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## Is a franchise business in your future?

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By **EMILY ROACH**

*Palm Beach Post Staff Writer*

Updated: 9:01 p.m. Friday, Oct. 21, 2011  
Posted: 8:54 p.m. Friday, Oct. 21, 2011

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Pizza, frozen yogurt, bagel shops. Child day care, indoor playgrounds, tutoring. Hair salons and home health care. If you want to buy a franchise, you can get into just about any kind of business.

But the advantage of a franchise is not in the variety of options, but the benefit of buying into a company that has an established reputation and customer base.

"Because it's all been researched and developed," United Franchise Group CEO Ray Titus said. "It's being used successfully by people in the business."

The West Palm Beach-based corporation has 1,400 franchises across five types of businesses and was recently recognized by the governor's office and Enterprise Florida for business diversification.

More than 90 percent of franchises renew their agreements, the IFA Educational Foundation found. With contracts averaging five to seven years, that means the rate of success is much higher than small businesses as a whole, said Matt Haller, spokesman for the International Franchise Association.

U.S. Small Business Administration statistics show that seven out of 10 new businesses - ones that hire at least one person in addition to the owner - survive two years, but only half survive five years, Haller said.

Buying into a franchise is an excellent opportunity, said Dick Shon, who retired to Boca Raton after running Midas Muffler shops in the Milwaukee area for more than 30 years. Ultimately, he owned six stores.

"I bought into it knowing entirely from Day 1, I had potential customers," Shon said. If he had opened Dick's Muffler Shop, he would have been an unknown foundering among a crowd of auto repair shops, he said.

The pros? You have someone to go to for advertising, promotions and business operational support, Shon said. The cons? It costs more money than an unaffiliated business and you lose some independence.

After two years in business, Marty Curran said he and wife, Lisa, love the Plato's Closet brand and are making a small profit. Their store in Palm Beach Gardens follows the franchise's model of buying and selling "gently used" clothing and accessories that are in style for 12- to 24-year-olds.

"It's a tough economy, but this particular business model that we have is one that's conducive to business in this economy," he said.

The Currans chose the store after shopping there, and Marty Curran

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said they weren't initially looking to open a business. Lisa Curran draws a small salary, but his hours are voluntary, Curran said. The initial buy-in was a \$20,000 fee and they pay 5 percent royalties a month.

"The customer support that they provide us as franchisees is just phenomenal," he said. "You've got some companies that you can get into franchises and they just want to take your royalty fee each month."

Corporate representatives for Plato's Closet, part of the Winmark Corp. franchises, review the store's reports weekly, visit several times a year and give constant feedback. And Curran said he can call any other store owner and get advice.

Running the store may be a lot of work, but Curran said he recommends it.

"I actually enjoy coming into the store. I enjoy getting out on the floor," he said. "My wife and I employ 11 people right now. We're providing employment for an age group (teens and young adults) that right now is hard."

**Evaluating your aptitude**

Shon said it's important to know what kind of business owner you want to be before buying into a franchise. Are you ready to get in the trenches and work hard? Do you know enough about business to "not get snowed?" And he suggests choosing a business you know something about.

"I think you have to find something you like," Shon said.

If you like people and want to have employees, Titus said, you should look for a retail store, such as his corporation's SIGNARAMA and EmbroidMe franchises. If you like the transactional side of things, you may be more suited to a home-based business like Transworld Business Advisors, which brokers sales of local businesses.

"I always recommend people who have no experience in the food business to stay away from running a food business," Titus said.

Once you've done the self-evaluation, you have to take a hard look at any franchises you are considering, Shon said.

Are both the franchise owner and the franchisees successful? Shon strongly suggested a franchise operation that has a franchisee group capable of negotiating with the franchise owner, not just an advisory council appointed by the company.

Does the franchise provide enough support for the money it takes in fees, royalties and required purchases? "You don't want to get stuck in a situation where you're overpaying for everything you do because it's in your franchise agreement," he said.

Titus said United Franchise Group's franchisees often tell him they earn back their monthly royalties by how much they save in supply costs because of the lower prices negotiated for the franchise group.

**Evaluating the costs**

As far as costs go, franchises have upfront fees, monthly royalty fees and sometimes other required costs, such as mandatory training or buy-in to promotional programs. And companies often set a minimum net worth and require an amount of cash available for operating costs

Franchises can be expensive to start, which is probably the biggest disadvantage, said Georgia Abbott, director of the Alden B. Dow Center for Creativity & Enterprise at Northwood University. Think \$70,000 to \$500,000 just to buy in, she said.

"That can be a very difficult amount of cash for an upstart buyer," she said.

Abbott is talking about a regular person or couple who wants to start their own business or maybe open a franchise as an investment.

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Listed by **TRAVELZOO**. \*Some taxes, fees additional

United Franchise Group's opportunities also provide entry points for people who would otherwise open a mom-and-pop-sized business. Titus said initial investments range from \$25,000 to about \$50,000. The company requires owners to have working capital of \$30,000 to \$50,000 for retail businesses and about \$20,000 for home-based businesses.

Not all of the franchises have an earnings claim, but a SIGNARAMA store averages \$600,000 in sales annually for those that have been in business at least a year and have at least one salesperson, Titus said.

Want to own a burger chain? Hardee's burgers, operating as part of CKE Restaurants, is developing franchise areas in the Florida market. But a franchisee must have a minimum net worth requirement of \$1 million and can expect to invest at least \$1.1 million in the business, not including the real estate. There's a \$10,000 development fee per restaurant and a \$25,000 franchise fee just to open the first two restaurants. That doesn't include the 4 percent of gross sales you pay as a royalty fee.

These costs are clearly outlined on the CKE Restaurants website.

What about those Massage Envy franchises you see springing up everywhere? The company accepts a franchisee with a net worth of at least \$500,000 and warns that you'll invest between \$343,000 and \$568,000. Be prepared for a \$45,000 franchise fee, a spa development package of around \$30,000 and other costs. And the company wants only owner/operators, so plan to be hands-on.

But, again, the company offers a franchise kit right on its website, so the costs are spelled out.

Many franchises are available to middle-income people who are looking to open their first business.

If you want to open a Plato's Closet children's clothing franchise, expect to invest \$250,000, and you'll need access to \$75,000 in cash. According to the company, in 2010, the average Plato's Closet store had an average gross profit of 62 percent on sales of \$858,716.

If you want to own rights to Just Between Friends, which allows you to hold consignment sales for children's goods, you need \$12,900 to purchase a franchise.

Abbott got in on the ground floor of a fairly modest franchise opportunity, Harmony Road, an early childhood music curriculum. The company was trying to distribute its books and materials rather than make money through selling franchises. So for a few thousand dollars, she secured a large area in Michigan and continues to have a good relationship with the Harmony Road owner.

"That isn't what we're seeing typically now," she said. "It's a much larger downstroke of cash now and much longer agreements timewise to the owner."

Abbott said it's important to determine the franchisor is granting you a sustainable market and that the brand will bring in enough volume to pay for the investment.

### **Evaluating the benefits**

Starting as a franchise can be dramatically different from starting an independent business.

Jack Siney started several businesses "from scratch" long before he and wife Stephanie bought the Plato's Closet franchises in Royal Palm Beach and Boca Raton.

The franchise system takes care of the processes, the infrastructure such as a computer system and marketing, and often gives you a network of fellow franchisees to work with for discount ad rates, he said. That leaves the business owner able to focus on success.

"If someone's going to start a business and it's not super-unique, I don't know why they wouldn't try a franchise model," Siney said.

Menchie's corporate support was valuable recently to Charles

Lodowski Sr. as he's tried to open a second frozen yogurt shop in Wellington. Lodowski runs the business for his son and a partner and opened in Palm Beach Gardens three months ago.

"When a construction issue comes up, they are Johnny-on-the-spot to assist us with the general contractor or whoever needs something," he said.

In many franchise systems, new owners attend training with other new franchisees and form networks for support and shared advertising.

"There's a lot of camaraderie and team building," Titus said

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### Is a franchise right for you?

- Do you have a limited business or industry background? A franchise provides a proven business model, recognized brand name and turnkey operating procedures.
- Are you willing to run the business or do you want to be an absentee owner? Some franchises require investment by an owner/operator.
- Is the franchise 'sexy' enough for you? Some people don't want to run a cleaning company or oil change business.
- Are you comfortable with restrictions on the way you operate your business? Franchisees must share financial information and conform to uniform operating procedures.
- Are you ready to be an entrepreneur: more work, longer hours, more risk, more responsibility?

### What to ask ...

Of other franchisors:

- Is your franchise profitable? How long did it take? What is your salary?
- Is there a franchise association recognized by the company that can negotiate with the franchisor? Is there a franchise advisory council appointed by the franchisor?
- What is the relationship between the franchisor and franchisee? Between franchisees?
- Does the franchisor do what it promised for training, assistance?

Of the franchise company:

- Franchisors must provide prospective franchise owners with the company's uniform franchise offering circular. It contains number of franchisees, financial statements and litigation history. Read thoroughly.
- Franchisor provides access to suppliers, operational and marketing support. Get the details.
- Franchisor may provide market or field support. Find out ahead of time and how much it will cost you.
- What are your obligations to the company, such as what supplies do you have to buy through the company, how much training must you pay for?
- What are the company's expansion plans and where will other new franchises be located?
- What is the success rate of existing franchises?
- Does the franchisor provide financing?

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The reason I just published How To Buy A Franchise Manual is to provide potential franchisees the opportunity to make an intelligent decision and invest their money in the right franchise for them. Having spent the bulk of my 35 years in franchising as a franchise executive I've seen the "Good,the Bad and the Ugly" side of franchising. Ed Teixeira www.franchiseknowhow.com

Ed Teixeira  
4:26 PM, 10/22/2011

REPORT ABUSE

Most franchises offer reasonable opportunities to earn a living, but not all are good. If you are considering buying a franchise, then buy wisely. Things can and do go wrong with some. For facts on what can go wrong with franchises visit <http://www.cdcorp.info> for free advice.

Bob Stewart  
8:04 AM, 10/24/2011

REPORT ABUSE

Nice job on this article.

I did notice one thing that I'm sure wasn't intentional, but could get the franchise salespeople at Plato's Closet busier than they should be;

The total "buy-in" for a Plato's Closet is not \$20,000. That's only the franchise fee, most likely.

It's more like \$150,000 -\$250,000.

The Franchise King®

Joel Libava  
3:44 PM, 10/26/2011

REPORT ABUSE

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