counselor
- 2017 -- Certified Profit Mastery Facilitator
- 2015 -- Economic Development Finance Prof. (EDFP)
- 2015 -- Accredited Small Business Consultant (ASBC)
- 2015 -- Certified Business Advisor (GrowthWheel)







The Problem Entrepreneurs Solve

1. The Products/Services we sell are solutions.
2. Customers buy products/services to solve problems.
3. The process of monetizing solutions creates financial opportunity.

The Innovation Equation

Problem + Solution = Opportunity

How is this relevant to Franchising?

Business Success Rates according to the SBA Office of Advocacy: Total Small Business Survival Rate 1994-2019:

- 1 years: 68%
- 5 years: 49%
- 10 years: 34%
- Reaching 2nd Generation: 3-8%

Financing:

- Startups seeking financing must have equity to borrow
- Startups seeking financing have no proven financial track record
- Startups seeking financing have no proven systems
- Startups seeking financing have no proven customers

Franchise Success Rates

Business Success Rates:

- 5 years: 95%
- 7 years: 91%

<https://home-care-franchise.alwaysbestcare.com/success-rate-of-a-new-franchise-business-vs-an-independent-start-up/>

Goals for Today

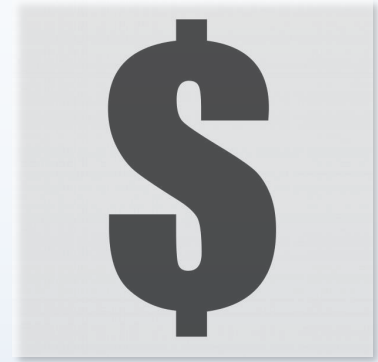
1. Stimulate and educate entrepreneurs about franchising as an opportunity
2. Help analyze which opportunities are right for you
3. Create a tangible process for becoming a franchisee

Agenda

- ~~1. Pathways to Business Ownership~~
- ~~2. Definition: What is a Franchise?~~
- ~~3. Analyze Advantages and Disadvantages~~
4. Funding a Franchise
5. Opportunity Recognition & Discovery
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4. Funding a Franchise



Here's the reality:

Every business is funded the exact same way.

Equity and/or Debt

- A business can be financed with 100% equity, but it cannot be financed with 100% debt (except for when it can).

Sources of Capital

- WE MUST KNOW...in detail:
 - #1) What is the money for?
 - Support cash flow, capital purchases, develop a product/service
 - #2) When is the money needed?
 - #3) Exactly how much is needed?
 - <https://frannet.com/funding-options-calculator/>
 - <https://www.franchiseba.com/franchise-financial-calculator/>

4. Sources of Capital

Equity – the investment of capital into a business balance sheet with no pay back

- You (personal funds, home equity, sale of stock, personal credit)
- Partners (their personal funds, home equity, sale of stock, personal credit)

Debt – the lending of capital to a business balance sheet that must be paid back

- Direct: Banks, Credit Unions (prime plus 1-2)
 - Loan guarantors (guarantee to the bank, credit union, or other lender)
 - SBA 7a (up to 85%)
 - Franchise lending makes up roughly 19-20% of SBA loan volume (source FranData)
 - USDA Business & Industry (up to 90%)
- Direct & Participation: Micro-lenders, gap & bridge financiers (prime plus 4-5)
- Non-profit lenders, CDFIs, Port Authorities, other public partners

Dependent on credit worthiness of the owner/business

Banks will place 90% of burden of proof on the borrower (franchisee) rather than the business (franchisor).

4. Funding a Franchise

1. First-Time Franchise Owner

- a. Taking into account the franchise fee, royalty fees, working capital and other possible costs needed to start a franchise business, **most potential franchisees** find they don't have the cash resources to purchase a franchise upfront.
- b. Don't be surprised if you run into financing challenges.
- c. Lenders are hesitant to approve loans if you don't have experience.
- d. It's not impossible and luck favors those who are prepared.
- e. *MUST PROVE LIQUIDITY: 20-30% ON PROJECT plus additional runway of cash through other sources!!!*

2. Bootstrapping

- a. Equipment leasing with suppliers
- b. Purchasing used equipment, if allowed by franchisor.

3. Decreased Fee Options

- a. <https://www.vetfran.org/>

4. Franchise-specific lenders

- a. <https://www.franfund.com/>

5. FOR MORE ON THIS TOPIC: IFA Webinar (30-minutes)

- a. Trends, bank requirements, funding strategies
- b. <https://www.benetrends.com/blog/ifa-funding-fireside-chat-2022/>



5. Opportunity Recognition & Discovery



Three Basic Questions to Ask:

What industry are you interested in?

What is your passion?

What is your price range to invest?

Take an Entrepreneur Readiness Profile

<https://frannet.com/franchise-ownership-quiz/>

See Handout

Entrepreneur Readiness Profile

<https://franet.com/franchise-ownership-quiz/>



Richard,

Congratulations on completing your Entrepreneur Readiness Profile! The results below give you insight into your values, motivation, work style, and more. This end product is a deeper understanding of your ownership profile and a franchise ownership is a legitimate option for starting your own business. I understand that some of the results below need further explanation or you may be interested in learning what specific franchises in your area are best matched to you given your results, so once you've finished taking it all in feel free to reach out and we can set up a time to walk through it and I can answer any questions you may have - no cost to you, no obligation.

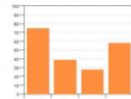
Values and Motives: Belonger-Emulator

Belonger-Emulator: The expression of Belonger-Emulator values. The BMS Assessment measures Buyer Motives and Values Sets which determine what about the self is the meaningful core that governs desires and the expression of those desires in life and business.

Richard is a hands-on practical business owner focused on long term relationships and customer satisfaction. Motivated by strong morals, people in this group need to be secure, self-sufficient and connected within their family and community. Family and security address success for the Belonger-Emulator. They favor practical service-based concepts with a progressive feel.

Belonger-Emulators are focused business owners with realistic expectations. They are conservative, conventional, risk averse people with concrete beliefs and predictable lives. Frequently detail and process oriented they understand checks and balances. They are hardworking and committed in their need to provide security for loved ones. They take pride in their competence and loyalty. Richard is dedicated and hardworking.

They follow established routines, organized to large part around home, family, community, and social organizations to which they belong. Their routines and connections provide a spring board for recognition, satisfaction and success. They like it best when they can work with people they have come to trust. Caution in their decisions is not uncommon for them to have an extensive due diligence process.



Values

It has been established that it is an individual's personal value system which directly dictates his or her based on assessment results here are Richard's values.



Meta Programs and Strategies

The Meta Programs Assessment measures primary strategies or filters an individual uses to communicate, assess information and make decisions.

Direction: Scott - Balanced

Scores indicate Richard is both Toward and Away From. People in this group are focused on their goals, while noting things that should be avoided, gotten rid of or fixed. They are motivated to have, get, achieve and attain. They tend to be good at managing priorities. They are excellent at trouble shooting, problem solving and proposing possible obstacles. Only 20% of the population score this way.

Frame of Reference: External

Richard is an External. People in this group are receptive to outside direction and feedback. In fact to be motivated they want to know how well they are doing. They carefully weigh out feedback from various sources as they critique and fine-tune tasks, processes and themselves. Since they are open to feedback and critique on how well they are doing, as managers they tend to give feedback to others.

Task Attitude: Optional

Richard is an Optional. This group is motivated by the possibility to do something in another way. They enjoy breaking or bending the rules. Exploring new ideas is of great interest. They may start a new project and not feel compelled to finish it. These people do well in a situation that requires solutions or alternatives to current systems.

Chunk Size: Specific

Scores indicate Richard is an individual who prefers to have all details. Small chunk thinking is useful for executing on a plan and managing progress in manageable steps. It can be an important part of optimism and a person's perception of having the capability to move to larger goals.

Communication Style: Kinesthetic

Gentle	Unhurried	Emotional	Empathic	Understanding
Influential	Non-Confrontational	Warm	Dependable	Safe

Business Needs and Best Suited

Needs and Wants in Business	Businesses Best Suited
Historically Proven Systems	Service oriented - low sales
High Touch - Low Tech	Hands on
Strong local office support	Few employees
Strong and credible management	Proven Home-based
Products or services that are tangible and solve a problem	Few products
Extensive due diligence including location visits	Long term relationships
Investment and reinvest of family	Life management
	One which can include family or friends
	Industry with minimal change
	Corporate with family atmosphere and support

Work Style

Work Style: The Work Style Assessment measures those aspects of personality pertinent to running a business, including managing time and resources.

Work Style: Collaborator: Scores indicate Richard is a Collaborator. People in this group are warm, supportive, and good at collaboration. They are the most people-oriented of the four styles. Collaborator Styles tend to be excellent listeners, broader friends, and loyal advocates. With their relaxed disposition people find them approachable and understanding. They have developed strong networks of people who can be relied upon in times of need and misadventure. They are team players and somewhat risk averse. When faced with change, they consider their options carefully and plan accordingly. Others view them as competent, stable, and balanced even in the most stressful of situations. They are courteous, friendly, and willing to share responsibilities. They are good planners, persistent workers, and good with follow-through. They are problem-solvers and consensus-makers.

Work Styles at a Glance

Collaborator	Placer	Initiator	Imaginative/Impulsive
Slow-Released	Relationship	Under Stress May Become	Submissive, Indecisive
Acceptance	Listening, Teamwork, Followthrough	Measures Personal Worth By	Friendship, Cooperation
Sudden changes, Instability	Workplace	Compatibility with others Depth of Contribution	Friendly, Functional, Personal

Leadership, Rules, and Compliance

Leadership Style: measures leadership style and the ability make and/or follow rules.

This form of leadership, rule making or management is essentially dictatorial.

- Decisions and rules tend to be in the best interests of the employees rather than the business.
- Leaders explain most decisions to the employees and ensures that their social and leisure needs are always met.
- Can hold balance out the lack of worker motivation caused by an autocratic management style.
- Feedback is generally downward; however feedback to the management will occur in order for the employees to be kept happy.

Advantage: can engender loyalty from the employees, leading to a lower labor turnover, thanks to the emphasis on social needs.

Disadvantage: employees becoming dependent on the leader, and if the wrong decisions are made, then all employees may become dissatisfied with the leader.

Leadership Style: Paternalistic

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Where Do You Go From Here?

Complete A Entrepreneur Readiness Profile
Now that you have identified your values, work style and business goals, it's time to move forward on your journey to franchise ownership.

Review Your Results With A Franchise Expert
Once you have your Entrepreneur Readiness Profile results, you may request a no obligation review session with your local franchise consultant at no cost to you. During this meeting, you can gain more insight into what franchise opportunities may be best for your goals.

Determine Franchise Options
After the review of your Readiness Profile, we work with you to determine what options may be worth exploring. Your local consultant will present you with a number of options and depending on which ones you are interested in, your consultant will make up introduction.

Speak With Franchise Companies
We will help facilitate those introductions and coach you on the due diligence process, providing guidance on questions to ask, how to understand Franchise Disclosure Documents, and look on how to seek the franchise opportunities for sale.

Speak With Local Franchise Owners
Once you've learned more about each franchise opportunity that you are interested in, you will be able to speak with active franchisee's in their respective organizations in order to validate the business, support, and success of each.

Discovery Day
Prior to making a formal commitment to a franchise opportunity, you will attend a Discovery Day, usually create at the corporate headquarters of the specific franchise you're interested in. The Discovery Day is a great opportunity for you to meet the top management team, see their operational facility and learn more about the day-to-day life of owning a business under their brand.

Decision Time
Once you return from Discovery Day, you'll be in a position to decide if that franchise is the right fit for you. If it is, we'll provide the necessary referrals to franchise attorneys, accountants, and lending partners to help complete your franchise due diligence. From there, it is your choice to sign the final franchise agreement and become a franchisee.

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Skills and Support

Skills: People with these skills have a strong work ethic; based on dedication and passion for taking care of external customers and committed to supporting their goals and dreams.

Skills: They have excellent communication skills and leadership ability. They are good listeners, and competitive advantage at attracting clients and retaining business.

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5. Search Sources:

- Industry Association (IFA)
 - <https://www.franchise.org/franchise-opportunities>
- Tradeshows
 - <https://www.tradefairdates.com/>
 - Search “franchise”
 - Open to public; participants aren’t generally screened
- Consultants & Brokers
 - FranNet
 - <https://frannet.com/franchise-broker/>
 - Franchise Brokers Association
 - <https://www.franchiseba.com/>
 - International Franchise Professionals Group
 - <https://www.ifpg.org/>



5. Search Sources:

- Search Engines
 - <https://www.vetfran.org/company-directory/>
 - <https://www.bizbuysell.com/franchise-for-sale/>
 - <https://www.franchiseopportunities.com/great-franchises-c>
 - <https://www.franchisedirect.com/>
 - <https://www.franchising.com/opportunities/>
- Directly with Franchisors
 - Discovery Days
 - Social Media
 - One of the best ways for business owners to find buyers/franchisees is to look at the people who know them best
- SBA Franchise Directory
 - These are franchisors that are approved for SBA lending, not guaranteed to be funded.
 - <https://www.sba.gov/document/support-sba-franchise-directory>



5. Discovery & Disclosures

Franchise Disclosure Document (FDD)

- Pre-sale Disclosure
- 23 items in an FDD
- FDD review is most important part of your validation

Elements of the FDD

- Franchisor Info
 - Time in business
 - Business experience
 - Bankruptcies
 - Litigation
- Costs
 - Total Investment
 - Franchise fee
 - Other fees (Advertising, Equipment, Supplies, Insurance, etc.)
 - Working capital
 - Royalties
- Franchise Contract



5. Discovery & Disclosures

Elements of the FDD...continued

- Obligations for Franchisor & Franchisees
- Territory
- Listing and Contact Info for:
 - Current franchisees
 - Past franchisees
- Earnings Claims
- Financial Statements
- Manager Policy
- Renewal, Termination & Transfer Policies



5. Opportunity Recognition & Discovery

Validation

- Review Age/Stage of Franchise
 - Franchisors with less than 50 operating locations are considered “emerging”
 - Proof of concept in the eyes of lenders is still being proven with emerging franchises
 - Choose franchisees with demographic and geographic profiles similar to your market.
 - For local market demographic data, contact a local economic development group:
 - <https://growgreatfallsmontana.org/business-services/data/sizeup/>
 - Choose franchisees with backgrounds (work experience, education, and personality type) similar to yours.
 - Seek mutually beneficial relationships.
 - High quality partnerships include 3 elements: Experience, Connections, Capital
 - Keep calls with franchisor brief (30 minutes) and specific
 - Standardize your interview/survey (primary market research) questions.
 - Document responses.



5. Validation

Questions to Ask a Franchisor/Franchisee

On a scale of 1 to 5 with 5 being fantastic & 1 being terrible - ask the following:

- Initial training? What 2 things did they do right? What 2 things did they do wrong?
- Did it give you the right tools to start the business? (Yes or No)
- Is ongoing training sufficient?
- Does it keep you current to the changing business climate? (Yes or No)
- Do you feel headquarters is responsive to your requests? (Yes or No)
- Is there a LAN (Local Area Network) in place? (Yes or No)
- Is the local/regional support sufficient? (Yes or No)
 - If yes 2 reasons
 - NO 2 reasons
- How do you recruit good people? and does HQ help you?
- What's your biggest headache?

**The real question to ask yourself:*

Can I replicate or find all of the services for less money as an independent business owner?



5. Validation

Questions to Ask an existing Franchisee about the Franchisor

- How has your lifestyle changed since becoming a franchise owner?
- Do you mind describing your typical work week for me?
- What did you do before this?
- Did you use a Franchise Attorney & would you recommend that I use one?
- Are you happy with your decision?
- Are you having FUN?
- Now with 20/20 hindsight, would you do it again?



MYTH OR FACT

*Franchises succeed
because of the quality of
the product.*

- Courtesy: Lou Lavetan, owner Lavetan Franchise Systems Web: www.Loulavetan.com Email: Lou@Loulavetan.com

MYTH

It is all about the entrepreneur's ability to manage 3 primary elements:

- 1. Market*
- 2. Operations*
- 3. Financials*

6. Becoming a Successful Franchisee

“Recession-Resistant” Opportunities

Many businesses thrive in all economic conditions

Growing markets driven by demographics	Essential Services	Businesses helping businesses
<ul style="list-style-type: none">● Senior care● Residential repairs/home modification● Cleaning services	<ul style="list-style-type: none">● Automotive● Damage restoration● Sign companies● Commercial cleaning services	<ul style="list-style-type: none">● Business coaching● Digital marketing● Staffing● Sales/employee training



6. Becoming a Successful Franchisee

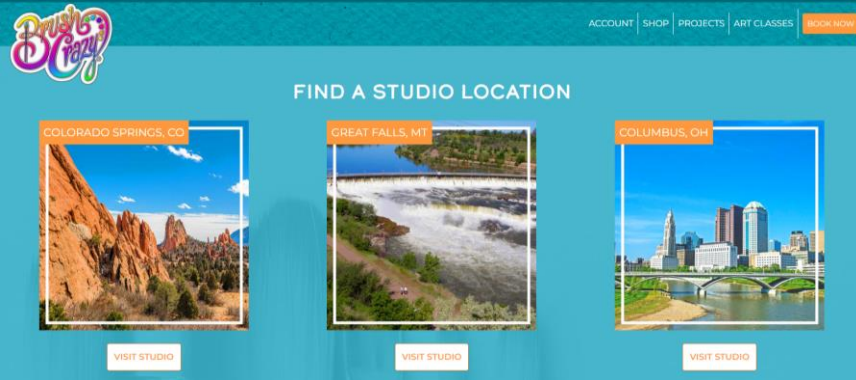
In large part, the best ways to succeed in franchising are the same ways entrepreneurs of all kinds succeed.

- Follow the Franchise Agreement
- Make Well-Informed Decisions
- Understand the Basics of Cash Flow & Profitability
- Capitalize Correctly (aka: don't be cash poor)
- Manage Risk
- Leverage other Franchisees & Tools from Franchisor
- Deliver High Quality Customer Experiences
- Create a Positive Corporate Culture





Case Study Q&A: Dawn Marsh – Brush Crazy



- What are some keys and best practices to being a successful franchisee?
- Do you have insights to share with people who may be considering franchise opportunities?
- Where would you direct someone who is looking to find franchise opportunities?
- Is financing a franchise easier than a non-franchise? If so, why?
- What are the pros and cons of franchising as a business opportunity?

<https://brushcrazy.com/franchise>

Additional Resources

An Introduction to Franchising

- 45-page e-book
- More details on legal issues, disclosure documents, common terms, the franchise agreement, 8 selection criteria, questions to ask yourself and the franchisor
- <https://www.vetfran.org/wp-content/uploads/2019/02/Intro-to-Franchising-Student-Guide2.pdf>

Contact Trusted Advisors

Banker

Accountant

Insurance

Lawyers

Business Advisors

<https://sfdc.mt.gov/>

Thank You!

Email me at JNitschke@GrowGreatFalls.org