10 Big Franchise Mistakes to Avoid
Wes Roper

- Franchise owner
- FranNet of MN
- Left corporate America after years of leading technology teams
- Wanted: to build, independence, responsibility

- Who is FranNet?
  - 30yr old franchise consulting firm
  - 70 offices, 130 consultants
  - Worked with the SBA since 1987
  - We match people who want to be in business with a franchise that meets their needs
  - **No Cost!**
How to Fail at Franchising
Franchisee 5yr Success

20%  60%  20%
Choosing the franchise because you love the product or service

Mistake #1
Success Strategy #1

Choose a franchise because:

• You possess the particular skills that franchise requires to succeed
• You can afford it
• Owning it will give you the outcomes that are important to you:
  • Desired income
  • Quality of life and flexibility
  • Career independence
  • Security and control
  • A family legacy
  • The future exit strategy you need
Choosing a franchise because you already have experience in that industry

Mistake #2
Franchising Fact

Less than 25% of franchisees are in the same industry as they were employed
Success Strategy #2

Separate the function of the *business* from the function of the *owner*.
“The business has to fit my personality. I have to be passionate about it if I am to succeed.”
Success Strategy #3

Look at your business as a means to an end. It is a vehicle, delivering you to your end destination.

Successful franchise owners are passionate about achieving their goals.
I’ll reduce my risk by going into business with a partner
Establish appropriate partnership documentation

- Buy-sell agreement relating to death and disability
- Funding the buy-sell agreement
- Voting
- Future needs like capital calls
- Operating agreement

Remember the Golden Rule
Relying on the Item 19 in the FDD for earnings representations

Mistake #5
Success Strategy #5

Obtain a chart of accounts template from the franchisor

Use it to collect financial information when talking to many franchisees
Misjudging how much working capital you really need
Success Strategy #6

Make sure you have enough reserves to cover:

- Your personal living expenses for 6-12 months
- Debt service
- Operating needs and the unexpected

Ask franchisees about:

- How they funded their franchise
- Are they taking a salary prior to breaking even

Enlist the SBDC or SCORE to help you build cash flow projections
Borrowing too much and suffocating in debt

Mistake #7
Success Strategy #7

Make sure you have the proper capital structure and adequate level of equity to ensure the cash flow will satisfy needs and obligations.

Today 30-50% owner equity is likely necessary.
Viewing franchise ownership as a short term endeavor

Mistake #8
Success Strategy #8

View this as a 5 year project at a minimum

It can take ~2 years to find the right buyer to purchase your business

Understand the franchisor’s transfer process and requirements
Hiring the wrong kind of attorney or no attorney at all

Mistake #9
Success Strategy #9

Only hire an attorney with ample *franchise law experience* to review the FDD, franchise agreement and related contracts and documents.
Not including your spouse in the decision process from day 1
Success Strategy #10

Include your spouse in the process:

• Discovery phone calls, webinars and meetings with the franchisor.
• Franchisee interviews and visits.
• Meet the team day events

Make sure your spouse is supportive of this venture and understands how life will be different
Questions?

Remember, if you don’t have a dream, the person you work for probably does...