



ASK THESE MONEY QUESTIONS BEFORE YOU BUY A FRANCHISE

Congratulations on your interest in buying a franchise! The number of companies who have chosen to grow their businesses through franchising and the number of people who have decided to own their own business through franchising is a testament to the power franchising has to make dreams come true. But there are numerous questions you will want to have answered before you commit to anything and asking MONEY questions may be the most important.

Here's what we feel are the top money questions to ask – and get answered – when deciding on the purchase of a franchise business:

HOW MUCH MONEY CAN I MAKE WITH THIS FRANCHISE?

We put this question first because it is probably the first question you will have when considering a franchise concept. The answer will depend on many factors but a typical franchisee doesn't start making money until the second or third year. You may find a range of incomes in the franchisor's FDD (Franchise Disclosure Document) which the franchisor will provide, but this information is not mandatory and the range may be too large to be useful.

A better way to find this information is to talk to a number of existing franchisees who have been in business for several years or more and find out when they started seeing a profit and how much they currently make. Remember that other factors will influence the profitability of your franchise, such as your location, the marketing you choose to do and how engaged you are in the running of the business.

WHAT IS THE TOTAL INVESTMENT REQUIRED FOR THIS FRANCHISE?

Knowing what your upfront costs will be for buying and running the business until it makes a profit is a key piece of information. You will be able to learn about these costs in a general manner from reading the estimated investment section of the FDD. But for more specific and accurate information, you will need to talk to as many current franchisees as possible. Even then, your figures will only be an estimate of your actual costs so be sure to plan for having sufficient working capital.

HOW LONG WILL IT TAKE BEFORE I REACH THE BREAK-EVEN POINT WITH MY NEW FRANCHISE?

The reality is that your business will probably not make money during the start-up phase. You have to build up your customers or clientele and for most businesses that can take a period of time. The franchisor will be able to give you a range of time in which most of their franchisees reach the break-even point but, to be safe, plan on the longest amount of time in that range rather than the shortest time.





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WHAT WILL I NEED IN WORKING CAPITAL AS MY BUSINESS BEGINS?

Working capital, also called operating capital, is the money you will have to put into your new business after it opens until your business starts making as much money as you are spending. This includes both operating expenses (such as your lease, cost of employees, cost of equipment and utilities, etc.) and your personal living expenses. Since the break-even point could take longer than expected and your expenses could be greater than expected, an extra cushion of capital is a smart idea.

WHAT ARE MY OPTIONS FOR FINANCING MY FRANCHISE?

There are several options for financing the purchase of a business. The most common is to obtain a bank loan, which will usually need to be secured by your personal collateral (such as the equity in your home) or through an SBA (Small Business Association) guarantee program, or both. Some franchisors will offer advice that will help you obtain this financing while others require you to do this part on your own. Some of the equipment you need can be leased, which is helpful because then you will not be tying up all your cash, and leases can be secured by the assets that are being leased. Both franchisors and banks will require you to have a portion of the amount needed in cash, often referred to as "having skin in the game." This means that you are risking your own money as well as the bank's money, giving you a stronger reason to make the venture successful. Other ways to finance your franchise can be loans from family and friends or by taking on a business partner who has the money required. There are also companies who will assist you in borrowing money from your own IRA or 401(k) accounts, without early withdrawal penalties, to finance a franchise business.

Whatever means of financing you use, keep in mind two things: 1) it's never too early in the franchise research process to begin looking at your financing options and 2) having good credit and cash in the bank are always good ways to prove financial stability.

HOW STRONG IS THE FRANCHISOR FINANCIALLY?

This may not be the first question that comes to mind when researching a franchise opportunity but it is a question you need to ask. A franchise company that is in a strong financial position will be able to support the franchisees and will be prepared to survive over the long term,

This may not be the first question that comes to mind when researching a franchise opportunity but it is a question you need to ask. A franchise company that is in a strong financial position will be able to support the franchisees and will be prepared to survive over the long term, building the brand and making changes to the product / service / operating system as needed. The franchisor's FDD will provide you with their financial statements but if you aren't sure what the figures mean, ask for help from your financial advisor.

Getting answers to these money questions is a critical step in your process of franchise research. Take time with each and every question and talk to as many people as necessary so that you are sure the answers you get are accurate. Then, if the answers are acceptable to you, you can be confident that you are making the right choice in a franchise purchase.