

The Kensington Company



Kensington
Company & Affiliates

**The Right Knowledge To Lead You
To The Right Transaction™**

**Stuart Levenberg
The Kensington Company**



**Merger & Acquisitions
Specialists**



Franchise Sales
Regional Affiliate of **FRANET**
THE FRANCHISE CONNECTION



**Franchisor Development
Specialists**



**Business Valuation
Specialists**

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**The Right Knowledge To Lead You
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**Franchise
Sales**

**Franchise
Development**

**The Right Knowledge To Lead You
To The Right Transaction™**

**Looking to Buy or
Sell a Business?**

**Business
Valuations**

Who is FranNet?

- International Franchise Consulting Firm
- 70 Offices in North America, Europe, Asia
- Worked with the SBA since 1987
- We match folks who want to be in business with a franchise that meets their needs.
- **FREE!**



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Topics for Discussion

1. Why business ownership?
2. Buying a business versus starting a franchise.
3. Franchise myths.
4. Risk and rewards.
5. Simplifying the search.

Why Own Your Own Business?

Imagine for a minute...

You are the owner
of a successful business...

How would your life
be better?



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Why Own Your Own Business?



What is it for you?



The Question:

Yet ... most people choose
to work for someone
else!

Some of the Answers

Risk:

A job is safer than a business
I'll wait until the economy is better

Money:

A business costs a lot of money
to start and run

Knowledge:

I don't know where to start or find
what I'm looking for

Skills:

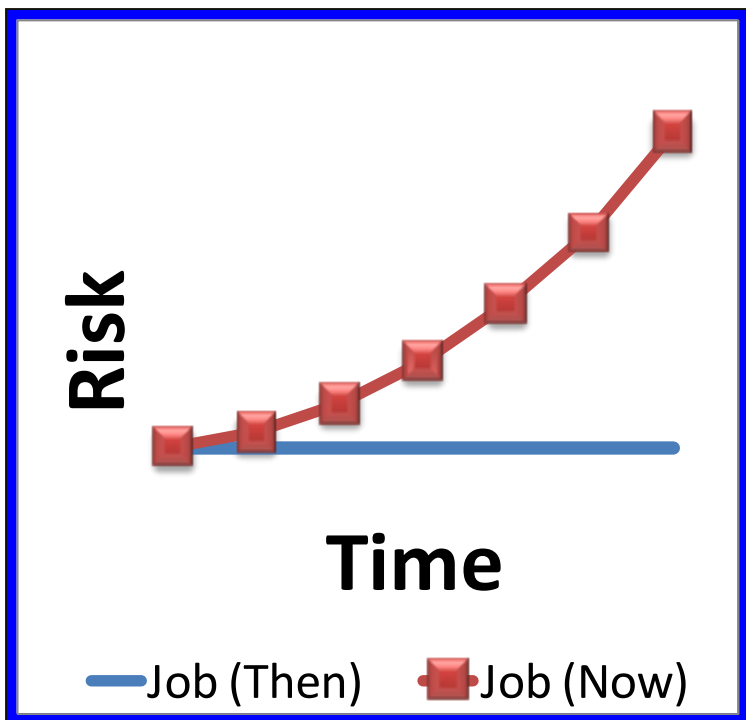
Running a business takes specific
talents and skills



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Perception of Risk: Job



Risk Increases

**Is working for someone safe?
Short term yes, but ...**

- Can you be sure your job is safe?
- Can performance determine security?
- Will you meet your long-term financial goals of security and retirement?



Business Ownership

At first, owning your own business can be scary, but ...



Risk Decreases

- No one can take it away. You can't be downsized, transferred or fired.
- You can grow the business at the pace you want.
- The longer you own your business the safer it becomes.



Perception of Risk: Economy

We're being bombarded with news about bad times, financial meltdowns, huge deficits, and the worst economic problems in their lifetime



What Can You Count on for Retirement Safety?

Perception of Risk: Economy

- Lost home equity
- Lost substantial portions investments portfolio
- Lost jobs and not sure where or if they will find another
- Many industries are being: transformed, restructured, and perhaps replaced

**What Can You Count on for
Retirement Safety?**





Lower Your Risks

Concerned about starting a business during poor economic times?

Lower the risk by looking for businesses with specific market characteristics.

Many businesses thrive in all economic conditions



What About The Economy?

Growing markets driven by demographics

- Ex: Senior Care, Residential Repairs & Cleaning, etc.

Essential services

- Ex: Hair Care, Automotive, Damage Restoration, etc.

Business that help other small businesses thrive

- Business Coaching, Expense Analysis, Sales Training, etc.

Many businesses thrive in all economic conditions



The Question Becomes

Where are the
good, proven, successful, safe and
affordable businesses?

**Many businesses thrive in all economic
conditions**

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Things to consider

- Professionals still need training
- People still want quality education for their kids
- Homeowners still prefer to fix their homes rather than move
- Businesses still need their offices maintained
- Employers outsource and use personnel companies rather than committing to new hires

Many businesses thrive in all economic conditions





What is Small Business?

- 94% of all US Businesses
- The engine that creates more than 75% of all new jobs in the US
- Accounts for 50% of GDP.
- The way that 5 out of 6 Millionaires made their money

Source: The Millionaire Next Door by Stanley and Danko

Business Ownership Options

1. Create a start-up business
2. Buy an existing business
3. Buy a franchise



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Start Up Business

Advantages

- Total control
- Make all decisions
- Keep all profits
- Biggest upside

Disadvantages

- Must create systems
- No one to turn to for help
- Limited financing options
- Years before you make money
- Highest failure rate



Buy an Existing Business

Advantages

- Cash flow & good will
- Actual historical results
- Attractive to lenders
- Established location & customer base
- Employees in place
- Systems may be in place
- Owner financing

Disadvantages

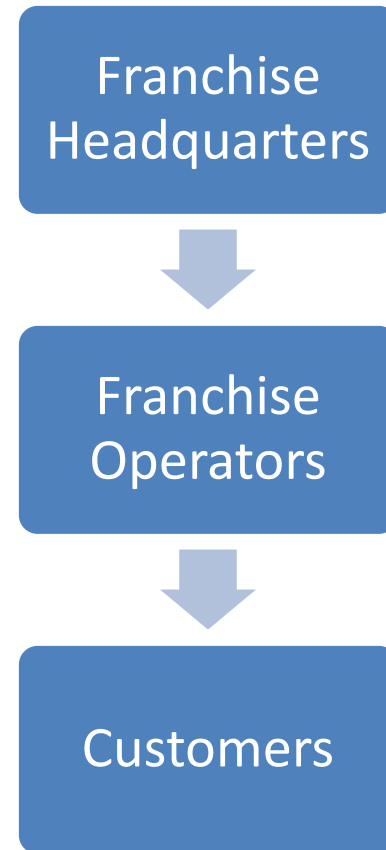
- What is the real cash flow?
- What is the good will?
- Hidden seller motives
- Employee defection
- Higher Debt Service
- Poor training/support by the former owner



What is Franchising?

The creation of a distribution channel to build brand identity and attain market dominance...

QUICKLY!



Franchise is...

A license to use:

- Name and trademarks
- Products
- Business Systems

In exchange for:

- Initial franchise fee
- Ongoing royalties



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Government Disclosure: FDD

- Franchisor Info
 - Time in business
 - Business experience
 - Bankruptcies
 - Litigation
- Costs
 - Total Investment
 - Franchise fee
 - Other fees (Adv, Equip, Supplies, Insurance, etc.)
 - Working capital
 - Royalties
- Franchise Contract



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Government Disclosure: FDD

- Obligations for Franchisor & Franchisees
- Territory
- Listing and Contact Info For:
 - Current franchisees
 - Past franchisees
- Earnings Claims
- Financial Statements
- Manager Policy
- Renewal, Termination & Transfer Policies

Due Diligence

- Current and past franchisees will let you know the success or failure rate.
- How Do we research an Established Business for Sale? What is that process?



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Franchising Myths



Franchising Myth #1:

“Only fast food and retail”



Franchising Fact #1:

FACT:

- Over 3,100 different franchise companies
- In more than 80 industries
- With over 900,000 operating units

Popular Categories

- Education
- Retail
- Pet Care
- Cleaning
- Real Estate
- Senior Care
- Home Repair
- IT Services



Franchising Myth #2:

“Franchises succeed because of the quality of the product”



Franchising Fact #2:

FACT:

Can you make a
hamburger?

Is your hamburger better
than McDonald's?



If it is not the product then what is it?

Franchising Fact #2:

FACT:

It is all about the Business System:

- Marketing
- Sales
- Operations
- Accounting



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Franchising Myth #3:

“Successful franchises emerge in a new industry with no new competitors”

Franchising Fact #3:

FACT:

Successful franchises emerge from well established industries by creating consolidation.



Holiday Inn



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Franchising Fact #3:

FACT:

- It's The System
- McDonald's started when there was a burger joint on every corner.
- More recent examples are in Consumer and Business services



Franchising Myth #4:

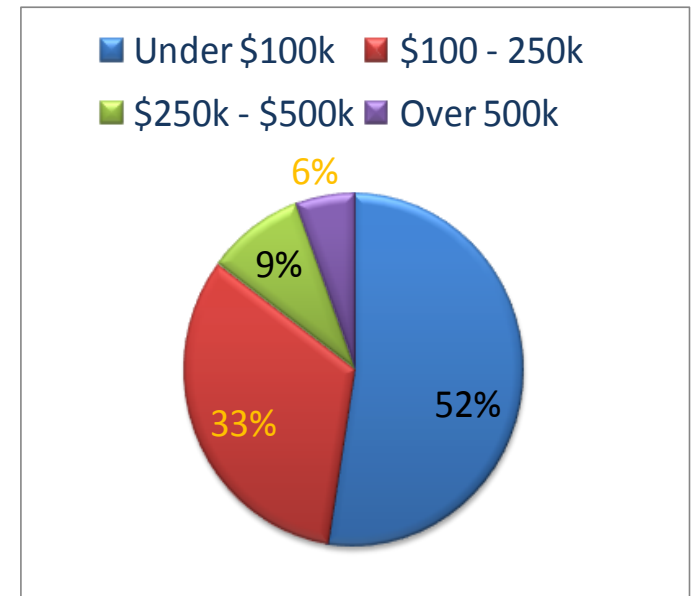
“Franchises are expensive”



Franchising Fact #4:

FACT:

<u>Total Investment</u>	<u>Percent</u>
Under \$100k	52.5%
\$100 to \$250k	32.7%
\$250 to \$500k	9.2%
Over \$500k	5.6%



*Franchise Times Magazine Survey,
Franchising is All Right, Thank You*



Financing Facts:

How Much Do I Need?

Typically, 25-30% of the total investment will be your money.

Financing is relatively easy to get for 70-75% of the total investment including working capital.

Financing Facts:

Sources:

- Personal savings
- Friends, relatives or partner
- Home equity line of credit
- Financial Institutions
- Seller financing – resale
- 401K, IRA, etc.



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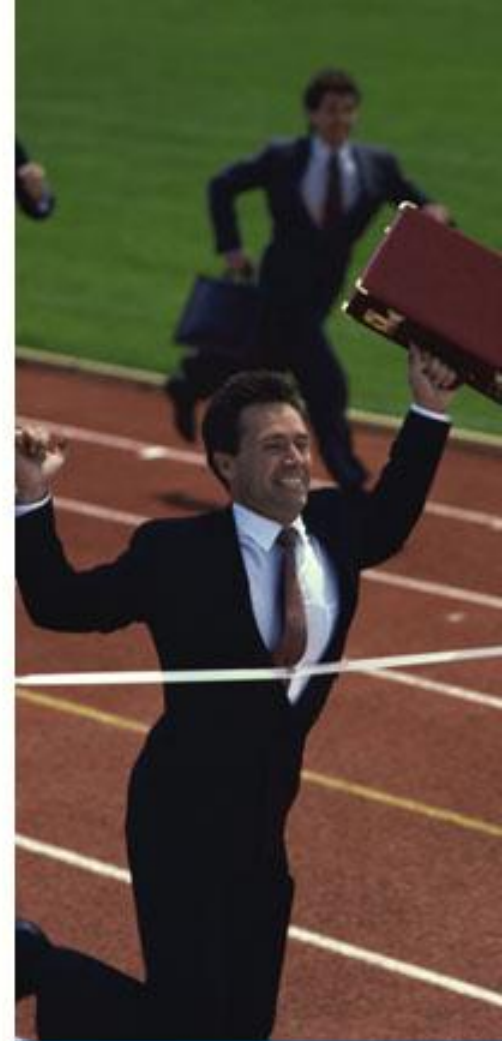
Franchising Myth #5:

“High return requires a high investment”

Franchising Fact #5:

FACT:

There is no automatic correlation between the cost of the franchise and the potential return.



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Franchising Fact #5:

FACT:

Service businesses
require far less capital
investments and
frequently yield higher
returns.



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Franchising Myth #6:

“Industry experience is required”

Franchising Fact #6:

FACT:

Only 25% of franchisees are in the same industry as they were employed.



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Why Own a Franchise?

- Over \$1.0 Trillion Dollar Business
- Only 12% of units are franchised
- Franchised units get 43% of the \$\$



Why Pay Royalties?

- **Good franchisors lose money in the short term on almost every franchisee**
 - Small royalty payments
 - Support costs are high
- **They make money in the long term**
 - Bigger royalty payments
 - Support costs are low

Why Pay Royalties?

You're making a trade-off:

You're exchanging some profits in the long term for risk reduction in the short term



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Why Pay Royalties?

- Franchised businesses get 50% of the retail and service dollars in the US annually
- Over 1 Trillion Dollars per year and growing
- Yet, only 12% of the businesses are franchised

Financial justification for paying royalties!

Statistics from International Franchise Association Estimates



Franchises Are Not All the Same

- Many Units vs. Fewer Units
- Older, well established vs. Newer
- Structured vs. Flexible Systems
- Expensive vs. Inexpensive

There is no automatic correlation between the cost of the franchise and the potential return.

Why Franchising Works

Proven, systematic approach to starting and staying in business

- Experience
- Simplicity
- Initial Training & Ongoing Support
- Name Recognition
- Sales, Marketing & Operational Systems
- Culture of Teamwork



Why Franchising Works

You're in business for yourself, **but not by yourself....** franchises are a hybrid between corporate executive and an entrepreneur.



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Business Success Survey

Years in Business	Independent	Franchises
1 Year	92%	97%
5 Years	23%	92%
10 Years	16%	90%



Be Aware of Statistics

- Big franchisors skewed the percentages because they had few failures
- Not all units are still run by the founder
- There are no average franchises
- You should only care about your success
- Make sure the franchise you are interested in is a great fit for you



Why Own a Franchise?

If you pick a franchise that is a great fit for you, it is:

- Vehicle that can get you to your destination while meeting your lifestyle and financial goals
- Way to reduce risk

How Do You Find Franchises That Are a Great Fit?

Separate the function of
the business,
from the function of the
business owner!

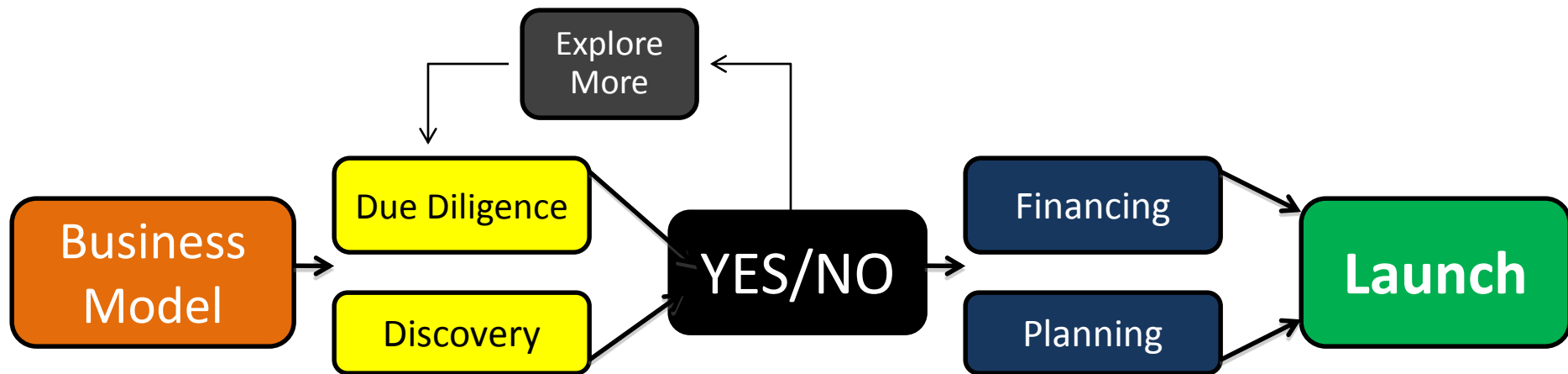


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Flow of Process

How long will finding the right franchise for me take, and what can I expect?



Determine Your Business Model

Identify your...

- Financial & Lifestyle Goals
- Where do you want to be in 5, 10, 20 years?



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Determine Your Business Model

What do you want from the business?

- Challenge, recognition, prestige
- Build equity for retirement
- Time for family and interests
- Independence and control
- Financial security

Determine Your Business Model

Transferable Business Skills

- Sales?
- Management?
- Customer Service?



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Determine Your Business Model

Business Preferences

- Employees
- Budget
- Business environment
- Full or Part-time & Hours
- Number of units
- Type of customers





What does the Solution Look Like?

- ✓ Something Stable
- ✓ Something Safe
- ✓ Something Affordable
- ✓ Something I can Plant Roots with
- ✓ Something I can Grow
- ✓ Something I can rely on
- ✓ Something where my Job won't disappear simply because of a corporate makeover
- ✓ Most Importantly... Something I Know I Can Do, and Do Well!
- ✓ What else should be on that List?

Finding a Great Fit

Match your business model with franchisors who are looking for people with your characteristics, attributes, goals and business preferences.



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Finding a Great Fit

- Interview at least 15 to 20 franchisees, the ones who are doing well and the failures.
- How are you the same or different?

Plan Your Strategy

When you are thinking about being a business owner, you should develop a:

- Short-term strategy
- Long-term strategy
- Exit (Destination) strategy



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Short Term Strategy

**Find a business you can
get into where you will
not fail**

**The more research you
do the more you
improve the odds of
success**

SUCCESS



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Long Term Strategy

The most important element:

The business must give you
the lifestyle you want and
allow YOU to meet your goals

Freedom, Recognition, Achievement,
Control, Money, etc. (the things that
YOU value the most)



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Exit Strategy

Your goal is to create a valuable asset that has strong resale value:

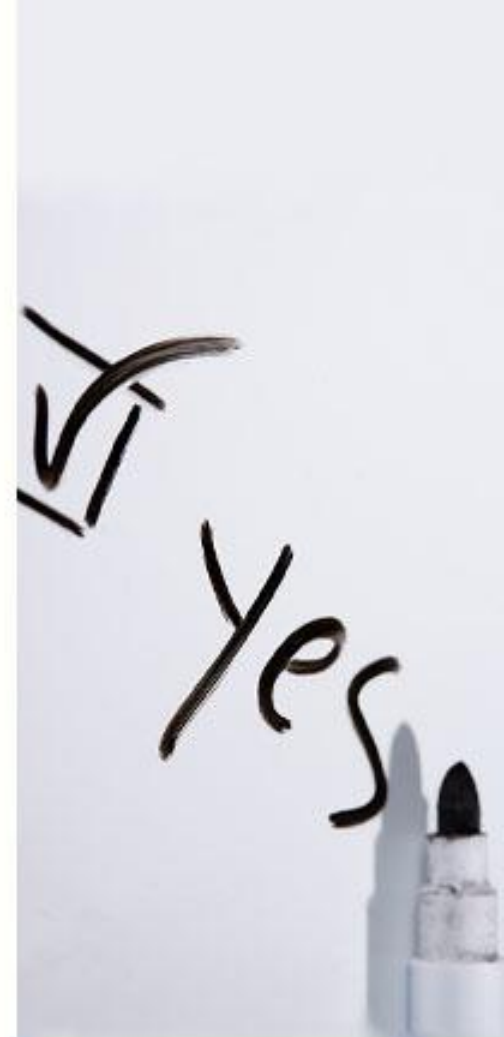
- Sell the business
- Run business past retirement
- Keep the business but back away from the day-to-day:
 - Pass it down to the kids
 - Bring in a manager



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Conducting Your Research

We'll coach you through a
4 Step Research Plan
and you'll determine if one of
the franchises is great fit for
you.



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Conducting Your Research

1. Talk with Franchisor and receive the FDD
2. Validate with Franchisees (call and visit)
3. Visit with the Franchisor
4. Consult with Professional Advisors

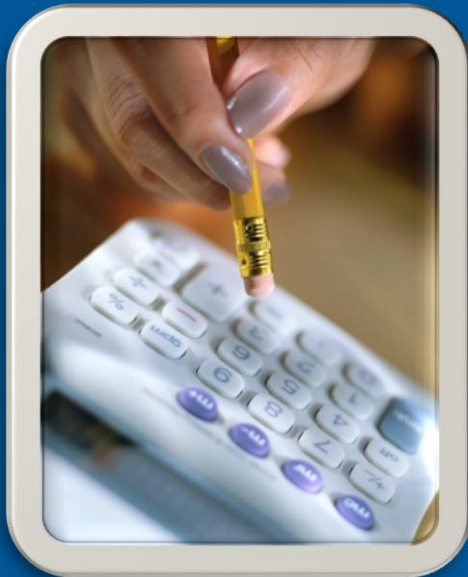
The closer you get to a decision,
the more fear you will feel



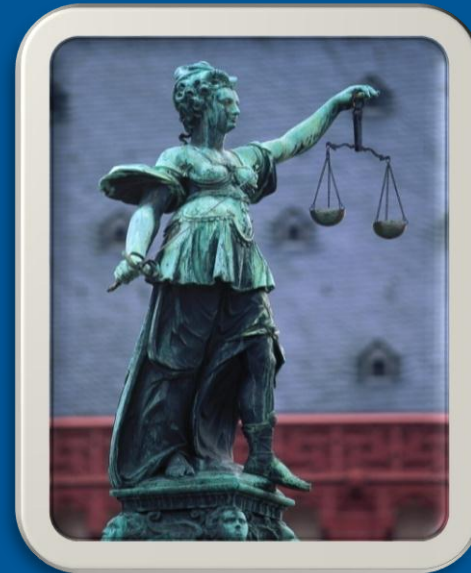
Professional Advisors

Additional Resources You Should Use

Accountant



Franchise Attorney





Business Selection Criteria

- ✓ Do I “Fit” this business
 - Attributes
 - Characteristics
 - Goals
- ✓ Am I willing to follow the franchisor’s system?
- ✓ Is it affordable?
- ✓ Is the risk level acceptable?
- ✓ Will I enjoy my business?



Business Selection Criteria

- ✓ Does it have room for growth?
- ✓ Can I develop a strategic market advantage?
- ✓ Is it in a stable, not fad driven industry?
- ✓ Can it meet my financial and personal goals?
- ✓ Do I have the support of my family?

Never settle for something that does not fit your business model

Getting Started with FranNet

First: *Set an appointment for confidential* consultation

Second: *Complete a Personal Franchise Assessment Profile,* prior to meeting



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Getting Started with FranNet

- **Third:** *Determine your unique business model.* The consultation and Personal Franchise Assessment Profile helps us help you establish clear goals and objectives.
- **Fourth:** *We then match your business model to those of successful **franchisors** in our portfolio of companies.*



Questions?

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