Franchising and Buyouts

PART 2
Starting from Scratch or Joining an Existing Business
Franchising

- A marketing system revolving around a two-party agreement, whereby the franchisee conducts business according to the terms specified by the franchisor.

Franchisee

Franchisor

![McDonald's Logo]
# The Pros and Cons of Franchising

## Advantages
- **Probability of success**
  - Proven line of business
  - Pre-qualification of franchisee
- **Training**
  - Franchisor-provided
- **Financial assistance**
  - Franchisor assistance
- **Operating benefits**
  - Franchisor-aided

## Limitations
- **Franchise costs**
  - Initial franchise fee
  - Investment costs
  - Royalty payments
  - Advertising costs
- **Restrictions on business operations**
- **Loss of independence**
- **Lack of franchisor support**

In your opinion – which are greater, the Advantages or the Limitations? Why?
Franchisor Controls on Franchisees

- Restricting of sales territory
- Requiring site approval and imposing requirement on the outlet’s appearance
- Restricting the goods/services that can be sold
- Requiring specific operating hours
- Controlling advertising

Which of the above would have the greatest impact on the success of a franchise? Why?
Franchise Disclosure Requirements

• Rule 436 of the Federal Trade Commission
  ➢ Franchise Disclosure Document (FDD)
    ❖ A document accepted by the Federal Trade Commission as satisfying its franchise disclosure requirements
      – Investment requirements
      – Conditions that would affect renewal, termination, or sale of the franchise
  ➢ http://www.ftc.gov/bcp/franchise/16cfr436.shtm
## 2014 Fastest-Growing Franchises

These companies have shown rapid unit expansion over the last two years.

*If you’re one of those who likes things to move fast, who wants a new challenge all of the time, then maybe a fast-growing franchise is for you. Our Fastest-Growing Franchises ranking is based on the number of new franchise units added in the U.S. and Canada from July 2012 to July 2013, as verified by Entrepreneur’s Franchise 500.*

### About the Fastest-Growing Franchises

#### Top 10 Fastest-Growing Franchises for 2014

<table>
<thead>
<tr>
<th>RANK</th>
<th>FRANCHISE NAME</th>
<th>STARTUP COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Subway</td>
<td>$85,69K - 262,85K</td>
</tr>
<tr>
<td>2</td>
<td>7-Eleven Inc.</td>
<td>$30,76K - 1,65M</td>
</tr>
<tr>
<td>3</td>
<td>Mac Tools</td>
<td>$58,29K - 211,9K</td>
</tr>
<tr>
<td>4</td>
<td>Jan-Pro Franchising Int'l, Inc.</td>
<td>$31,10K - 20,9K</td>
</tr>
<tr>
<td>5</td>
<td>Dunkin' Donuts</td>
<td>$224K - 1,51M</td>
</tr>
<tr>
<td>6</td>
<td>Cruise Planners-American Express Travel</td>
<td>$228K - 24,89K</td>
</tr>
<tr>
<td>7</td>
<td>Vanguard Cleaning Systems</td>
<td>$35,5K - 35,5K</td>
</tr>
<tr>
<td>8</td>
<td>Jimmy John's Gourmet Sandwiches</td>
<td>$350,5K - 459,5K</td>
</tr>
<tr>
<td>9</td>
<td>Great Clips</td>
<td>$109,15K - 201,1K</td>
</tr>
<tr>
<td>10</td>
<td>Pizza Hut Inc.</td>
<td>$207K - 21M</td>
</tr>
</tbody>
</table>

*Franchise Search*

- Enter franchise name or category
- Find Franchise Opportunities for Sale
- Select Industry

*Featured Franchises For Sale*

- Franchise Bible 7E
- Franchise Bible 7E
- Franchise Bible 7E

*From the Entrepreneur Bookstore*

- More Info
Buying an Existing Business?

- Reduction of Uncertainties of Startup
- Acquisition of Ongoing Operations and Relationships
- A Bargain Price
- A Quick Start
Pros and Cons of Buying an Existing Business

• Pros
  - High chance of success
  - Less planning
  - Existing customers/suppliers
  - Necessary equipment
  - Bargain price
  - Experienced employees
  - Existing business records

• Cons
  - Existing problems
  - Poor quality of current employees
  - Poor business image
  - Modernization required
  - Purchase price based on inaccurate data
  - Poor business location
Finding a Business to Buy

- **Due Diligence**
  - The exercise of prudence, such as would be expected of a reasonable person, in the careful evaluation of a business opportunity.

- **Matchmakers**
  - Specialized brokers that bring together buyers and sellers

- **Relying on Professionals**
  - Accountants
  - Attorneys
  - Other experienced business owners
Exhibit 4.9  Documents Required for Due Diligence

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Term Sheets, Corporate Summary Fact Sheet</td>
</tr>
<tr>
<td>2.</td>
<td>Business Plan</td>
</tr>
<tr>
<td>3.</td>
<td>Marketing Plan</td>
</tr>
<tr>
<td>4.</td>
<td>Key Personnel Resumes</td>
</tr>
<tr>
<td>5.</td>
<td>Financial Planning, Cash Flow Model, Analysis Reports, Glossary</td>
</tr>
<tr>
<td>6.</td>
<td>Financial Statements</td>
</tr>
<tr>
<td>7.</td>
<td>Profit and Loss Statements</td>
</tr>
<tr>
<td>8.</td>
<td>Balance Sheets, Intercompany Transfers</td>
</tr>
<tr>
<td>9.</td>
<td>Accounts Receivable/Accounts Payable Aging Summaries</td>
</tr>
<tr>
<td>10.</td>
<td>Tax Returns</td>
</tr>
<tr>
<td>11.</td>
<td>Asset Ledger</td>
</tr>
<tr>
<td>12.</td>
<td>Client List and Actual Sales</td>
</tr>
<tr>
<td>13.</td>
<td>Shareholder Statements</td>
</tr>
<tr>
<td>14.</td>
<td>Credit and Security Agreements</td>
</tr>
<tr>
<td>15.</td>
<td>Book of Meeting Minutes</td>
</tr>
<tr>
<td>16.</td>
<td>Summary of Litigation</td>
</tr>
<tr>
<td>17.</td>
<td>Non-Competition, Non-Solicitation, or Non-Disclosure Agreements</td>
</tr>
<tr>
<td>18.</td>
<td>Filings with agencies (U.S. and foreign) having jurisdiction over business operations</td>
</tr>
<tr>
<td>19.</td>
<td>Customer and Vendor Contracts</td>
</tr>
<tr>
<td>20.</td>
<td>License or Royalty Agreements</td>
</tr>
<tr>
<td>21.</td>
<td>Promissory Notes, Bonds or Debentures</td>
</tr>
<tr>
<td>22.</td>
<td>Options or Rights for Capital Stock or Company Assets</td>
</tr>
<tr>
<td>23.</td>
<td>Partnership, Joint Venture, Marketing, or Similar Agreements</td>
</tr>
<tr>
<td>24.</td>
<td>Material Contracts and Agreements</td>
</tr>
<tr>
<td>25.</td>
<td>Cost-Sharing Agreements, Intercompany Transfers (Company Affiliates)</td>
</tr>
<tr>
<td>26.</td>
<td>Contracts or Other Documents Affecting the Business Assets</td>
</tr>
<tr>
<td>27.</td>
<td>Development or Technology Agreements and Documents Relating to Business Assets</td>
</tr>
<tr>
<td>28.</td>
<td>Corporate Policies (Insurance, Operational, Health, Safety, HR)</td>
</tr>
<tr>
<td>29.</td>
<td>Summary of Pending or Proposed Assessments or Tax Liens</td>
</tr>
<tr>
<td>30.</td>
<td>Listing of Sales and Use Tax Returns (All Affected Jurisdictions)</td>
</tr>
<tr>
<td>31.</td>
<td>Implementation Plan</td>
</tr>
</tbody>
</table>

Entrepreneur Interview Project **Start Now**

- Questions - for project completion
- Anyone Need the Handout?
- NAICS - [my web](http://myweb) – “Entrepreneurship Resources”
- Access files for project completion:
  - [Entrepreneur Interview Instructions](http://instruction2.mtsac.edu/rjagodka/CourPage.htm)
  - Entrepreneur Interview On-Line Form

- **Work on/ edit your content (paper then txt file)**
- Complete the project by entering into on-line form
Networking - I know Mary, who knows Bill, who knows John, who knows Jill, who knows you!

How will you find the entrepreneur to interview?
- Visit local business locations that you do business with (dry cleaner, lawn service, pool man, etc.)
- Talk with friends and family to “find” someone
- Cold call - visit a business and just introduce yourself, and ask if they can participate

Degrees of separation - create links Film
California businesses for sale

http://www.bizben.com/

Choose by:
• Type of business and/or Geographic Area
Get on a computer and check out some listings
• Identify businesses (of interest) for sale and look at
  details … browse for a business (franchise) to buy …

Write (individually):

Your impression of the website. Do you find the
information provided is useful? Were you surprised by
prices, terms or availability?