My Franchise Partners

Budgeting For My Franchise Launch

Everybody wants to know the bottom line, that one number, the cost to launch their franchise business on the path to success. This is a challenging question to answer without knowing how much work is already in place or understanding the franchisor's knowledge, time constraints and technical or operations ability.

Step 1

The initial stage is the franchise development process. The franchise development process is working with your franchise lawyer to establish the franchise plan and framework for your franchise system. Developing the Franchise Disclosure Document (FDD) includes preparing the FDD, franchise agreement, incorporation, guarantees and securities.

There may be additional fees pertaining to shareholder negotiations and agreements.

Developing the FDD package incurs costs typically range from $12,000 to $20,000 plus taxes and disbursements.

This initial step also includes developing your Operations Manual. Outsourcing the operations manual development process may incur fees ranging from $5,000 to $50,000. Whether you outsource the development of your Operations Manual, or not, you will need to provide the requisite expertise and understanding.

Other costs include registering a trademark and general corporate work.

Step 2

The most significant factor after launching your franchise will be your sales process. Depending on how aggressive you are, your marketing costs may range from $5,000 to $50,000.

There are on-line portals for franchise marketing as well as franchise associations that charge a membership fee and run local, regional or national franchise trade shows.

The fees to advertise with on-line portals vary with the programs selected and can range from $5,000 plus.

Membership programs include organizations such as the Canadian Franchise Association, the International Franchise Association, the Franchise Brokers Association (FBA) and International Franchise Professionals Group (IFPG). Membership fees associated with these associations vary but usually begin at roughly $2,000.

Franchise associations such as the FBA and IFPG work with a network of franchisors and franchise brokers. The brokers primarily promote and sell franchisor concepts that are members of their group. The broker is paid on a commission basis. Commissions range from 20% - 100% of the initial franchise fee.

You need to consider how many franchise sales you have targeted for your initial year and when you will need administrative staff to support your new franchisees.

Presuming the first year is more heavily focused on training and support for your initial franchises than heavy marketing for rapid growth, your budget should be focused on how much you may need in staffing to assist those franchisees. This approach may range from $10,000 to $50,000.

The degree of your hands-on effort will mitigate your exposure to costs. Just be careful that you actually have the requisite expertise to manage and complete a particular function effectively enough to extract a benefit, not create brand damage.

Step 3

Sources of revenue for a franchisor include the initial franchise fee, royalties and opportunities to mark-up ancillary products and services.

Franchise fees most often range from $20,000 - $50,000. There is usually a discount when multiple units are purchased, or a larger than usual geographical territory is taken. The fee for an area developer is based on the number of units that can be accommodated within the prescribed territory.

Royalties generally range from 5% - 9%. A few franchisors elect to stick with a flat monthly fee for the royalties. E.g. $600 / month. Others have a sliding scale that decreases as the franchisee's sales increase. E.g Sales up to $500,000 – 6%; Sales from $500,001 - $1,000,000 – 5%; Sales over $1,000,000 – 4%.

The ad fund fee may range from 1% - 2%. The fees generated by this royalty must be used for national or regional advertising programs, not for general operations of the franchisor. A few franchisors directly spend the bulk of the ad fund fee in the franchisee's immediate local market.

Franchisors want to ensure the look and feel of their bricks and mortar stores, vehicles and uniforms is consistent. As such they carefully manage the build out process. Some use their own contractors and others allow the franchisee to find their own builder who must work to carefully prescribed specifications

Most franchisors set up the franchisee with pre-approved vendors while a few stock and supply products that the franchisee must.

The supply and management of building contractors and inventory provide opportunities to establish profit centres but they also entail significant additional administrative work and management. The potential profit may be fully off-set by the additional management costs.

Step 4

As your franchise model evolves and sales increase, you will need to develop the appropriate staff to handle accounting, training, support, marketing, sales and others in the day to day running of your flagship operation.

Costs associated with this growth will be dependent upon numerous factors. You will need to resist the obvious temptation to hire family versus trained, competent, experienced professionals.

This is a business, so treat it as a business and you will have a better chance for success. You will need to let go of some responsibility to facilitate effective growth, you cannot do everything yourself.

In the early years of your organization, you will likely experience some staff turnover as not everyone will necessarily agree with your philosophy for growth. This should be taken as a learning experience.

Please let me know how I may help you along your journey. Call or email me to set up a free consultation to discuss your path forward.

Best of luck!

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