

FRANCHISE ALERT #7: FRANCHISE REALES

Resales are existing franchised businesses which the current owners wish to sell.

OWNER'S ROLE: With a resale, be sure to select a business that matches the role you want in your business:

Owner/operator: This is typical of most franchises and is a full-time commitment.

Manage-the-manager: This is highly desired by many investors, and one of the main reasons resales are in demand. A general manager (GM) is in place from Day One to handle daily operations and employees. The owner's role is limited from a time standpoint since the business operates without his/her daily involvement. Franchises advertise this role as "semi-absentee."

If the current manager leaves or is let go with a resale, a new one will need hiring immediately. Some franchises require the GM to sign the franchise agreement since he/she is so integral to the success of the business.

Investor: This owner's role has a very limited time commitment and is often referred to as "absentee." If the franchise involves a heavy investment in equipment like vending, an employee is needed to handle daily tasks.

Most absentee ownership franchises require a full-time GM similar to the manage-the-manager model. Like with manage-the-manager, a family member is preferred to be the GM. Another GM option is some sort of equity share or profit share as compensation.

NOTE 1: The less involved the owner is in the business, the more expensive it is. As may be obvious, this is due to the fact that infrastructure and people need to be in place to operate the business with the owner having a limited or very limited involvement in it.

SKILLS REQUIRED: One requirement of all franchises regardless of the owner's role is the ability and willingness to learn and apply the franchise's training and brand standards. Needed skills typically vary according to the role as noted below:

Owner/operator: general people and communication skills, ability to learn and be coached on the franchise systems and model, time management, familiarity with general business concepts, industry experience is often NOT needed due to extensive training.

Manage-the-manager: leadership, management, people and executive skills, business acumen, ability to learn and be coached on the franchise systems and model, industry experience is often NOT needed due to training. Employees or 1099 contractors with the necessary experience are hired to deliver the business' service to customers.

Investor: executive skills, business acumen, investment mindset, and experience.

NOTE 2: MANY franchises for sale are not publicly advertised. There are many reasons for owners' needing and wanting confidentiality. They don't want key employees, customers, or vendors to leave before the sale is closed. The business may be for sale due to personal reasons like the owner having a serious medical condition, going through a divorce, or simply retiring.

As you may gather by now, there is no "MLS" of all franchises for sale. A website people start their search for an existing franchise for sale is www.bizbuysell.com. As already pointed out, this site has publicly known franchises as well as non-franchised businesses for sale.





UNIQUE CHARACTERISTICS:

A resale is a business that already exists as opposed to a new one which will be launched. The discovery or due diligence process is the same for new and existing units in some ways and also very different from each other in many ways.

How **the discovery or due diligence process is the same** whether a new or existing franchise business is involved. Here are some examples.

- You will need to meet the minimum financial requirements to start discovery.
- You will learn about and evaluate what the franchise opportunity is all about. This involves understanding and assessing the business model, culture, systems, marketing, technology, training and support, and so forth.
- Crucial to the discovery process is interviewing current franchisees. Validate the franchise and all you have learned about it. You will also want to gather your own facts and figures from franchisees to ascertain the viability of the business model.
- The new potential owner of the existing franchise has to be approved by the franchiser.
- The new owner will go through training like any other new franchisee.

How **the discovery or due diligence process is different** between a new and a resale franchise business. Here are some examples.

- The length of time of the discovery or due diligence process can be much longer and more complex than that of a new launch. This is because there are two parallel discovery processes happening:
- The same diligence is needed to evaluate the franchise concept whether it's a new unit/territory or a resale as explained above
- Then there is the necessary assessment of the existing business which can involve owner meetings, review of financial statements and previous years' tax returns, evaluation of current staffing, vendors, customers, assets, price negotiations, etc.
- With a new franchise, there is no price negotiation. Every new franchisee gets the same deal. With resales, the price of the business is typically negotiable.
- Some resales can be **"dogs"** that never hit the break-even point or even launched. These can sometimes be purchased at less than the cost of a new franchise.

Some resales can be **"cash cows"** that sell for a multiple of the positive cash flow or EBITDA. This means the new owner is likely paying a premium for the cash flow.

- **Both the franchise concept AND the existing business need to be a fit for the new owner.**



MINIMUM FINANCIAL QUALIFICATIONS AND FUNDING:

There will be a Sales Price with a resale. If there is seller financing, that will be made known. From what I've seen, this is not a common experience. Otherwise, the buyer will need to [fund the business](#) like any other franchise - using his/her own non-financed money (including from a HELOC or rolling over retirement monies) and/or potentially borrowed funds from a commercial lender.

One of my concerns with someone buying a resale is this: the potential buyer can be largely motivated by the fact that he/she can afford the business. Just because someone can afford a resale doesn't mean it's the right business for him/her. It may fit the new owner's wallet but also be sure, as mentioned above, it fits the buyer's skill set and offers the desired role the buyer wants in a business.

HOT MARKETS: Available all over North America.

NEXT STEP: 3 options

1. Visit our [website](#), [FAQs](#), [videos](#), [testimonials](#), [Resources](#), and [LinkedIn profile](#)
2. Schedule a confidential appointment with Anna by calling/texting 706.736.0579, emailing anna@selectfranchises.com, or [clicking here](#).
3. Stay in touch and be informed by engaging on social media to get the latest news on what's hot in franchising and learn what you need to know about franchises.
 - Invite me to connect on [LinkedIn](#)
 - Follow **Select Franchises** on [LinkedIn](#) and on [Facebook](#)
 - Send me a friend request on [Facebook](#)
 - Subscribe to our [Youtube](#) channel
 - Be informed on [Instagram](#) and [Tweet](#) me your questions

It's my pleasure to provide insightful economic data and information to you about [resale franchises!](#)



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