Get in the Game

Think owning and operating is the only way to get involved in a franchise? Well, we can think of 5 strategies you can use to play the franchising game. Read on to find the one that fits you best.

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You'll find many routes to owning a small business and several intriguing paths to participating in a franchise business. It's not "one size fits all"-not even close. If you think of franchising in one dimension, you'll limit your opportunities. There are so many ways to get into franchising beyond building and operating a new pizza restaurant. Keep your ears open for opportunity, and prepare to be flexible. With the right approach to franchising, you'll quickly find yourself on the road to career satisfaction and financial success.

Here are the five most common ways you can participate in a franchise program:

Go the Classic Route. This is how most people think of franchise opportunities: You buy a new franchise, find the location and build it out yourself. It's all new, and it's all yours. You roll up your sleeves and plunge into your new business as an owner/operator.

This is the classic route because it is precisely how so many thousands of franchisees built their multiunit empires, and it describes how much of the franchise world still operates. Newer (and hotter) franchise offerings usually provide the classic route to business ownership.

"We're a young franchise program, and we're opening new markets all over the country. Most of our owners have no experience in publishing a fashion magazine," says Tyler Allen, CEO and franchisor of a new publishing venture, *Industry* magazine, based in Orlando, Florida. "Opening a new market and starting from scratch is currently the only way someone can own an *Industry* magazine franchise."

Among the advantages of this approach is the full new term of the franchise agreement, allowing you the maximum time you need over the term of the agreement to recoup your investment. You also have the opportunity to build your business from scratch. When you open the location, it's brand-new and ready for business; any mistakes made in the establishment of the business will be your own. You don't inherit anyone else's problems or hiring mistakes. You hire your entire team, and your direct involvement will make you the owner, manager, boss and unquestioned captain of the ship.

The best upside: The new concept could take off and become a smash success-and you got on the elevator at the lobby level.

There is always a downside, of course (business imitating life?). With the classic route, the biggest possible downside is the untried location. It can make or break a retail business, and you may have a substantial sum of money riding on that outcome. Second, your team is untried, so the training and opening support had better be solid. The startup phase of the franchise at a new location will drain your cash until the operation's growing revenue begins to carry the payroll, inventory and other expenses; so plan carefully, and never go into a startup franchise undercapitalized.

Buy an Existing Franchise

The strongest advantage of buying an existing franchise business is that you have a chance to examine its performance numbers. You know what the sales and expenses were in the past year-and even earlier, assuming the records are accurate (ask the franchisor to provide a royalty payment record so that you can cross-check the key sales numbers). You have an opportunity to discuss the business with the owner, interview key employees and observe the operation. You can research the industry and gain an understanding of objective valuations in that business sector. In an important sense, you also lower your investment's uncertainty . . . and your own risk.

Where will you make your money? Maybe you can identify a struggling franchise that needs a new shot of leadership and enthusiasm for the business. If you're successful, you'll build a strong business out of a weak one, and reap the financial benefits.

Buying an existing franchise business means that you're subject to the transfer provisions of the existing franchise agreement, which can be very restrictive. Many franchisors reserve the right of first refusal on all proposed transfers, so it's possible that you can end up putting a big effort into a formal purchase offer only to have the franchisor match it and take you out of the picture.

The franchise agreement might also impose a hefty transfer fee, often expressed as a percentage (5 to 15 percent) of the purchase price. This will, of course, fall on your shoulders, so include it in your calculations and your price negotiations. You might also negotiate with the franchisor on the transfer fee, especially if you're buying a troubled franchise. A new, enthusiastic owner may be the answer to the franchisor's prayers; the company may be more than willing to lower or eliminate the transfer fee altogether just to help you take over the ailing franchise.

Your major risk: hidden problems of the previous owner's making. No one likes surprises in a new venture, and these hidden problems will cost you money you didn't plan on spending. They range from unhappy supply vendors to dishonest employees to defective equipment-and they simply come with the territory. Add an "unexpected problems" line to your opening budget, and plan for the unexpected.

THE SECOND ACT

FastSigns franchise went on sale in Gainesville, Florida-an ideal location, since it was cl
Taking over a franchise that had been in business for seven years granted the de Lugos
database of existing customers who were already familiar with the FastSigns franchise-v
graphic solutions. However, they were also left with a negative reputation to correct, due
managerial enthusiasm." They immediately purchased new equipment to increase their
community of the change in ownership.
Though nervous about buying a failing franchise, the couple was confident in the system

were already FastSigns franchisees and could testify to the franchisor's willingness to he
years of experience as a general manager at hotels in the Hilton chain to his advantage.
to talk to people and had contacts, so the couple targeted the hospitality industry as prin
Within eight months, the de Lugos had managed to triple the revenue from the year befo
estimated sales of $800,000. The de Lugos' success has solidified their opinions about e
locations where there's not much competition and it would make sense to put in a new o
own personal opinion that I would stick with the resale."

Buy Master Franchise Rights

If you're looking for a more aggressive role in the franchise system, you could check into becoming a master franchisee. The details of the master franchisee concept differ from one system to the next, but the basics are the same: A master franchisee is appointed to serve as a local or regional representative of the franchisor, providing training and field support, and is compensated for those services, often by receiving a percentage of the royalty revenue generated in the assigned territory. The master franchisee may also have recruiting responsibilities, generating commissions on franchise sales made from his or her efforts.

The appointment as a master franchisee is usually extended to existing franchise owners who prove successful in their operations and are interested in expanding their involvement in the system. If you enjoy teaching and want to super-size the return on your franchise investment, inquire about master franchise programs.

It's the involvement in franchise sales that draws many investors to master franchise programs, and it is there that the law imposes the most restrictions. As a third party participating in a franchise sale, the master franchisee will be considered a "franchise broker" and, as such, must be included in the company's Uniform Franchise Offering Circular, disclosing business experience and litigation history. The franchisor must submit a "salesman disclosure" form to most registration states. In a few states, a broker must independently register with state authorities.

A master franchise is often confused with a subfranchising program, but there's one important distinction: A subfranchisor offers and sells franchises directly, for its own account; and, of course, a master franchisee does not sell franchises directly. A master franchisee typically generates leads, meets with and qualifies prospective franchisees, and sends them on to the franchisor for closing.

A master franchisee is the utility infielder of franchising. Success is measured by the ability to manage, teach and recruit, while continuing to operate your own franchise business successfully.

MASTER PLAN

Giannini enjoys the freedom that being a master franchisee grants him. Because he is fr juggle working at Action's head office-helping other master franchisees-with running add including a real estate and investment business. "There's a fairly quick educational proc important is that you've got that entrepreneurial attitude-that you'll go out there and get it points out that his royalty from the sale of each franchise is fixed. In contrast, a regular fr to charge clients and is, therefore, more in control of his or her income.

Giannini advises potential master franchisees to look ahead 10 years, examine their visi franchisees. Giannini says of becoming a master franchisee, "I [believed] I could help pe multiple franchises and have a lot of people helping business owners rather than just me master franchisee side than the individual franchisee side."

Absentee Ownership & Conversion Franchises

Be an Absentee Investor. For the right kind of business, with the right employees running that business, it is entirely possible-though rare-to own a franchise business and not be directly involved in its management. Rare, I think, because it is hard enough to own and operate a successful small business even when you're on the floor every day.

What type of business lends itself to absentee ownership? First, it must be a business that doesn't have valuable inventory. I once had a senior executive of a muffler franchisor tell me his shops couldn't be run by employee managers because too much of the inventory would leave at the end of the workday. Only an owner on the premises is sufficiently motivated to prevent that from happening.

Second, the business must have sufficient margins to be profitable after the expense of having a reliable manager. So many franchise businesses have razor-thin margins that allow for the owner to take out not much more than a modest salary. So the key question then becomes: What drops to the bottom line for the owner?

Service businesses with training programs that can support an employee manager may meet these qualifications. It would be a mistake to assume that any franchise can prosper with an uninvolved owner, but with the right program and a handpicked management team, it can work.

Buy Into a Conversion Franchise. A conversion franchise allows an existing independent business to affiliate with a national brand. The classic conversion program is Century 21 Real Estate Corp., which converts independent real estate brokers and allows them the benefits of a strong brand affiliation while allowing them to continue using their individual identification. Affiliation programs have been launched by a variety of professional service providers, such as handymen, home-repair programs and hotel chains.

Conversion franchise programs offer an attractive balance of brand identification and buying power. If you're operating an independent business and long for the competitive advantages of being tied in to a national reservations system or receiving local leads generated by a national or regional advertising campaign, you may want to consider joining a franchise affiliation program in your business category.

Can you use your current business name, or do you have to completely identify with the franchisor's brand? That depends entirely on the system. The real estate affiliation programs often split the identification between the national brand and the name of the broker/franchisee. This is the approach taken by one of the newest real estate franchise systems in the market, Envirian LLC, in Reston, Virginia. Lee Konowe, founder of Envirian, doesn't insist on rigid uniformity with the solitary display of the Envirian name. "We are flexible on how the Envirian name is combined with the broker's name or the town name, or both," says Konowe. "We want our brokers to capture the value they've built in their names, so they can maximize their marketing power as members of the Envirian system."

Often, the fees paid for an affiliation program are considerably lower than those of traditional franchise systems, reflecting the fact that the franchisee is an experienced business owner and needs less training and less support than someone new to the business.

Franchising doesn't exist in a single investing dimension; it has developed in ways that allow virtually any level of investor in any business situation to participate. The lesson is clear: Keep looking until you find an investment that's well-structured for your interests and needs, and you'll probably find it in the franchise arena.

For more information on how to buy a franchise, visit our FranchiseZone.

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