Franchising 101: Small Business Ownership vs. Franchising

A presentation from the Bill and Susan Lhota Office of Alumni Career Management
The Ohio State University Alumni Association
go.osu.edu/alumnicareermanagement
Your Career Management Team

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Career Management

• Programs/Resources
  ▫ Web resources, job board, webinars, programs, career fairs, individual career advising (in-person and remotely). Visit: go.osu.edu/alumnicareermanagement for more info

• Career Changes
  ▫ Launching
  ▫ Transition
  ▫ Underemployment
  ▫ Unemployment
  ▫ Encore Career

• A Lifelong Process
  ▫ Assessment
  ▫ Exploration/Research
  ▫ Personal Branding
  ▫ Networking/Job Search
  ▫ Professional Development
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Welcome!
What You Need to Know About Business Ownership
What Is Small Business?

Small Business = 99.7% of All U.S. Employers under 500 employees

Small business accounts for 2/3 of all new jobs added to the economy

5 out of 6 millionaires made their money

5.5% of business owners were unemployed the year before

Source: SBA
Three Options for Business Ownership

- Build your own business
- Buy an Existing Business
- Buy a Franchise
Starting Your Own Business

Advantages
• Total control
• Make all decisions
• Room for creativity
• No predetermined rules
• Large upside
• Build a business from your passion

Disadvantages
• Must create systems
• Limited financial options
• Slow to ramp up
• High failure rate
Buying an Existing Business

**Advantages**
- Cash flow
- Good will
- Actual financial results
- Attractive to lenders
- Market established
- Customer base
- Employees in place
- Systems may be in place
- Owner financing

**Disadvantages**
- Cash flow
- Bad will
- May be overpriced
- Hidden seller motives
- Employee defection
- Higher debt service
- Poor training and support
Buying a Franchise

Advantages

• Name recognition/ licensed trademark
• Proven business system to start and operate
• Training and support (initially and ongoing)
• Marketing expertise / Purchasing power
• Lower failure rate
• Lower cost / Financing options
• Location choices
• Ability to conduct unbiased research
• Disclosure
• Franchise family
• Re-sale value
Disadvantages

- Fewer industry options – only 3800 franchises
- Structured operating system in some franchises
- Territory restrictions
- Can only sell their products
- Ongoing royalty payments
- Little *initial* cash flow from start-ups – time to ramp up
Franchising is...

A license to use:
Name & Trademarks
Products
Business systems

A FRANCHISE IS...

In exchange for:
Initial Franchise Fee
Ongoing Royalties
Why Franchising Works

You're in Business

For Yourself

not

By Yourself
Small Business Success Rates

After 2 years ...
64% businesses still open

After 5 years ...
50% businesses still open

SUCCESS!
Personal, Professional and Financial Goals Achieved

YOU ARE HERE
FranNet Success Rates!

After 2 years …
- 64% businesses still open
- 91% Top Performers

After 5 years …
- 85% businesses still open
- 50% Top Performers

SUCCESS!
- Personal, Professional, and Financial Goals Achieved
So in Summary…

Build your own business

Buy a Franchise
Why Do People Buy Franchises?

1. Married Women with Dependents
2. Women with No Dependents
3. Married Men with Dependents
4. Men with No Dependents

### Earnings & Income Potential

- 40%
- 80%
- 73.6%
- 79.4%

### Quality of Life

- 93.3%
- 84%
- 84.5%
- 73.1%
Who Buys Franchises?

Owners come from all backgrounds

- OTHER (27%): Attorneys, CPAs, Sales, Teachers, Engineers, Letter Carriers, and more
- CEO, CMO, CIO, CFO (16%)
- C-LEVEL
- VICE PRESIDENT
- DIRECTOR (21%)
- MANAGER (22%)

They all have one thing in common: the desire to work for themselves

*Based on 2016 FranNet placements*
The Changing Faces of Franchising

71% increase in ownership among WOMEN

93% increase in ownership among AGES 20-39

26% increase in ownership among MEN

Women represent nearly 25% of all franchise purchases through FranNet
Growth of Franchising

- **GDP Growth in Franchising**
- **US GDP Growth**

Franchising Growth **2.6% HIGHER** than the U.S. Economy
Growth of Franchising

Larger companies were hit harder by the recession than smaller companies.

Since 2008, small companies have increased employment at the fastest rate.

Source: ADP LLC, Moody’s Analytics
Franchising Misperceptions
Franchising Misperception #1:

“Only fast food and retail”
Franchising Fact #1:

There are more than 3,100 different franchises...
Franchising Misperception #2:

“Franchises are expensive”
Franchising Fact #2:

There is no automatic correlation between the cost of the franchise and the potential return.

*Source: February 2016 FRAN data*
How Much Do I Need?

YOUR MONEY = 25-30% OF THE TOTAL INVESTMENT

FINANCING = 70-75% OF THE TOTAL INVESTMENT including working capital
Franchising Misperception

"Too Risky vs. Job and/or Economy"
Job Security?

You’ve played by the rules, but the rules are changing.

Job security is a thing of the past.
# Recession Resistant

Many businesses thrive in all economic conditions

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<th>Growing markets driven by demographics</th>
<th>Essential Services</th>
<th>Businesses that help other small businesses</th>
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<td>• Cleaning Services</td>
<td>• Damage Restoration</td>
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Franchising Misperception #4: “Industry experience is required”
Franchising Fact #4:

- Franchisors want a person that can use their system.
- They want someone who will focus on being an owner
  - business and management skills
  - people and communication skills
- Proven Process
  - Franchisor trains on how to use their system
Finding a Business That’s a Good Fit
Franchises Are Not All the Same

Must Find the Right Fit for You
Business Modeling Process

Separate

Function of the Business

Function of the Business Owner
Government Disclosure: FDD

- Franchisor Info
  - Time in business
  - Business experience
  - Bankruptcies
  - Litigation

- Costs
  - Total Investment
    - Franchise fee
    - Other fees
      (Adv, Equipment, Supplies, Insurance, etc.)
    - Working capital
  - Royalties

- Franchise Contract
Government Disclosure: FDD

- Territory
- Listing and Contact

Info For:
- Current franchisees
- Past franchisees
- Renewal, Termination & Transfer Policies
- Earnings Claims
Additional Resources You Should Use

Professional Advisors

- Franchise Attorney
- Funding Options
- Accountant

Suggested Reading

- More Than Just French Fries
- E-Myth Revisited by Michael Gerber
- Street Smart Franchising by Joe Mathews