

Opportunities in Franchising: Frequently Asked Questions And Answers

Presented by:
Chris Cynkar, CPA
Adjunct Professor, Tepper School

Topics of Discussion

- Background about Chris Cynkar
- Top 10 Questions – Asked & Answered
- Next steps

Who is Chris Cynkar

- Accounting & finance background – CPA, Big 4 firm
- Business owner – since 1999
 - 6 business acquisition
 - 1 fantastically bad startup
 - Franchise owner with 5 different brands
- Past Franchise Consultant with FranChoice
- Adjunct professor at Carnegie Mellon - Entrepreneurship



Why am I here today?

- I want you to be a business owner!
- Franchising is the ideal transition from employment to business ownership
- Allow me to be your bridge to business ownership



Top 10 Franchise Questions – Asked & Answered

Question #1:

Aren't all franchises food related?

Franchising is VERY diverse

- MANY different industries
 - Automotive
 - Meineke, Jiffy Lube
 - Business Services
 - Supporting Strategies, Sandler Sales Training
 - Healthcare
 - Miracle Ear, Right at Home
 - Personal care
 - Massage Envy, Dekalash



▽ **SUPPORTING**
strategies

 **Miracle-Ear®**

deka**lash**

Question #2

How much money can I make?

2 Different Income Questions

Income Potential



Speed to Profit



What Income is Possible?

- What is the income potential?
 - > \$50,000 profit - YES
 - > \$100,000 profit - YES
 - > \$250,000 profit - YES
- How do you build more income?
 - Multi-Unit Ownership
 - It is the “secret of franchising”

Speed to Cash Flow

- What models are quick to profit?
 - Owner-operator vs manager-run
 - Pay yourself instead of a manager
 - Service vs retail
 - Finding a location takes time
 - Retail has more overhead expenses
 - B2C vs B2B
 - B2B sales cycle is typically much longer

Question #3

How much does it cost to invest in a franchise?

Investment Levels are Affordable

- Very wide range - \$50,000 to \$3,000,000
- Price and success are NOT correlated
- Most franchise investments are \$100,000 - \$250,000
 - Includes ALL business expenses: franchise fees, startup costs & working capital
 - Does NOT include your personal living expenses

Question #4

What are the financing options?

Multitude of Financing Options

- Identical to buying a house



- Equity down payment – 30% of total
- Loan options – 70% of total

Equity Investment Options – 30%

- Option #1 - Start with cash savings
- Option #2 – 401k rollover
 - Not a distribution, not a loan
 - No taxes, no interest, no penalties
 - Invest in your own company!
- Option #3 – Find a partner

Loan Options – 70%

- Good news – banks love franchises
 - Proven systems = reduced risk!
- SBA loans are the primary option
- Home Equity LOC
- Margin loan against a brokerage account

Question #5

What will I do every day?

Owner's Role

- What is your daily involvement level?
 - Owner-Operator
 - Daily, direct involvement
 - Executive Owner
 - Daily, indirect involvement
 - Semi-Absentee Owner
 - Weekly, indirect involvement

Owner-Operator Model

- Split role – Owner and General Manager
- You serve the center point of the business
- Interact daily with customers & employees
- Love the business
- Example – Budget Blinds



Executive Owner Model

- Dual role – Owner and CEO
- You interact with the business daily
- Managers interact with customers & employees
- You set strategy,
build the team
& manage financials
- Example – ServPro



Semi-Absentee Owner

- **Perfect transition from employee to owner**
- Single role - Owner
- Part-time commitment (10-15 hours/week)
- Management team does
ALL day to day
- Example – Sport Clips



Question #6

What about sales? (I don't like sales.)

You have Choices with Sales

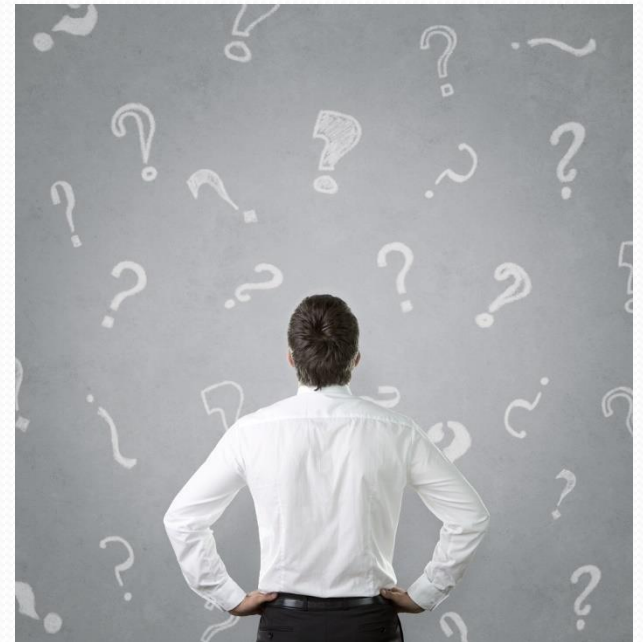
- Which option works best for you?
- #1 – YOU sell directly to customers
- #2 – Manage a sales team
- #3 – Marketing driven

Question #7

What is the “best” franchise?

It Depends

- Similar to finding the “best” restaurant
- What do you really want?
- This is where you really need some guidance



Key Evaluation Criteria

Primary Factors

- Owner's Role
- Sales & Marketing Role
- Capital to Invest
- Income Goals

Secondary Factors

- Location
- Employee related
- Industry preference
- Brand maturity

“Best Of” Rankings

- Most are generally not reliable because the franchise companies can pay to be included

The Forbes logo, featuring the word "Forbes" in a white serif font on a black rectangular background.

- Some sources are more objective
 - Entrepreneur magazine – every January
 - Forbes magazine
 - Franchise Business Review

The Entrepreneur logo, featuring the word "Entrepreneur" in a red, stylized serif font.The Franchise Business Review logo, featuring the words "Franchise Business" in a small black font above the word "REVIEW" in a large, bold, red sans-serif font.The FranChoice logo, featuring the word "FranChoice" in a blue sans-serif font, with a blue arc above the text.

Question #8

What are the success rates?

Success Rates are Higher than you Think

- There are more than 2,500 active brands
- Look at each brand individually
 - Reference the FDD – Item 20
- FranChoice pre-screens opportunities in order to only work with the best of the best



Question #9

What does the process look like?

Franchise Due Diligence

Foundation

Internal
conversations with
franchisor

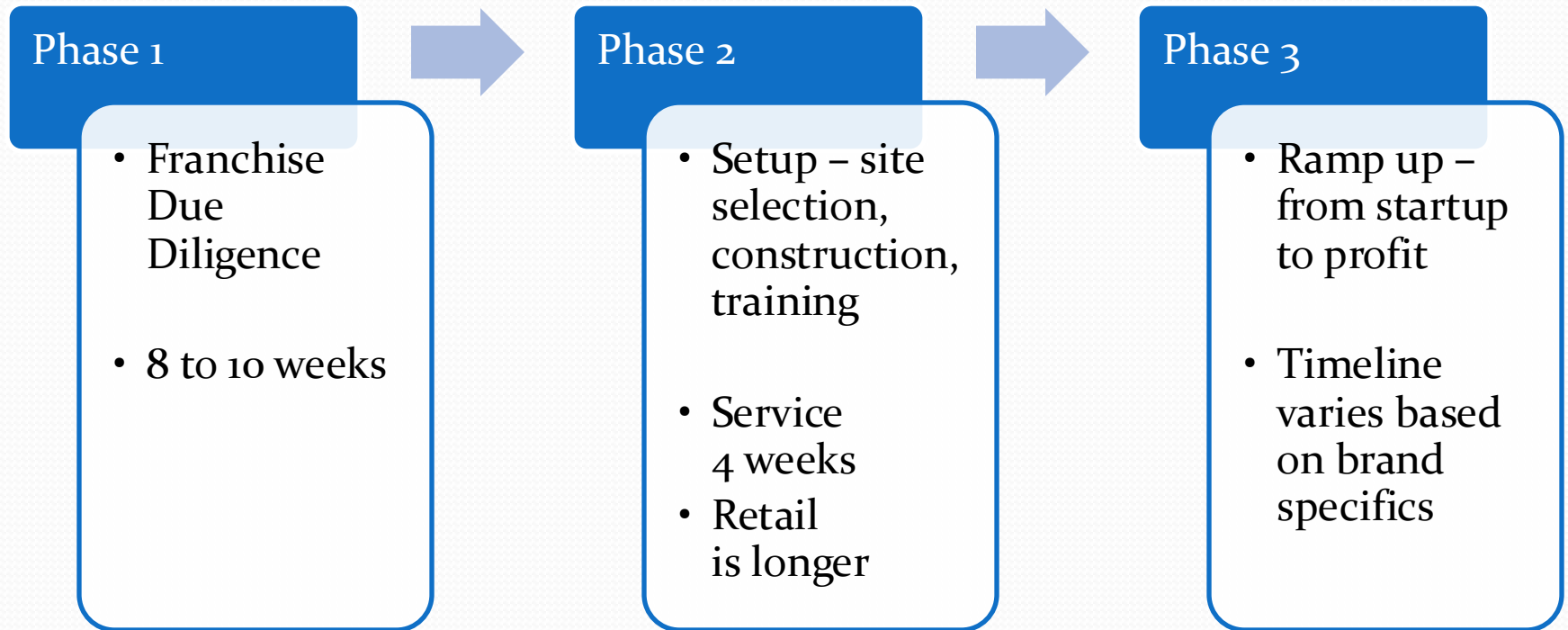
Validation

Confirm your
beliefs by talking
to current owners

Confirmation

Meet the
executive; are they
the right partner?

From idea to reality



Question #10

What are the next steps?

Treat This Like Buying a House

- Set your basic search criteria
- Start researching the basics
- Connect with an expert



How to contact Chris

- Chris Cynkar
- 412-877-2000
- ccynkar@gmail.com



Find a Franchise Expert

- I will work with you to:
 - Understand your situation and goals
 - Present you with pre-screened options
 - Guide you, step by step to make great decisions

