5 Steps to Becoming a Franchise Owner

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There is a certain appeal to owning your business, but it can be daunting to open a storefront when you have no clout and no name recognition. Fortunately, there is a way to have your cake and eat it too, which over a quarter million business owners are doing today: owning your own franchise business location.

Being an owner in a franchise means instant name recognition (think McDonald's) as well as support from not only the corporate entity, but fellow franchise owners just like you that have gone through the startup process and can help you along the way. Yes, you will lose some autonomy to the business you own — you can't just start selling blankets at your McDonald's location — but it's a small price to pay for owning your piece of a business with a clearly established track record.

So how do you get started? Here are the five steps to becoming a franchise owner yourself.

1. Do every last bit of your homework

Just because you want to buy into an existing chain doesn't mean you don't have to do a massive amount of research. While the success/failure rate of franchise businesses is highly

disputed (there hasn’t been a reliable survey in over a decade), one-sixth to one-fifth of franchise businesses won’t survive to the 5-year mark. Like opening any business, there is risk involved, but it can be highly mitigated with good planning.

Some of the most important questions you want to answer:

- **Does the franchise I want to be a part of have a good success rate?** Not all franchises have equal survival rates. Here is a list of the top 50 best and worst ones according to their default rates for small business loans. For example, H&R Block is the 10th best with a 13.89 percent rate of defaults. Meanwhile, Athlete’s Foot was the 16th worst with a 61.54 percent default rate. Make sure the franchise you choose has a history of success.

- **Do you have the finances to get started?** It takes tens, if not hundreds of thousands of dollars just to get started with a new franchise location. In fact, the average fast food chain requires applicants to have a minimum net worth of about $1 million. We’ll touch more on financing later, but if you don’t have a good amount of liquid assets, you won’t be able to afford opening up a branch.

- **Do you have good credit?** You will probably take out a small business loan to finance the franchise. Make sure sure credit history is in good standing in order to secure the loan amount you will need.

- **Do you have the right location?** Perhaps the second most important aspect of success (second only to the next point) is the location of your business. Do your research to see the level of foot traffic, nearby competition, available parking, and what may be built 1-5 years around the area that can help or hurt your

franchise.

- **Do you have the passion?** Like opening any business, you'll have to put in long hours and a ton of work to make it a success. If you don't have the passion for food service, opening a chain restaurant may not be for you. Don't just pick a familiar brand name and run with it. Make sure your passion and interest align with your franchise choice, or you'll never put in the work you need to in order to succeed.

Be diligent about your homework. Talk to financiers, other owners in the area, and especially other franchise owners of your chosen chain.

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2. Incorporate or form an LLC

If someone gets injured at your new gym location, you don't want your retirement nest egg to be on the line. Also, you will be able to get better tax advantages if you form an LLC or corporation.

Most franchisors actually require owners to incorporate into some business entity. Usually, forming an LLC is the best way to go. LLCs are not actually corporations and thus have more freedom to structure their taxes to best suit your financial needs. They are also somewhat easier to manage since reporting and paperwork requirements are less stringent than S- and C-corp entities. However, there is no one-size-fits-all option and it's best to speak with a business lawyer (this stage is a *great* time to connect with a business lawyer) about your specific business needs.

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3. Inquire and apply to the franchisor

Now that you have your LLC or corporation established, it's time to formally apply for a franchise license from the franchisor. All brands open to franchising will have a section on their website to learn more about their requirements and how to get started. McDonald's, for example, has a simple FAQ section that plainly states that you will need $500,000 in liquid assets and that the initial franchise fee is $45,000. And usually, you will be able to apply online as well.

Unless your application is flat-out rejected from the start, expect the franchisor to run credit and background checks on you and your business entity. They might ask for additional proof of assets as well.

Often, you will receive an invite to a "Discovery Day" where you can meet the franchisors involved and get a chance to ask questions and learn more. This is also their opportunity to learn more about you as well before deciding to bring you onboard as a business partner. It can be an intense "job interview," so to speak, so be prepared by asking current franchise owners what the day might involve.

If all goes well, you will receive the franchise agreement that gives you the legal right to open a branch for you (and definitely your lawyer) to review.

4. Obtain financing

Of course, before you sign, you need to make sure you have the cash to get started. Now that you've basically been approved, it's time to figure out the best way to obtain the financing you need to cover the franchise and startup fees.

The first place to inquire is to your franchiser. Large chains

like a McDonald’s should have well-established relationships with banks and lending institutions to help you get lower loan rates than you may be able to get yourself.

You can also go directly to these institutions to acquire startup loans for a new business or even inquire with the Small Business Association for their recommendations or loan service.

If you are willing to tap into your retirement 401(k) or IRA (and have established a C-corp), you can use that for a Rollovers as Business Startups (ROBS). It’s a somewhat risky financial move that can be considered by people in the right financial place to take on such a risk.

Whichever way you go, once you have secured the funds, then you can sign the agreement. Congratulations! That just leaves…

5. Everything else

The hard part is just beginning. You’re starting (or taking over) a franchise business, after all. Build out your location according to the guidelines from the franchiser, hire and train your team of workers, and put your business plan into action.

You’ll have the benefit of brand name recognition and the support of the franchisor to help drive business to your new location. If you’ve done all the previous steps well, your franchise business will be in a great position to succeed for many years to come.

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