

### The Benefits of the Franchise Model

By: Eddy Goldberg

Franchising provides benefits for both seller and buyer. For franchisors, the primary benefit is the ability to use other people's money to expand the brand more rapidly than they could either on their own or through investors or lenders. The initial franchise fee and ongoing royalties they collect allow franchisors to build their brand without sacrificing control to outsiders or the pressure of repaying lenders. The fees and royalties are used to fund operations at corporate headquarters, train and support franchisees, market and advertise the brand, improve the quality of goods or services, and build the brand in the marketplace.

For franchisees, benefits include: a higher chance of success than in a sole proprietorship; shorter time to opening; initial training and ongoing support; assistance in finding an optimal site; the selling power of a known brand; lower costs through group purchasing; use of an established business model; national and regional advertising campaigns; customer lead generation through websites and centralized call centers; and a network of peers (fellow franchisees) to provide advice and moral support through a company intranet, annual conferences, and franchisee associations; and, increasingly, assistance with securing funding.

Potential downsides for franchisees include: lack of independence, from the goods and services they sell to the color of the paint on their walls; mandatory company-wide promotions that may not work in their market (price cuts, new products or services), yet cost money to implement; costly required redesign of their unit(s); and, after signing a 10- or 15-year contract, a change in management or ownership that takes the brand in a new, unwanted direction.

As with any business opportunity, there is no guarantee of success, and there are trade-offs to be made. In some ways, franchising is like paying condo fees instead of owning a home. In a condo association, monthly fees are pooled for common external maintenance (mowing, snow removal, roof repairs, etc.) -- a tradeoff many are willing to make to free themselves to concentrate on their "core business" of living their lives (or business) within the walls of their condo (or franchise) unit. And unlike renters, who can be evicted (or corporate employees who can be fired or "downsized") franchisees have some power of their own: a franchisor cannot "fire" a franchisee who is operating in conformity with the franchise agreement.

"Follow the system" is a mantra in franchising and critical to a franchisee's success. Franchisees buy into the franchisor's operating system believing that if they follow it to the letter they will succeed and be profitable. Smart franchisors are always open to suggestions for change (as well as local or regional variations) from their franchisees, but any franchisee departing from the "system" without franchisor approval risks violating the terms of the franchise agreement, which can result in revocation of the franchisee's right to do business under the franchisor's name. Franchisees also must agree to keep the franchisor's proprietary system and trade secrets confidential, as well as sign some type of noncompete agreement.

Not everyone is cut out for franchising. Some need total independence to succeed or fail on their own, while others prefer the tradeoffs found in working for a larger organization. For the franchise partnership to succeed, the buyer must be comfortable not only with the franchise model, but also with the culture, values, and goals of the franchisor - and vice versa.

In this light, many view franchising as a commitment much like marriage. A good match between franchisor and franchisee, sharing mutual goals over the long term, is essential to the success of each franchise unit, and thus the brand as a whole - an essential factor that must be considered seriously by both parties before any contract is signed.

## Noteworthy Events

### Father's Day



June 18, 2017

### INTERNATIONAL FRANCHISE EXPO



June 15-17, 2017  
New York, NY

### FRANCHISE EXPO WEST



November 2-4, 2017  
Los Angeles, CA

## The SBA Modifies Its Approach to Approving Franchise Loan Applications

Excerpts from an article by the National Association of Certified Valuers and Analysts



According to the Small Business Administration (SBA), in 2010 there were 27.9 million small businesses (defined as an independent business having fewer than 500 employees), and only 18,500 firms with 500 employees or more. Of these U.S. businesses, the International Franchise Association, in its 2017 Franchise Business Economic Outlook estimates that in 2016, there were 732,842 franchised establishments in the United States. Consequently, for forensic accountants, economic damages experts, financial litigation consultants—as well as the attorneys who work with them and the judges who must evaluate their testimony—who review and analyze any one of these roughly 732,000 franchised businesses (or indeed with any small business), an understanding of SBA lending procedures is critical. This article summarizes SBA lending in the franchise context and describes the various changes that have occurred since the beginning of 2017.

Within the franchise industry, financing backed by the SBA is one of the most important sources of funding for franchisees who wish to establish or grow a franchise. However, since the beginning of the year, SBA funding within the franchising industry has undergone a paradigm shift in how the SBA determines whether a franchisee is eligible for an SBA-guaranteed loan. In addition, the article explores the fate of the SBA's Franchise Registry website and what, if any, role it will play in the franchise industry going forward

In November 2016, the SBA announced that, as of January 1, 2017, it would no longer maintain the Franchise Registry and would no longer review each franchisor's Franchise Disclosure Document and franchise documents for adequate independence. Replacing those processes would be a short, standardized, and non-negotiable generic franchise agreement addendum developed by the SBA that participating lenders would have to include in the packages they submit to the SBA if they want the SBA to guarantee the franchisee's loan. If the lender's package includes the addendum signed by the franchisor and borrower franchisee, the SBA will assume that the franchisee is sufficiently independent of the franchisor.

These new procedures will greatly streamline the SBA process and hopefully relieve franchisors' frustrations with what have been extremely long and costly reviews associated with listings on the Franchise Registry and annual renewals. But, as with any significant change like this, there may be hiccups on the initial roll-out, and there will be questions.

Even lenders from large, national banks have been using outdated forms and processes in connection with the rollout of the SBA's new process at the beginning of this year. With such fast-changing implementation, franchisors will have to be diligent when dealing with franchisees who seek SBA-guaranteed loans.

# What It Takes to Be a Small-Business Owner (Infographic)

Geoff Weiss, Entrepreneur Magazine

Being a small-business owner isn't easy, but an overwhelming majority of entrepreneurs wouldn't have it any other way.

While small-business owners cite "having to wear so many hats" and "finding new customers" as their biggest concerns, according to the below infographic courtesy of online marketing company Constant Contact, a whopping 84 percent said that, if given the opportunity, they would start up all over again. The "ability to pursue their passion" and the freedom that an entrepreneurial lifestyle allows are their biggest motivators, they said.

And that's a good thing, because small business continues to contribute to the global economy in huge ways. Roughly half of all U.S. jobs are provided by companies of less than 500 employees, and 54 percent of U.S. sales happen at small businesses. Additionally, small businesses donate 250 percent more than larger corporations to nonprofits and other charities.



## Job Description

- **Dedicated self-starter** who doesn't mind feeling like they can **never** be away from their business (56% of respondents); or focus on themselves (51%).
- **Vacations won't happen** (43%) and all money will be tied up **in the business** (41%). **Willingness** to not see family and friends **as much as they'd like** (40%).

## Responsibilities

- Daily maintenance of unwavering optimism.



**65%**  
of small business owners expect their business to be thriving five years from now.

- **Carrying the economy:**

- Almost half of all U.S. jobs are held in companies of fewer than 500 employees.
- Small businesses produce 16 times more patents per employee than large firms.
- 54% of all U.S. sales happen at small businesses.
- Small businesses donate 250% more than larger businesses to nonprofits and community causes.

## Skills



- Jack-of-all-trades who can run every aspect the business; understands people management and economic fluctuations.

Small business owners cite most difficult aspects of running a small business:

	Having to wear so many different hats.	43%
	Riding out bad economic times.	20%
	Hiring and managing a staff.	10%

## Benefits



- Ability to pursue their passion. **62%**
- Freedom to control their professional life. **59%**
- Professional flexibility. **50%**

## 3 Areas Where Franchises With the Highest Satisfaction Excel

Article by Michael Kupfer, Franchise Business Review

### 1. Marketing & Promotional Programs:

In franchise systems, marketing and promotional responsibilities are typically shared between the franchisor and franchisees. The franchisor handles much of the national and/or regional marketing programs and brand awareness (most often subsidized through a fee collected from franchisees), while franchisees handle their own local marketing, ad placements, and community outreach. As you might imagine, there is much room for discontent among franchisees if they're skeptical of their marketing fees being put to good use or if the franchisor provides insufficient direction or support for the local marketing efforts. However, many brands have put great effort into making the entire marketing and promotional system in their brands effective, efficient, and transparent, earning them high marks from franchisees. This is definitely a conversation to have with any brand you're considering to understand what steps they will take to help you maximize awareness and customer acquisition.

### 2. Effective Use of Technology:

The role of technology in a franchise system can be wide-ranging. It can include modes of communication within the system (inventory orderings, private intranet), operational processes (machines, appliances, or applications for creating your product), and marketing tactics (customer surveys, text messaging campaigns, etc.). Nearly everyone can think of a time in their life that their own personal technology became outdated and difficult to use. When that happens in a franchise system, it can cause inconvenience, frustration, and lost revenues. Staying ahead of the curve and investing wisely in the latest and most useful technology is a very difficult task, but some brands manage to keep (almost) everyone satisfied. A franchisee of one of our top five brands had this to say about his experience: "Very likable young support staff who are great with franchisees and do their best to keep their older franchisees happy and up-to-date with modern technology (which can be difficult at times with their senior citizen franchisees — but, they handle us with understanding, patience, and humor. "An understanding that some people will grasp and adapt to technologies more quickly (and willingly) than others is one of the keys to maintaining satisfaction. We encourage you to ask franchisors not only about their technologies, but also about their training and tutorials for them.

### 3. Innovation and Creativity:

**"Innovation is the specific instrument of entrepreneurship. The act that endows resources with a new capacity to create wealth." ~ Peter Drucker.**

Every franchisee is an entrepreneur, and nearly every franchise system began as an entrepreneur's start-up that grew into an expanding brand. It stands to reason that everyone from the company founder to the newest franchise owners understand the importance of innovating and staying ahead of the curve — and the competition. Still, many systems struggle to keep up, or just don't have the creative minds on staff to generate the next great idea. When you're in talks with a franchise brand, ask them how they innovate and stay ahead of their closest competitors. Ask how they develop new products and services AND how they test them. Do they use corporate-owned locations? A group of franchisees as "beta testers"? These are all important things to know.

When a brand succeeds in continual innovation, its franchisees take notice. When asked about this aspect of their brands, a franchisee from one of our top five brands commented, "[This brand] was the innovator in major media marketing, which really helped our brand." Be sure to ask franchisees in any brand you're considering if they think their franchisor is on the forefront of product, marketing, and operational innovation.



# Fun Summer Facts



1. In the U.S. over 650 million miles are spent on road trips each summer!



2. In the summer heat, the iron in France's Eiffel Tower expands, making the tower grow more than 6 inches!



3. The average American eats 15 lbs. of watermelon every summer!



4. In Southern England, over 37,000 people gather at Stonehenge to see the summer solstice.



5. Popsicles were invented on accident by an 11 year-old boy in San Francisco in 1911.

