



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

Part 1: Thursday, August 11, 2022 – 9am-9:45am:

<https://mtsbdc.ecenterdirect.com/events/5397>

Part 2: Thursday, August 18, 2022 – 9am-9:45am:

<https://mtsbdc.ecenterdirect.com/events/5398>

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)

Bureaucracy

- 2013-2014 -- Analyst, State of Illinois







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%

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

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2. Definition: What is a Franchise?
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1. Pathways to Business Ownership

Generally, new business ownership takes one of three forms:

1. New Business Creation
2. Purchase of an Existing
 1. Buyout
 2. Employee-to-Owner
 3. Family Succession
3. Franchise



1. Pathways to Business Ownership

1. New Business Creation

- Your own idea
- Higher risk-higher reward
- Greatest control
- You create all business processes, procedures, and strategies
- Finding funding may be difficult



1. Pathways to Business Ownership

2. Purchase of an Existing Business

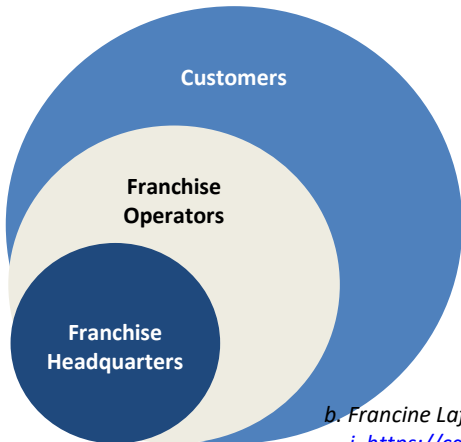
- Do your research
- Lower risk
- Inherit Good & Bad
 - Brand, Customers, & Reputation
- You purchase established business processes, procedures, and strategies
- Funding may be easier



1. Pathways to Business Ownership

3. Franchising

- a. An authorization granted by a company to a business allowing them to carry out specified commercial activities or acting as an agent for the company's products.



a. Sources: *Boots to Business - An Introduction to Entrepreneurship - Module 1;*

b. Francine Lafontaine, *Journal of Economics & Management Strategy*: <https://onlinelibrary.wiley.com/doi/10.1111/jems.12289>

i. <https://cdn.advocacy.sba.gov/wp-content/uploads/2021/12/06095731/Small-Business-FAO-Revised-December-2021.pdf>

1. Pathways to Business Ownership

3. Franchising

- “You can buy into a franchise across many different industries such as Retail, Education, Automotive, and Travel.”



2. Definition: What is a Franchise?

Definition:

- “A franchise (or franchising) is a method of distributing products or services involving a franchisor, who establishes the brand’s trademark or trade name and a business system, and a franchisee, who pays a royalty and often an initial fee for the right to do business under the franchisor's name and system.”

Data:

- Over 3,600 different franchise companies
- In more than 90 industries
- Over 900,000 operating units

Two Types:

- Business Format Franchising
- Product Distribution Franchising



How Does A
“System” Help?

See how far you can
count in 30 seconds
without a system

97	21	37	9	61	14	74	26	6	94
89	49	1	53	81	34	82	46	66	18
13	57	25	17	65	90	22	70	30	58
77	33	73	45	93	38	78	2	42	86
41	69	85	29	5	98	50	62	54	10
63	7	79	39	15	76	48	12	16	96
75	47	27	59	31	100	24	36	56	68
3	43	23	19	71	4	52	40	32	60
83	11	91	35	87	72	28	80	8	84
55	95	51	99	67	20	88	44	92	64

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75	47	27	59	31	100	24	36	56	68
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83	11	91	35	87	72	28	80	8	84
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2. Business Format Franchising

Details:

Franchisee buys:

- Trade name
- Products and services
- Entire system for operating the business
- Receives site selection and development support
 - operating manuals, training, brand standards, quality control, marketing strategy, business advisory support



2. Business Format Franchising

Examples:

- Subway
- Motel 6
- RE/MAX
- UPS Store





Case Study Q&A: Aaron Weissman

Teriyaki Madness

- Why did you choose the Teriyaki Madness franchise?
- What is the biggest advantage of owning a franchise?
- What is the biggest disadvantage of owning a franchise?
- What is/was the biggest challenge you've faced in franchising?

2. Product Distribution Franchising

Details:

- Franchisor manufacturers - franchisee sells the product
 - Similar to the supplier-dealer relationship with a few differences
 - One difference – the franchisee may distribute the products on an exclusive or semi-exclusive basis. Supplier-dealer relationships may allow the dealer to sell several different brands at once.
- Product distribution is larger in total sales than business format franchising
- Examples include bottling, gasoline, automotive and manufacturing industries

Sources: [https://www.franchise.org/faqs/basics/what-is-a-franchise;](https://www.franchise.org/faqs/basics/what-is-a-franchise)

<https://franchisebusinessreview.com/post/franchise-business-model/#:~:text=Examples%20of%20product%20distribution%20franchises,the%20most%20common%20franchise%20model.>

2. Product Distribution Franchising

Examples:

- Pepsi & Coca-Cola
- John Deere
- Ford Motor Company
- Exxon & Texaco
- Goodyear Tires





City
Motor Company



TOYOTA



Case Study Q&A: Cooper Thomas City Motor Company

- What are some keys and best practices to being a successful franchisee?
- How is a product distribution franchise different than the more well-known business format franchise?
- Is financing a franchise easier than a non-franchise?
 - If so, why?
- What are the pros and cons of franchising as a business opportunity?

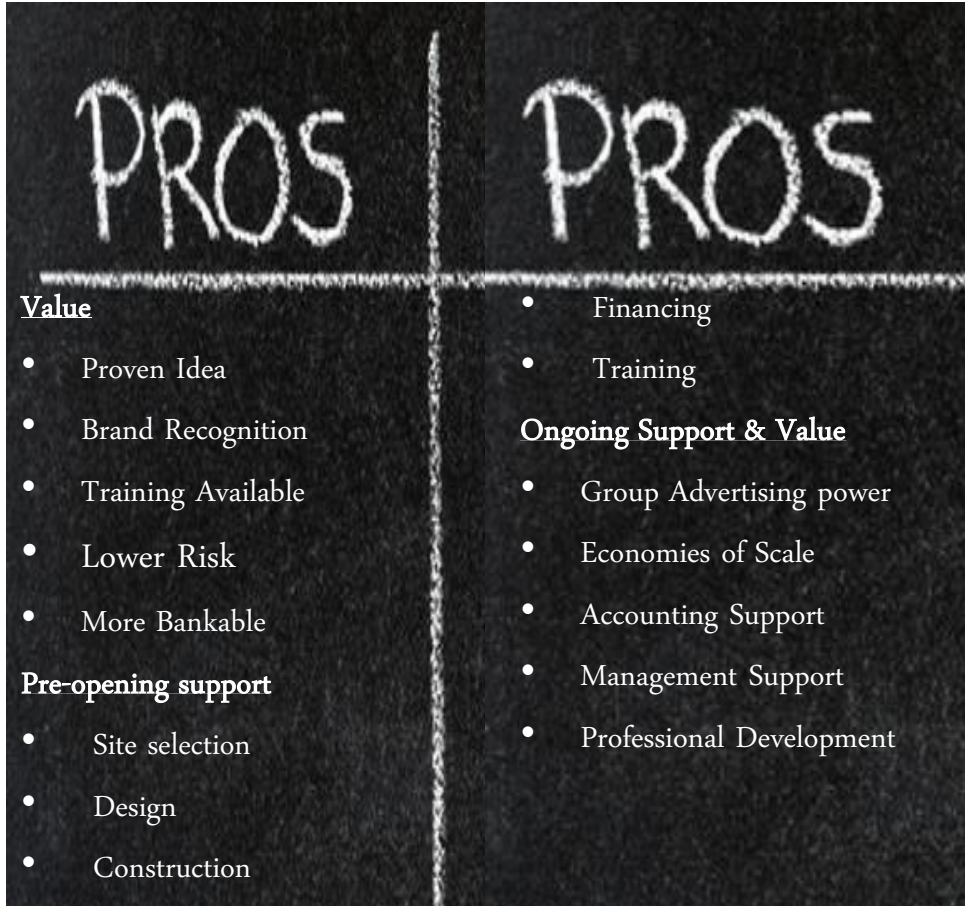


3. Analyze Advantages and Disadvantages



Owning a franchise allows you to go into business for yourself, but not by yourself!

3. Advantages



SBA: Total Small Business Survival Rate 1994-2019

1 years – 68%; 5 years – 49%; 10 years – 34%

3. FranNet:

Years in Business	Independent	Franchised
1 Year	92%	97%
5 Years	23%	92%
10 Years	16%	90%

3. Disadvantages



*Franchises are not
100% independent*

CONS	CONS
Franchise fee	Advertising fees
Operational restrictions	Marketing requirements
Limitations on products	Termination terms
Limitations on services	Supply chain specifics
Limitations on pricing	Lower control
Limitations on territory	Lower risk=lower profits
Ongoing royalties	Change of Ownership
	Restrictions

End of Part 1

Coming up in Part 2 on Thursday, August 18 at 9am:

Funding a Franchise

Opportunity Recognition & Discovery

Becoming a Successful Franchisee



PLUS:

Hear from a Franchisor:

Dawn Marsh, owner of Brush Crazy

