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LIVING WELL IN RETIREMENT

## Opening a Franchise Gives You a Head Start

Worried about starting a new business? A franchise is less risky than creating a company from scratch.

By Robert K. Otterbourg, Contributing Writer, *Kiplinger's Retirement Report*

May 22, 2008

**EDITOR'S NOTE:** This article was originally published in the February 2008 issue of Kiplinger's Retirement Report. [To subscribe, click here.](#)

Steve Huff was a high-achieving Citibank executive, supervising half of the corporation's New York City branches. In late 2005, a corporate reorganization eliminated his job. Although he was offered another post, he decided to work for himself.

Despite entrepreneurial yearnings, Huff, 56, describes himself as risk averse. He wanted to own a business that already was generating cash. So he hired a franchise broker who helped him to evaluate several companies. In mid 2006, he used savings and stock options to buy two existing Sylvan Learning Centers in Yonkers and White Plains, N.Y.

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Huff says the tutoring programs for students from kindergarten through high school were consistent with his desire for a business in a professional setting. Before signing on, Huff spoke with ten other Sylvan franchisees as well as firms that compete with Sylvan. He decided against opening up a new center, and instead opted to buy existing operations. "They already had a track record, existing customers, cash flow and the opportunity to hit the ground running," he says. His wife, Kathy, manages one center.

Huff is one of many retirees who have left corporate America for careers in franchising. Like Huff, these corporate expatriates want to go into business for themselves but with less of the headache and risk of starting a company from scratch.

About 760,000 franchise businesses generate more than \$1.5 trillion in sales, according to the International Franchise Association, a membership group of franchisors and franchisees. Many are brand names—Radio Shack, Comfort Inn, McDonald's, H&R Block and Curves.

With a typical franchise, a company lends its name or business system to a franchisee, who pays the franchisor an initial flat fee and often ongoing royalty payments. Many franchisors will sell the franchisee products and services, as well as provide training and advertising.

One of the biggest factors to consider is the cost. Jiffy Lube, for example, estimates an initial investment of \$214,000 to \$273,000, which includes up to \$20,000 for opening-day marketing, \$18,000 for inventory, \$10,000 to \$20,000 for insurance and \$80,000 for equipment. On the lower end is Jackson Hewitt Tax Service, which estimates an initial outlay ranging from \$50,000 to \$94,000.

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You'll also need to ask about possible monthly fees. Huff says he pays a monthly royalty of 8% of gross revenues along with another 4.75% of revenues toward Sylvan Learning's national advertising program. In return, he receives an exclusive marketing license to operate in both communities.

Retirees must be careful to choose a franchise that won't risk their nest egg, says Don DeBolt, former president of the franchise association. He advises that older entrepreneurs focus on mature companies with solid track records. Many can operate from a home office, he says.

### How to Find a Franchise

The best place to start is by looking at RetirementJobs.com, which has a franchise center, and the International Franchise Association's Web site ([www.franchise.org](http://www.franchise.org)). Both provide tips and detailed information on more than 1,000 franchises. Also read the Federal Trade Commission's *A Consumer Guide to Buying a Franchise*, which you can find at [www.ftc.gov](http://www.ftc.gov).

Consider using a franchise broker, who can help you figure out the kind of company you can afford and whether your interests align with the services or products that various franchisors provide. For instance, Lori Kiser-Block, president of FranChoice, which has 75 consultants across the U.S., says it makes little sense to go from a corporate desk job to owning a franchise that requires physically intensive labor, such as lawn services or rug cleaning.

Besides FranChoice ([www.franchoice.com](http://www.franchoice.com); 952-942-5561), you can check the Findley Group ([www.findleygroup.com](http://www.findleygroup.com); 254-757-1445) and Franpoint Partners ([www.franpointpartners.com](http://www.franpointpartners.com); 800-841-4979), which specializes in restaurants. Brokers receive a commission from the franchisor once a franchisee signs up.

The franchisee needs to accept the operating rules set by the franchiser. For example, Huff must follow Sylvan's tutorial methods. You also need to know, for instance, about any restrictions on the suppliers you buy from and how you operate and market the business. Speak to operators of similar franchises, and to those who have sold their franchise.

Much of this information is included in the franchise's disclosure statement, which is often known as the Uniform Franchise Offering Circular. The document will describe all fees, litigation history and the kind of training and support you can expect. It's a good idea to ask a lawyer who specializes in franchising to review the papers and for an accountant to review financial statements and earnings claims.

Typically, a franchisee receives a license to operate for 15 to 20 years, when the contract is up for renewal. Carolyn Dalby, a certified public accountant in Durham, N.C., cautions aspiring business owners to determine if there's an escape clause in case the franchise fails or the franchisee wants to close down.

After doing her homework, Rosalie Turner, 56, opened a franchise in November after 22 years as a Bristol-Myers Squibb sales representative. With the help of a broker, Turner, who lives in the St. Louis suburb of Chesterfield, settled on a Rapid Refill franchise, which sells inkjet and laser toner cartridges for printers and digital photography devices.

Turner considers the cartridge business inflation-proof because of the growing demand for the product, and she likes the idea that the retail stores operate with only a few employees.

She paid a franchise fee of \$30,000, plus another \$180,000 to \$225,000 for building-related costs, equipment, initial inventory and three months of operating expenses. Rapid Refill receives 10% of Turner's revenue in royalty and advertising fees. In return, she receives local exclusivity.

Turner says that it's a lot different running a store than working for a big drug company. "I do my own sales and marketing, canvass the business market for new customers, work 12 to 14 hours a day six days a week, and even run the equipment needed to refill cartridges," she says. Turner expects to draw a salary from the franchise this year.

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Posted by: [Joel Libava](#) at 05/23/2008 06:14:07 AM

Thank you so much for writing a terrific article on franchising. I have to disagree with Mrs. Block, though. Some ex-corporate management folks that have lost their jobs do actually want to do SOME of the physical work involved in service franchises such as lawn care. I have worked with a lot of folks who have told me they would love to work outdoors, if it was their own business. As a franchise broker, I am careful about making assumptions, and really listen to my candidates...

Posted by: [Peter Blaisdell](#) at 06/04/2008 10:47:22 AM

Franchising is not for everyone. When franchisors quote the low failure rate what they are not telling you is that most often they buy the franchisee out so they do not have a 'failure'. Make sure you know what the franchise is going to do to help market in your territory -- your mission is to not create a marketing image for the franchisor -- after all you want an established brand working for you and not you creating a brand for the franchisor to sell more franchises! Know what the advertising royalty is used for, know how the franchisor has tweaked their program to meet your local needs -- some franchises use the cookie cutter approach and figure that each city/location is identical to every other location -- have you ever seen Home Depot selling snow blowers in Miami -- then do not accept that the formula that works in one location will work in another.

Posted by: [Bruce Wildes](#) at 06/21/2009 09:44:49 PM

This is an excellent article overall. I agree with Joel that some clients want to make a dramatic lifestyle change that may include losing the suits and now getting their hands dirty. A good broker will challenge them in their thinking to make sure they have fully considered their preferences. How do you find a good one? Most have many companies in their database, but many tend to focus on only a few of them. Besides measuring how agnostic the broker is to the approach, find out their degree of involvement after you pay the franchise fee. Most disappear in pursuit of the next sale. [www.acadiabusinessadvisors.com](#) is one firm that takes a long term view to the relationship with hopes of providing additional resources and services to both franchisor and franchisee after the sale and further adding value to the overall relationship.

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