

FRANCHISE ALERT #: 22 What Is A Franchise And Why Do I Care?

WHAT IS A FRANCHISE?

A general, simple way to describe one is a business with an established brand which also has a business format for operating the business. Someone who owns a franchise is a FRANCHISEE.

Franchisee = local owner

Franchisor = the franchise, the entity that owns the brand, its intellectual property, its business format, provides training and support, awards territory, collects royalties, and provides a Franchise Disclosure Document (FDD) to each prospective franchisee.

A prospective franchisee becomes a franchisee when two things happen:

1. Once the franchisor **AWARDS** the business **and then**
2. The prospective franchisee **BUYS THE LICENSE** to use the branding, trademarks, and business format of the franchise.

There is a one-time payment for the license called the **FRANCHISE FEE**.

A specific geographic area or **TERRITORY** is typically included with each award and is spelled out in the **FRANCHISE AGREEMENT**. Both the franchisee and the franchisor sign the franchise agreement when the franchise fee is paid.

OWNER'S ROLE: There are various roles within franchising for an owner.

KEY TAKEAWAY: The role of an owner is **PREDETERMINED BY THE SPECIFIC BUSINESS MODEL OF EACH FRANCHISE**.

Owner/operator is the most common role in franchised businesses. Why is this? **The fuel that runs the economic engine of franchising is the individual motivation of the franchisee.** It is up to him or her to make the business succeed. It is his or her money on the line.

Here is a general description of the **THREE PRIMARY FRANCHISEE ROLES:**

- **Owner/operator** can mean "hands-on," and involved in every aspect of the business from sales, operations, marketing, customer service, HR, and general administration and management.

Owner/operator can also mean working "on" the business in contrast to working "in" the business. Working "on" the business may involve hiring someone or developing a team to handle the sales/marketing and/or operations side of the business. In addition to the overall management of the business, the franchisee may take on one of those main functions - either sales/marketing or daily operations.





- **Manage-the-manager** is another role for the franchisee. This is a management function and typically is not a full-time commitment for the owner. Again this option is determined by the franchise business model. It is a **MISTAKE** to force a “hands-on” franchisee role into that of a “manage-the-manager” role. That is changing the business model, and your money is wasted buying something you will not be using.
- **Investor** roles are few in franchising and usually require a significant financial investment. The less the owner is involved in the business, the more money is required.

NOTE: Did you know there are

4,500+ DIFFERENT FRANCHISED BUSINESSES in more than

75 DIFFERENT INDUSTRIES!

FOOD FRANCHISES = NO MORE THAN ONE-THIRD OF ALL FRANCHISES

NON-FOOD FRANCHISES = TWO-THIRDS OF ALL FRANCHISES

UNIQUE CHARACTERISTICS:

In general franchises have **PROVEN BUSINESS MODELS** with systems in place. This helps **REDUCE THE RISK** of owning a business. Franchisors also provide initial **TRAINING** about their businesses. This is why industry experience is **NOT** normally required. In addition, they give **ONGOING SUPPORT** to their franchisees for the entire length of their franchise agreement.

Besides the risk mitigation franchises provide, what's unique about them compared to other types of businesses is the financial relationship between the franchisor and the franchisee. The payment from the franchisee to the franchisor is called the **ROYALTY**

You know you are dealing with a **franchise** when there is a **Franchise Disclosure Document (FDD)** and the **payment of royalties** from franchisee to franchisor.

MINIMUM FINANCIAL QUALIFICATIONS:

Social media and online information can be misleading or inaccurate. Often you will see, “A franchise for only \$10,000!” That is often referencing the franchise fee only. It does not include any other expenses such as buildout, working capital reserve, marketing, etc. The term you want to learn is the **TOTAL INVESTMENT RANGE**. This is spelled out in the FDD.

Each franchise has **MINIMUM FINANCIAL QUALIFICATIONS**. Over my 20 years in the industry, a great many franchises will require the following as a starting point, although there are plenty of exceptions given the thousands of franchises that exist:

Around \$50K liquid (non-financed cash) and a Net Worth of \$125K





HOT MARKETS: All across North America

NEXT STEP:

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It's my pleasure to provide [information](#) to you about franchises!



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Learn. Launch. Live Your Dreams.



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