Franchising 101
When, Why and How?

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About Jeff

College of the Holy Cross → ArQule

Boston College Carroll School of Management → Boston Scientific

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Three Employment Choices

- Work for a company
- Open store in new market
- Franchising
- Build from scratch
- Startup

Job

Franchising
Working in a Job

Advantages

• Steady Paycheck
• Healthcare, benefits
• Job Security

Challenges

• Limited Income
• Less Freedom
• Mergers, layoffs
Being an Entrepreneur

Advantages

• Grow your idea
• Be your own boss
• No earning limit

Challenges

• Develop all resources
• High failure rate
• Unpredictable future

“The entrepreneur always searches for change, responds to it, and exploits it as an opportunity.”
- Peter Drucker
Buying into a Franchise

Advantages
• Operating system
• Training/support
• Peer groups

Challenges
• Lack of flexibility
• Potential risk
• Franchisee fees
US Franchising Metrics

- 810,000 Locations in the US
- 16 Million Private Jobs Created
- $351 Billion Payroll
- $2.1 Trillion of Private GDP Output

* 2016 Study of Economic Impact of Franchised Businesses – PricewaterhouseCoopers
Why Franchising is Growing

- Uncertainty of Corporate America / Risk Reduction
- Quick start, accelerated learning
- 2\textsuperscript{nd} income while working full-time
- Build generational wealth
What’s out there?

• ~3,500 different franchises
• ~565,000 franchise owners
• Over 75 different industries, such as:
  • Automotive, Retail
  • Restaurants, Fast Food, Coffee
  • Lodging, Real Estate
  • Business Services – insurance, security, tax
  • Personal Services – exercise, beauty, vet, loans, laundry, education, home repair, cleaning
Service Franchises: Home Based

- **Investment Cost**
  - $50k
  - $500k+

- **Startup Time**
  - 1-3 Months
  - 1 Year

- **Number of Employees**
  - 1-3
  - >10
Small Store: Food/Retail/Fitness

- Investment Cost*:
  - $50k
  - $500k+

- Startup Time:
  - 1-3 Months
  - 1 Year

- Number of Employees:
  - 1-3
  - >10

* Will vary based on city, state, location size and market dynamics
Large Store

- Investment Cost*: $50k - $500k+
- Startup Time: 1-3 Months - 1 Year
- Number of Employees: 1-3 - >10

* Will vary based on city, state, location size and market dynamics
BC Alumni Perspective

Brett D. Heffes
Class of 1989
Carroll School of Management
Chairman and Chief Executive Officer
Winmark Corporation
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WINMARK – At a Glance

- 30+ Years in Business
- Business segments
  1) Franchised retail sales of gently-used clothes, sporting goods and musical instruments
  2) Middle-market and small-ticket leasing
- Publicly held (NASDAQ: WINA)
- $1.2 billion in system-wide sales
- Over 1,250 locations with 5 brands
- 100% franchised model
- Strong Franchise Relations
  - 98.1% average franchise renewal rate*

*Based on 2010 – 2016 data
Benefits of Franchising

- Small business ownership supported by the benefits of a strong business network and proven business model
- Retail experience not needed
- Franchisor provides initial training, on-going support, and operational expertise
- Higher chance of success than start-up businesses
- Brand recognition is typically higher for franchise concepts
- Shorter time to opening
- Peer network (fellow franchisees) to provide advice and moral support
Winmark Ideal Candidate Profile

- **Meets financial requirements**
- Passionate about the brand
- Fits culture of the company
- **Strong work ethic**
- People person
- Track record of prior job success
- Understands the franchise relationship

- Team player
- **Ability to follow the model**
- Shows management acumen (team building, empowerment, delegation)
- **Embraces opportunity to give back to the community**
- Recycling and sustainability advocate
Is a Franchise Right for You?
1. Determine Your Motivation
2. Financial Analysis
3. Decide Your Timeframe
4. Review Business Characteristics
5. Investigate Franchises
6. Evaluate Facts and Make a Decision
Determine Your Motivation

• Why do you want to own a franchise?

• Why now?

• How will your life be different?
What Are Your Financial Parameters?

- How much can you comfortably invest?
  - Will you have investors or partners?
  - How much can you borrow?

- What’s your target income?

- What is your timing?
Determine Earning Potential

- Talk to franchisees
- Some franchisors will provide this in Financial Disclosure Document (FDD)
- Extremely regulated industry
Consider an Exit Strategy

- How long will you own the business?
- Are you building cash flow for retirement?
- Will you sell the business or will it remain in your family?
Your Optimal Timing

- Investigate multiple franchises
- When do you want to open?
- Is your timing flexible?
- Is it a seasonal business?
Consider Business Dynamics

- Number and type of employees
- Hours of operation
- Startup costs and franchise fees
- Location

- Business Model?
  - Owner Operator
  - Executive
  - Service or Retail
Choose a Business Model

Owner/Operator Model
- Work full time in your business
- Know your employees & customers
- Very hands-on, manage your team daily

Executive Model
- Manage through managers
- May keep your full-time job
- Big picture leadership

Service – Territory Based
- Lower investment / often home-based
- Fewer operating hours
- Loyal, repeat customers
Conduct Comprehensive Franchisor Investigations

• FDD (Financial Disclosure Document)
• Visit locations & call existing franchisees
• Review systems, documentation and meet team
• Decision / Discovery Day
Evaluate the Facts

- Get all questions answered
- Conquer your fear
- **MAKE A DECISION & DIVE IN**
How do Franchise Consultants help you?

- EVALUATE YOUR SITUATION
- BUILD PERSONAL MODEL
- RECOMMEND FRANCHISE CONCEPTS
- SERVE AS GUIDE AND RESOURCE
Q & A

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