

Small Business Management ^{19e}

LAUNCHING AND GROWING ENTREPRENEURIAL VENTURES

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CHAPTER

4

Franchises and Buyouts

SBDC

A Great Resource

The Small Business Development Center

<https://ociesmallbusiness.org/inland-empire/>

Check out their workshops and services

Many workshops are FREE (well... we pay taxes...)

What Is a Franchise?

Franchising

- A business model involving a business owner who licenses trademarks and methods to an independent entrepreneur

Franchisee



Franchisor



The Pros and Cons of Franchising

Advantages

- Probability of success
 - Proven line of business
 - Pre-qualification of franchisee
- Training
 - Franchisor-provided
- Financial assistance
 - Franchisor assistance
- Operating benefits
 - Franchisor-aided

Limitations

- Franchise costs
 - Initial franchise fee
 - Investment costs
 - Royalty payments
 - Advertising costs
- Restrictions on business operations
- Loss of independence
- Lack of franchisor support

In your opinion – which are greater, the Advantages or the Limitations? Why?

Franchisor Controls on Franchisees

- Limiting sales territories
- Requiring site approval
- Imposing requirements on outlet appearance
- Limiting goods and services offered for sale
- Limiting advertising and hours of operation

Which of the above would have the greatest impact on the success of a franchise?
Why?



Evaluating Franchise Opportunities

Selecting a Franchise

- Personal observation
- <https://www.franchise.org/franchise-opportunities>

Investigating the Potential Franchise








- Information sources
 - Independent, third-party sources
 - Federal Trade Commission
 - Internet
 - Franchise consultants
 - Franchisors themselves
 - Disclosure documents
 - Existing and previous franchisees



Franchise Disclosure Statements

Franchise Rule: Rule 436 of the FTC

- Franchise Disclosure Document (FDD)
 - A document accepted by the Federal Trade Commission as satisfying its franchise disclosure requirements
 - Investment requirements
 - Conditions that would affect renewal, termination, or sale of the franchise
- <https://docqnet.dfpi.ca.gov/search/>
- <https://www.ftc.gov/legal-library/browse/rules/franchise-rule>

FRANCHISE NAME/RANK	CATEGORY/DESCRIPTION	INITIAL INVESTMENT
# 1  Taco Bell	Mexican Food Mexican-inspired food	\$576K - \$3.4M >
# 2  The UPS Store Request Info	Postal & Business Centers Postal, business, printing, and communications services	\$185K - \$474K >
# 3  Popeyes Louisiana Kitchen	Chicken Fried chicken, seafood, biscuits	\$384K - \$3.5M >
# 4  Jersey Mike's Subs	Submarine Sandwiches Subs and Philly cheesesteaks	\$145K - \$786K >
# 5  Culver's	Frozen Custard Frozen custard, specialty burgers	\$2.3M - \$5.8M >
# 6  Kumon Request Info	Tutoring Supplemental education	\$67K - \$146K >
# 7  Planet Fitness	Fitness Fitness clubs	\$937K - \$4.6M >
# 8  Servpro	Restoration Services Fire, water, and other damage cleanup, restoration, and reconstruction	\$192K - \$246K >
# 9  7-Eleven	Convenience Stores Convenience stores	\$70K - \$1.2M >
# 10  Tropical Smoothie Cafe Tropical Smoothie Cafe	Smoothies/Juices Smoothies, salads, wraps, sandwiches, flatbreads	\$277K - \$584K >

Buying an Existing Business

Reduction of
uncertainties
of startup

Acquisition of
ongoing operations and
customer relationships

A bargain
purchase price
for the business

A quick start in
the business



Pros and Cons of Buying an Existing Business

- Pros

- High chance of success
- Less planning
- Existing customers/suppliers
- Necessary equipment
- Bargain price
- Experienced employees
- Existing business records

- Cons

- Existing problems
- Poor quality of current employees
- Poor business image
- Modernization required
- Purchase price based on inaccurate data
- Poor business location

Investigating and Evaluating Available Businesses

- Due Diligence
 - The exercise of reasonable care in the evaluation of a business opportunity.
- Business Brokers
 - Specialized brokers that bring together buyers and sellers
- Relying on Professionals
 - Accountants
 - Attorneys
 - Other experienced business owners



Due Diligence for Purchasing a Business

- 
1. **Contracts and lease agreements**
 2. **Financial statements**
 3. **Tax returns**
 4. **Real and personal property documents**
 5. **Bank accounts**
 6. **Customer lists**
 7. **Sales records**
 8. **Supplier/purchaser lists**
 9. **Contracts**
 10. **Advertisement materials**
 11. **Inventory receipts/lists**
 12. **Organization charts**
 13. **Payroll, benefits, and employee pension/profit-sharing information**
 14. **Employee roster**
 15. **Certification by federal, state or local agencies**
 16. **List of owners**

Networking

I know Mary, who knows Bill, who knows John, who knows Jill, who knows **you!**

How will you find the entrepreneur to interview?

- Visit local business locations that you do business with (dry cleaner, lawn service, pool man, etc.)
- Talk with friends and family to “find” someone
- Cold call - visit a business and just introduce yourself, and ask if they can participate

Degrees of separation - create links - LinkedIn

California businesses for sale

<http://www.bizben.com/> Click on “Postings”

Choose by:

- Type of business and/or Geographic Area

Get on a computer and check out some listings

- Identify businesses (of interest) for sale and look at details ...
- Browse for a business (franchise) to buy ...

Write:

1. What was most useful about the information provided?
2. What was surprising about prices, terms or availability?