

# **Transitioning to Franchise Ownership:** The Facts You Need to Know

by  
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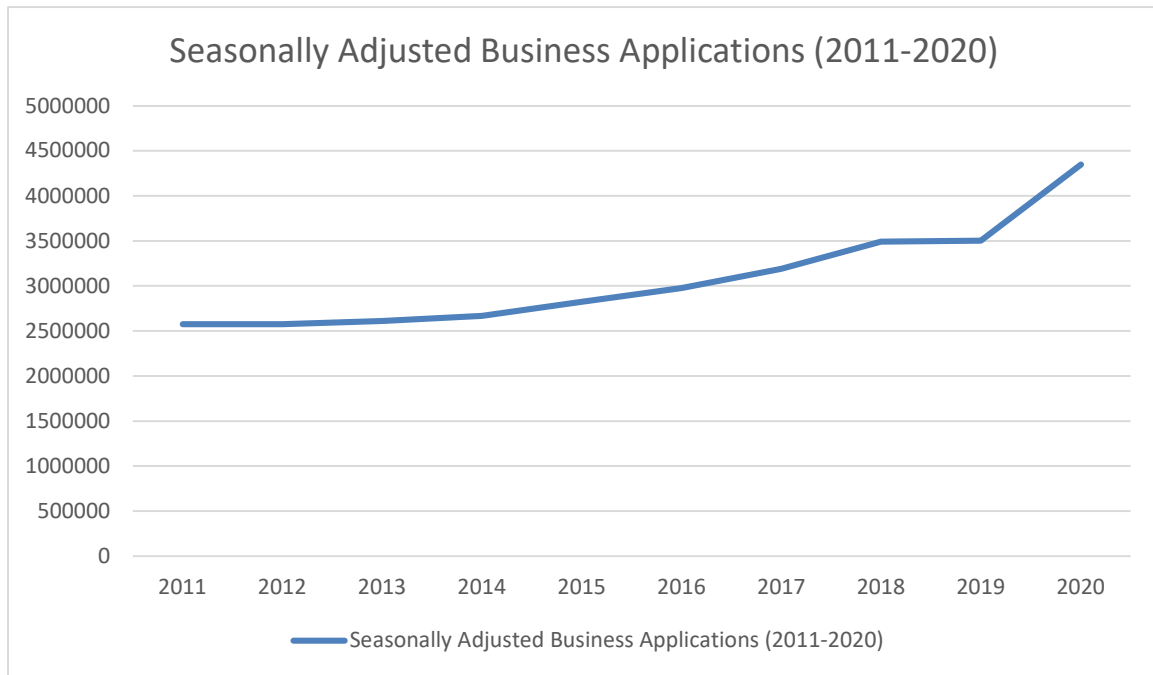
If you are like most Americans employed on a full-time basis, you work, on average, more than 8 hours each workday (U.S. Bureau of Labor Statistics, 2021b). That is more time spent working than on any other activity (besides sleeping), including the things you love, like spending time with family and friends, enjoying your hobbies or contributing to your community (U.S. Bureau of Labor Statistics, 2021a). For a person that works a forty-year career — from the age of 22 to the age of 62, the earliest age to collect Social Security (Social Security Administration, 2019) — with 50 working weeks a year and the average 8-hour workdays, they will work away more than 80,000 hours of their life. An employee essentially rents a significant portion of their life to their employer, while the employer is reaping the rewards of the skills and services of the employee. This is a scenario that works well for an individual who enjoys their work and is satisfied with their pay and benefits, yet studies show there is a large segment of the population who are not.

A study by The Conference Board (2021) shows that nearly 57% of American employees are satisfied with their jobs. While overall job satisfaction has been on the rise over the last 10 years, that is no consolation for the nearly half of Americans who are not content with their employment. Are you one of them? According to the study, less than 49% of respondents were satisfied with wages and just 44% with work/life balance. Among the job components that received even lower scores were potential for future growth and recognition/acknowledgement, receiving 41% and 38% satisfaction rates, respectively.

According to Statista, nearly 150 million people were employed at the end of 2020 (Statista, 2021). If the Conference Board's statistics hold true – approximately 64.5 million employees are not satisfied with their jobs. Employees fed up with the daily grind and unhappy with less-than-ideal employment situations are looking for alternative paths to professional success and using their skills to directly impact their own bottom line. After all, 80,000 hours is a great deal of time spent being unhappy, stressed or dissatisfied.

## What Can I Do to Stop Being an Employee?

If you are among the population frustrated with your employment, compensation, opportunity for growth, or work-life situation, you are not alone. And it is probably no surprise that people in this situation have considered business ownership. In 2020, more than 4.3 million business applications were submitted and in just the first six months of 2021, 2.8 million new business applications were submitted (United States Census Bureau, 2021).



Source Information: United States Census Bureau, 2021

The U.S. economy relies on new, small businesses. Entrepreneurship and small business growth are cornerstones to the increased growth of our economy as a whole. Small businesses — defined as a business with fewer than 500 employees — created 1.6 million net jobs in 2019 and employed 47.1% of the U.S.'s private sector employees, or 60.6 million people in 2017 (U.S. Small Business Administration, 2020). Additionally, small businesses generate 44% of the economic activity in the U.S., according to a U.S. Small Business Administration Office of Advocacy study spanning 1998-2014 (U.S. Small Business Administration, 2019). Over that same time period, the study also found that small business GDP had increased about 25%, or 1.4% each year.

Starting a business can replace lost income or an unhappy employment situation, or give a business owner flexibility in their work-life balance that they can't experience in a role as an employee, while also providing jobs and having a positive impact on the economy. There are many benefits to starting a business and they are going to vary depending on your individual situation.

### **Can I Achieve a Work-Life Balance?**

You choose your schedule, where you work, who you work with and how many hours you work. Business owners choose their own schedule, they work when it is convenient for them (whether that is when the kids are in school, late at night, early in the morning, or when the clients on the West Coast are available). They have the flexibility to choose their own time off and how much time they can take. They select whether they work from a home office (reducing the stress and cost of commuting) or from an out-of-home office location, choosing the style of office environment in which they want to work. They even choose the people they work with, including employees, clients and vendors. They also have the advantage of choosing to only work with people who help them achieve success. This has an immediately positive impact on the work-life balance of a business owner.

### **What About All of the Small Business Taxes?**

Small business owners reap the benefits of tax breaks that they could not take as a standard employee of a company. Home office deductions can be made and expenses, such as the cost of vehicle use and retirement plan contributions, can be written off. And, the 2017 Tax Cuts and Jobs Act allows some small business owners — non-corporate taxpayers — to deduct 20% of qualified business income (Internal Revenue Service, 2021b). This could mean that even if you are making the same amount through your business that you were in your last employment, you could actually be keeping more of it with smart, legal tax deductions.

### **How Can I Secure My Future?**

An employee participating in a 401(k) plan has an annual contribution limit of \$19,500 for 2020, not including the catch-up contribution limit for anyone over 50 (Internal Revenue service, 2019). Yet, a business owner has multiple retirement plan options they can establish for themselves and their employees. One of which is a Simplified Employee Pension, or SEP, account. In an SEP, a self-employed individual can contribute up to \$57,000 for 2020 (or 25 percent of their net earnings, whichever is less) (Internal Revenue Service, 2021a).

According to information provided to CNBC by Fidelity, the average 401(k) account balance for Americans in their 60s is \$229,100 (EI-Bawab, 2021). Fidelity recommends

retirees have 10 times their salary saved when they retire — meaning many Americans are falling short when it comes to preparing for retirement. The Motley Fool, a finance and investment website, recommends retirees pull money out of their 401(k) account at a rate of 4% in the first year of retirement and adjust the amount for inflation each year after (Stoffel, 2019). This would provide the average 401(k) holder in their 60s to pull an initial annual income of about \$9,164 from their account, or a little more than \$760 each month. Business owners, however, can prepare themselves for retirement through different avenues. They can plan to sell their business for a profit when they are ready to retire (meaning the business has not only provided an income over the years of running the enterprise, but it is now providing retirement funds), or they can use the tax benefits and additional income to contribute more to their retirement plans over the years the business is operating.

A business can also provide a safety net for the family and dependents of the business owner. A business owner can transfer ownership of their business to their family in cases of retirement, disability or passing. A business provides a legacy for the owner and assets for their successors. When a business owner sets up a business and plans for their retirement, they can plan for the family as well. The company can be a family business, allowing others to work in it to receive a paycheck and train to eventually take over the business. Even without a training plan, if the owner passes away the business is left as an asset and source of income for the family. The family can operate the business or there are options for small business life insurance, such as Key Person Insurance, that can help in the transition of the business operations or assist in costs until the business can be liquidated (Entrepreneur, n.d.).

### **How Can I Set Myself Up for Success?**

A franchise, according to the International Franchise Association, “provides an established product or service which may already enjoy widespread brand-name recognition. This gives the franchisee the benefits of a pre-sold customer base which would ordinarily take years to establish. A franchise increases your chances of business success because you are associating with proven products and methods. Franchises may offer consumers the attraction of a certain level of quality and consistency because it is mandated by the franchise agreement.” (International Franchise Association, n.d.)

This provides the business owner with the opportunity to ‘hit the ground running.’ In many cases, reducing the start-up time and shortening the time between opening the doors and realizing a return on the investment.

A study released by the Franchise Brokers Association (2010) followed an entrepreneur who had opened a franchised business and later an independent start-up. From the experiences, the FBA could determine that the initial investments (time, money, commitment and frustration) were drastically reduced when someone invested in a franchise over starting an independent business. In the initial start-up money alone, there is a commitment of double the investment needed to break even for the independent over the franchise. The franchise business offers support, provides the opportunity to become passive and has a considerably shorter learning curve.

### **Study Conducted by Franchise Brokers Association on Business Start-Up**

	Franchise	Independent
Investment Until Breakeven	\$60,000	\$120,000
Years Until Passive	1	Never Passive
Support	Back Office Support Available	No Support
Learning Curve	9 Months	2.5 Years
Sales	Sales Assistance Available	Self-Generated Sales & Leads

In addition to the support and opportunity that the franchise system provides to a potential franchisee, it can also provide information that is not available for a start-up. Included in this information is the very important Franchise Disclosure Document (FDD); the FDD will include the background information of the franchise, how many years it has been in business, lawsuits and litigation history of the franchise and its executives (if any), initial and ongoing costs, an outline of what the franchisor offers to a franchisee, a list of current and former franchisees, the franchise financial statement and earnings information when it is available (this provides earnings information on other stores and locations of the franchise system, it is highly recommended to review these numbers with a professional to see how you should interpret them for your potential location).

This is a playbook for you to use in a business investment, this is information you cannot possibly garner for a new start-up. A franchise provides confidence, a marketing plan, benchmarks and goals, and support for turning your new business into a thriving practice.

## **What If I Don't Want to Run a Restaurant?**

There are thousands of franchise opportunities available. Some are brand new, having been franchising less than a year, others have decades of industry and franchising experience (some have even been successful in the industry for years but have just made their business model available via franchising). Thousands of opportunities in hundreds of industries can make a business investor's head spin. Especially when there are numerous options to take into consideration, among them:

### **Protected Territory**

A protected territory ensures a franchisee they have a designated area or population density they can market and sell to without another franchisee of the system also marketing or selling to that area. Buyers may want a protected territory because it guarantees no one will be diminishing your client base by also providing the same product or service; while other buyers may like the idea of having the entire country as their territory, recruiting and receiving referrals from New York to California.

### **Master or Area Developer Opportunities**

With an Area Development franchise, a franchisee has the right to open more than one unit during a specific time, within a specified area (Goldberg, n.d.-a). The franchisor grants the franchisee exclusive rights for the development of that territory. A Master Franchise agreement gives the franchisee more rights than an Area Development agreement. The Master Franchisee has the right to sell franchises to other people within the territory, while taking on the responsibility to recruit, train, and provide support to their sub-franchisees (Goldberg, n.d.-b). Master and Area Developer opportunities generally require more time and monetary commitments, but also have the ability to provide a higher monetary pay off in the end, as well as residual reoccurring revenue turning the business into a passive income stream.

### **Business Type**

Be sure to take into consideration whether you want to carry inventory, where you want to run your business, and if you want staff. These are all items that will shape the type of business you will operate, determine your business expenses, and shape the culture of your work life. Carrying inventory, operating at a retail or office location, and having employees will raise your operating expenses — but it could mean you can grow your business larger and have the working environment you want. Or you could work from home, work alone, and supply a service that doesn't require inventory. Plus, there are multiple combinations of the above scenarios; the key is finding the combination that works for you.

## **How Will I Acquire Customers?**

How will you acquire customers and clients? Will the franchise help you? Many franchise systems have national advertising, a central 800 number or website where they collect potential client inquiries and provide them directly to the franchisee. Will you be required to make cold calls? Not all business owners are comfortable with cold calling, and that is perfectly fine so long as they are matched with a business that does not require it to maintain a continual customer base. Will your client base be comprised of professionals, other businesses, or the average consumer? Different businesses have different ways of gaining clients and you need to consider which client source and client type will make you the most effective and most successful in your business.

Franchises provide many tools and resources to help franchisees grow a profitable business, the first of which is a marketing plan. This is the system that other franchisees have followed that lead to the growth and success of the individual franchisees and the franchise brand. In addition, they provide national advertising to increase the brand's exposure. It is important to remember that the franchisor is deeply invested in their franchisees' success, the more successful their franchisees are the more successful the franchisor will be.

## **Conclusion**

With the number of franchise systems out there, be sure to do your research and due diligence, not only in finding a franchise that interests you but also once you begin speaking to the franchisor. Be sure to get all your questions answered, reach out to the current and past franchisees of the system, get legal consultation on the FDD, and research your area for the type of business you are looking to open. Small business ownership is exciting and promising, and success can be more likely when you pick a proven system that is your perfect match. Imagine spending your time, the one commodity once you lose you can never make back, enjoying your work, generating wealth, and creating an asset for yourself and your loved ones.



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