A FRANCHISING PRIMER

What You Need To Know To Succeed In Franchising:

A Collection of White Papers

the you network®
franchising for serious investors

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Kimberly Youngbeck Franchising Investment Expert

"Making the decision to buy or build a new business can be both exciting and quite scary, all at the same time. There is so much to learn, so fast. The best advice I would give you, is to surround yourself with people who have the experience, knowledge, and proven track record for success – to guide you. That is both what I can provide you and what franchise ownership can award you."

Please contact me so I can help you find the best opportunity for YOU!

Kim Youngbeck

Kim is a 17-year seasoned franchise development professional who previously worked for brands such as Ben & Jerry's, HouseMaster Home Inspections, Wireless Zone, ComForCare Home Care and Big Frog Franchise Group.

Over the years Kim has supported thousands of people through the discovery process and helped many of them realize their dreams of stepping into successful entrepreneurship.

Kim has been a featured speaker at several IFA events, and as a panelist at the Franchise Leadership and Development Conference. While Kim prides herself on ensuring the perfect match for her clients in various industries, she specializes in the Home Service space, given her extensive experience in that B2C realm.

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Let Kim help you get started in realizing your potential as a business owner and investor.

Kim can be reached at 850.890.0514 or feel free to email kimberly@theyounetwork.com.

This ebook offers a collection of some of the most helpful white papers we have created over the years – at least that is what our clients have told us! We truly believe the best franchise owners are pre-educated owners, so we invite you to sit down with a cup of coffee and start reading...

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FRANCHISING FUNDAMENTALS I:

Getting Started

Overheard from prospective buyer:

"All this information about franchising! It's like a giant jigsaw puzzle! What's relevant, and what isn't? And where do I even start?"

One of the great things about the internet is that it allows us so much information at our fingertips. One of the not-so-great things about the internet is that you can be overwhelmed with "too much information" – and you have NO IDEA which information is valid, and which isn't.

At The YOU Network, one of our primary roles is that of "information synthesizer"– to condense and consolidate a wealth of valid information into "small, chewable bites" for you so that you can learn about franchising without taking a month of Sundays off to do so.

So, let's get started. Consider this a "primer" on the field of franchising. There will be more information to "digest" later.

WHAT EXACTLY IS FRANCHISING? IS IT THE SAME AS A "BUSINESS OPPORTUNITY?"

Franchising is a popular form of business – both in the U.S. and globally – and it basically involves this:

If a business owner has what they believe to be a successful concept, and wants to expand, they can attempt to raise capital (not always easy without substantial collateral); or they can expand by "franchising" their idea, trademark, business plan, and proven operating "system" to investors, who, in turn, operate the franchised business within parameters defined at the time of sale through the Franchise Disclosure Document (and Franchise Agreement.) The Franchising Agreement is generally for a period of 10 years and can be renewed upon completion of the time period, if both parties agree to do so.

Franchising is NOT the same as a "business opportunity." Franchising is governed by federal law (and by certain states) and provides its owners with significant legal protection. Business opportunities, on the other hand, are governed by a much less protective series of laws at both the federal and state levels – therefore offer their purchasers little or no protection. There are many perfectly "legal" business opportunities available – but "biz opp" purchasers need to be aware of the legal structure of their business and its severe limitations.

In addition, business opportunities tend to be much lower priced than franchises (under $50,000), and far less "comprehensive" in their total service offering to a buyer. Whereas most franchises offer a trademark, a proven operating system, training, and ongoing support – many "biz opps" simply provide a self-training book and a product or service – and you're "on your own." Some may provide classroom training, and a few more amenities with the "sale" – but overall, you are not getting a proven "system" or any form of ongoing support – you're just purchasing a concept you may market.

WHY WOULD YOU WANT TO BUY A FRANCHISE?

Anyone who has operated their own (non-franchised) business will tell you "you have to wear MANY hats." One moment you're the company accountant, the next moment, the customer service representative, and the next – the marketing director, and so on. It can be overwhelming. AND, because you have so many learning curves to conquer, your chance of failure is quite high. Does a franchise offer you a better chance for success? Possibly. It depends upon the franchise and upon your strength as an owner.

But, in general, the point isn't the "failure rate" numbers – it's that franchising takes many of these "hats" away from your plate so that you can concentrate on making your business, and your unique skills, work for YOU – thus increasing your likelihood for success. In addition, the franchise company has already experienced the learning curves for each required function – and has worked out a solution for each one. So, when you purchase their proven system for operating that business, you also get:

- Comprehensive training that gives you all you need to get started – including operations manuals and in most instances, back-room instruction, software, and support

- Professional support staff providing day-to-day (or 24/7) advice and help

- Easy-to-implement marketing and advertising programs THAT WORK

- A network of other owners who have "been there, done that" who can help you accelerate your learning curve

- Personal control and flexibility of time management

- Federal legislation (and some state legislation) that monitors and regulates significant aspects of franchising – so that your investment is better protected versus other similar business purchase alternatives, like "business opportunities"

Think about the popular Verizon TV commercial – where "The Network" is behind you. In effect, this kind of "back-up support" is what a franchise provides you, i.e., you are never "alone" or having to make decisions in a vacuum.

Here is what Matt Haller, IFA (International Franchise Association) Director of Communications, has to say about whether opening a franchise is a better risk than starting your own business:

> *No one would dispute that certainly, some franchisees will fail. Yet when you look at government data regarding small business survival rates on a large scale, the statistics consistently show that franchise-owned businesses have a greater likelihood of thriving over an extended period of time than independent small businesses. Let's take a look at a few of the numbers as a basis of comparison:*
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> *According to the U.S Small Business Administration, seven out of 10 new employer firms survive only 2 years, half at least 5 years, a third at least 10 years, and a quarter stay in business 15 years or more. Bureau of Labor Statistics data on establishment age show that 49 percent of establishments survive 5 years or more; 34 percent survive 10 years or more; and 26 percent survive 15 years or more.*
>
> *According to previous research conducted by the IFA Educational Foundation, more than 90 percent of franchisees renew their agreements at the end of their contracts. On an annualized basis, approximately 5-6 percent of the franchisees that come up for renewal are terminated (not renewed), and approximately 2-3 percent are transferred to another owner (this may be due to a retirement, a death of the previous owner, or a multitude of other factors that have nothing to do with whether or not the business was "successful").*
>
> *Clearly, franchise termination and transfer rates would be much higher if operating a franchise was not a prosperous way to make a living. Given that most franchise contracts have a term of seven to ten years, the data seems to indicate there is a much higher business continuation, or survival rate, among franchises than other small businesses.*
>
> *While opening a franchise is certainly not a guarantee of success, it is clear that the vast majority of franchise business owners believe they can continue running a successful business if you measure success in terms of the percentage of franchise owners opting to renew their franchise contract with a franchisor.*

The bottom line is that the franchising model, done right, can offer you a business with less risk – as so much has already been done for you. You need to discuss with your consultant how long the franchise has been in business, the support provided, and countless other criteria used to determine the strength and fit of a franchise for you. There is no "one size fits all" in franchising.

WHAT IS AN FDD?

The Franchise Disclosure Document is the document that a franchise company is required by federal law to give to a prospective franchise buyer before the franchise can be purchased, and includes a wealth of information about the franchise, including:

1. The history of the franchise and its officers and directors.

2. A complete description of the business to be franchised.

3. All costs and fees that you will be subject to under the agreement.

4. All obligations of either party to the other during the term of the agreement and thereafter.

5. Any relevant litigation history of the company or its officers.

6. Any business failures, ownership transfers, franchise agreement terminations or other potentially adverse information relating to the success rate of the existing units in the system.

7. Audited financial statements for the previous three years for the franchise company.

8. A list of the existing franchisees.

9. A complete copy of the actual franchise agreement document.

The FDD's primary purpose is to provide any prospective franchise buyer with uniform information with which they can make a decision about the purchase of one franchise over another. It is the most important and valuable document in your "learning process" about a franchise.

The YOU Network consultant assigned to you will spend a great deal of time with you, helping you understand the purpose, the content and the value of the FDD. This, again, is one of the reasons why you benefit from having a franchise consultant. They will help you to understand this document and refer you to a franchise attorney, before you make any decision about a franchise.

HOW DOES A PERSON BUY A FRANCHISE?

First of all, you need to understand that unlike buying a refrigerator – you are not necessarily "the consumer in control" when you are purchasing a franchise. The better franchise companies have high qualifying standards (your skills, your finances, etc., must meet their defined criteria,) and they expect you to demonstrate that you meet those standards before they will even consider you for their franchise opportunity. As a result, buying a franchise is a lot more like job interviewing. And, just like a job search, the companies don't necessarily solicit "cold calling" – as they find they have to spend WAY too much time educating people about franchising and their franchise offering – only to learn you weren't right for their business anyway. In certain instances, if you even try to call the company directly, you will find you can only leave a phone message – and you may not ever hear back from the company.

This is why most of the better companies prefer to work with franchise consultants like The YOU Network. They KNOW that our consultants will have already spent a great deal of time educating you about franchising and learning about you and your needs in a franchise – before they ever meet you. They KNOW that you are "pre-qualified" and far more likely to be someone that is right for their particular opportunity.

Using a consultant makes far more sense for you as well – it saves you from combing through a plethora of franchise information AND your consultant can help you avoid making expensive mistakes. Our highly experienced professionals will help you "cover all of the bases" as you learn about opportunities – including making sure you are always prepared to represent yourself to franchise companies in the very best possible light.

HOW DO FRANCHISE CONSULTANTS PROVIDE THEIR SERVICES *FREE-OF-CHARGE?*

Franchise consulting services are complimentary to YOU. However, consultants most certainly are paid. At The YOU Network, we are paid by our group of franchisor companies because they value the education and pre-qualifying service we provide them. And because the law dictates that franchise companies cannot surcharge you when you use a consultant – or offer you a discount when you don't – the price of the franchise to you is exactly the same whether you choose to use The YOU Network, or not.

You should also know that some of the best franchise companies prefer to work with consultants like those with The YOU Network. They know from experience they will be speaking with a candidate that has been pre-educated, that is most likely a good fit for their business – and, as a result, they will be anxious to spend time with you. You might say our introductions "move you to the top of their list."

In other words, not all franchise consultants are the same. If you are speaking with any franchise consultant outside of The YOU Network, we strongly recommend you check credentials. Most importantly, find out:

- the length of time your consultant has been in the franchise industry
- the number of companies they represent (anything less than 75 companies may limit your choices).
- whether their "matching" software or "free test" has been market-validated or built specifically for franchising.
- what services they offer beyond just "franchise matching" – and, in particular, the support they will provide you once they introduce you to your "franchise matches."

HOW MIGHT ANYONE KNOW IF THEY HAVE "WHAT IT TAKES" FOR FRANCHISING?

Obviously, the real proof is "in the pudding." NO ONE can absolutely predict or promise a person's success in franchising. EACH INDIVIDUAL OWNER has to make it work, having been given the tools to get started. That being said, there is a great deal an owner can do to better ensure that he or she purchases a franchise that is more closely aligned with their unique skills and needs – and that they will receive the support they need and want. And, of course, this is the consulting service The YOU Network provides people who are seeking a franchise.

If we do not believe we have a franchise that meets your needs, we would let you know quickly so as to not waste your time – or our franchise companies' time.

HOW MUCH DOES A FRANCHISE COST? HOW DO YOU KNOW WHAT YOU CAN AFFORD TO BUY?

Franchise opportunities range in price from as low as $50,000 – to into the millions of dollars. In order to assess "affordability" you need to look at the amount of liquidity, or cash, you have available – so that you can cover your personal needs until your business begins to show a profit – and the total cost of the franchise.

As a guideline, the minimum requirement to qualify for most lower- priced franchise opportunities tends to be $40,000 liquid and $200,000 net worth – plus "cash to live on." As most franchises are financed beyond a cash down-payment, you will likely need to understand how financing works. Your TYN consultant can help you understand what you can most likely afford, and what your financial options might be.

HOW DOES A POTENTIAL FRANCHISE OWNER OBTAIN FINANCING?

Simply put, financing IS obtainable. However, if your credit is poor, you probably should wait until you improve upon your rating before you consider purchasing a franchise – or credit might be hard to find.

Each financing option comes with its own set of requirements – so in order to understand which might be most appropriate for you, we recommend you discuss your financing options with your consultant – who will then introduce you to experts who can guide you as needed.

As you can see, there are FAR more considerations in buying a franchise than whether or not you think you would enjoy the product or service being offered. Good buyers do their homework. Please let your TYN consultant help you make the most informed choice possible.

FRANCHISING FUNDAMENTALS II:

The Top 5 Mistaken, Pre-conceived Notions of Prospective Buyers

Overheard from prospective buyer:

"OK. I think I now understand the basics. I have put the 'frame' in on the overall puzzle and now I need to start filling in the pieces. The evaluation process you gave me is going to help me do this – but I still feel as if there is something I need to know."

In Part I, we explained that one of our primary roles is to condense and consolidate a wealth of valid information into "small, chewable bites" for you so that you can learn about franchising – without taking a month of Sundays off to do so.

So, we hope you now have a basic construct of franchising – the FTC laws that govern the industry, how franchising essentially differs from business opportunities, and why you would want to consider purchasing a franchise.

But now we want to help you understand franchising at a slightly deeper level – so that our time spent together is as valuable as possible for you in your investigation of franchise ownership.

To do this properly, we might need to "jolt" you a bit – so that you don't go into the process of evaluation with pre-conceived notions about franchising that are incorrect. Because these pre-conceived notions are likely going to VERY much get in your way of learning about franchising. And, by the way, if you think you don't have any such "notions," then you're unlike ALL who investigate franchising at one time or another in their lives. EVERYONE thinks they know more about franchising than they really do – even the smartest, most experienced business people – until they get into this "proven evaluation process" and really learn "how franchising works."

The YOU Network evaluation process is a proven approach, used by the best in the industry successfully for many, many years, and is designed to help you gain all the information you need to make an informed decision about franchising – AND to help you develop and cement a good relationship with your franchisor along the way. Because your consultant will spend a great deal of time discussing the importance of this evaluation "process" with you, this white paper is instead going to focus on all of the mistakes potential buyers can make in evaluating franchises – that ignore or bypass the "proven process." We hope that in doing so, you will avoid making similar mistakes – and wasting your time, your consultant's time, and your ability to get accurate information.

If you haven't yet discussed the recommended evaluation process with your consultant, (The YOU Network: Finding YOUR Silver Bullet) we suggest you do so before you read this discussion piece.

And now, what are these "pre-conceived notions?..."

1. **Assuming that in buying a franchise, because you are the "paying customer," you have the right to dictate process, approach, timing, line of questioning, data shared, etc., during evaluation of the potential purchase.** *(A result of hearing for years upon years, "the customer is always right.")*

2. **Believing that the sales and evaluation process is nothing more than the "franchisor controlling the information flow in an attempt to have the upper hand in eventual purchase negotiations."** *(This one is particularly off-track because there are VERY few negotiable points in a franchise contract.)*

3. **Thinking that in buying a franchise, you are buying an existing business that you just have to "operate or manage."** *(Some buyers literally think they can put a sign over the door, turn on the lights, and customers will start walking in.)*

4. **Assuming your franchise will make a profit from which you can draw monies for yourself, from the very beginning of operations.** *(This may happen ONLY when the franchise unit is a resale and the prior owner has already built the unit to a point where this might occur.)*

5. **Assuming that your spouse or significant other will be "on board" with whatever you decide, regardless of their involvement in the evaluation process.** *(Many a franchise award has been withdrawn at the last minute because communications between ALL deciding parties has been incomplete.)*

Let us take a look at these, one at a time...

1. **Assuming that in buying a franchise, because you are the "paying customer," you have the right to dictate process, approach, timing, line of questioning, data shared, etc., during evaluation of the potential purchase.**

This is, without a doubt, the most glaring difference about franchising and your potential purchase of any other kind of asset or business. And, it probably "throws" more prospective buyers off track than any other issue – because it seems, at first glance, to be in the face of basic instincts or habits of strong-willed and successful business leaders (the very people franchise companies want as owners) – until one can learn to put it into perspective.

Buying a franchise more closely parallels a job interview process, or an interview process designed to gain membership into a private club. So, from the very beginning, you need to understand and embrace this. Inherent to the basic model of franchising is this simple fact: the franchisor's success is entirely dependent upon its owners' success, so the better franchisors spend a great deal of time profiling you, getting to know you, and wanting assurance you have the skills and wherewithal to succeed with their franchise. And if they didn't do this, you wouldn't want them – as you could see they are not discriminating in who they bring in as owners.

One of the most important things franchisors want to learn is whether or not you can "follow the system they would give you to succeed in your franchise." The reason they spend so much time on measuring your "ability to follow process or systems" is that they know from experience that owners that don't "follow the system," have repeatedly demonstrated themselves as those that fail, (as these owners tend to simply repeat the knee-jerk start-up mistakes their franchisors have already learned from – a long, long time ago.) So, from the very beginning, your consultant is going to provide you an evaluation process – and you need to follow it. But keep in mind, it's not just a "test" – it's also a thorough series of meetings, all designed to help YOU gain important information you would need to make an informed decision. You just have to be patient, and let the information "unfold" – perhaps in an order that you would not have selected were you dictating the process.

IF you pass muster with a franchise during the evaluation process, they "award" you an opportunity to purchase a franchise. Similarly, they have the right to eliminate you from consideration at any point in the evaluation process if they don't think you will be a successful owner. That's right – they can refuse to sell to you.

Hearing this can sound a bit daunting, or at least, confusing, at first. Rest assured, you will get your questions answered – but in the right way – for both you and your potential franchisors. You can eventually ask anything you want to ask – but you need to learn from your consultant the appropriate time and place and recipients for your questions.

Your TYN consultant will spend a great deal of time with you, helping you understand how the proven evaluation process is designed to get YOU all of the answers you would want and need in the purchase of a franchise. But you have to pay attention to them and the process they provide you. But at the sake of being redundant – remember, it's there for a reason. Just as there are "standards" to job interviews, the TYN process is the "standard" you want to follow so that you are seen in the very best light with your potential franchisor – AND you get the answers to questions you may have along the way.

Here are some examples that might provide greater clarity on this issue:

a. But I want it NOW...

Chuck Jones (not his real name) was one smart businessman in the small-business world. He had privately owned a small chain of car washes, which he had sold successfully – and several non-franchised restaurants – which he now had family members operating. Chuck was 55 when he first contacted The YOU Network, and was considering franchising for his next "gig" because he didn't necessarily want to "reinvent the wheel" at that stage of his life – and believed he could benefit from the proven processes and experiences of a franchise system.

But like many before him, Chuck went into the process assuming that franchising was "pretty much the same" as private ownership/entrepreneurism, where he had had all of his experience. He further assumed that all of his experiences would directly translate to the world of franchising. So, despite what his TYN consultant told him about franchise laws and "how to prepare for and act in the first franchisor interview," (i.e., "being enthusiastic, and demonstrating a desire to learn more about the opportunity, and whatever you do, don't ask about financials,") Chuck instead let his "bottom-line" personality prevail and "took charge" of the first interview and told the sales representative, "all I need and want is a P & L that will tell me what this business makes. Everything else is a waste of my time."

The sales representative patiently told Chuck (as his TYN consultant had told him beforehand) that providing him with "financials" outside of their earnings claim in the FDD was in violation of FTC laws – and that Chuck would instead learn more in-depth financial information when he spoke to actual owners, at a later stage in the evaluation process. (In other words, that Chuck was asking for information that would come at "Step 4" and they were at "Step 1.") Furthermore, he told Chuck that he first needed him to...

- Understand how the business works
- Understand what role and obligations Chuck, as a potential owner, would have in making his franchise successful
- Understand what the franchisor's obligations were in helping Chuck – both in the day-to-day and in the long term

And THEN, if Chuck still had interest and wanted to learn more – and they were feeling relatively comfortable with him at that point in time as a potential owner – they would authorize him to speak with owners (something they limit and control, as speaking with owners takes up those owners' valuable time), to learn more about ROI and potential financial results.

Chuck still didn't completely "get it" after this explanation – or didn't want to – and told the representative he couldn't go further in the evaluation unless they could provide him with this financial information – now. Within the week, Chuck lost the opportunity to purchase this particular franchise because they felt he couldn't accept fundamental requirements of franchise law or systems – and their desire and needs to follow them.

When Chuck met with his TYN consultant, he was angry and frustrated because "he had always evaluated businesses on the nature of their financials – so why couldn't he with this?" Furthermore, he had been intrigued by that franchise concept, and frankly, was upset over "being rejected."

Chuck's TYN consultant explained to him, again, WHY the evaluation process was in place:

- Because there are franchise laws that must be followed and this process ensures all proper approaches to information dissemination are taken
- Because it provides a professional platform by which BOTH parties can learn and disseminate information – not just the buyer
- So that the buyer could learn the differences between franchising and "other businesses" along the way – so that there were no "surprises"

It was a difficult "learning lesson" for Chuck – but he learned to respect his consultant's coaching – and was able to evaluate other franchise businesses – the right way – and still learn all that he needed to learn. When he eventually conducted validation calls with real franchise owners within a system, he learned firsthand what their financial performance was – and could gain the insights he had been seeking.

"I guess I was stubborn," acknowledged Chuck, after the fact. "I was used to always being the guy that 'called the shots' and just assumed it could be the same way here. I can see now that I was wrong. Once I started to really listen, I got all of the information I wanted."

b. If they won't answer my questions, they must be trying to hide something...

Darryl Wachman, (not his real name), is considering the purchase of a retail franchise concept. In his evaluation, he has learned, in general, what his franchisor would be providing owners in terms of real estate support – and was quite impressed they covered so much ground – from site selection, to lease negotiation, to build-out support, and much, much more.

But then Darryl got it in his head that he wanted to know in-depth demographic data that was used to help find site locations – and was instructed by his sales representative that this information was proprietary, and only provided once he was an owner. Darryl was upset and frustrated and could NOT understand why they wouldn't share this important information with him. "What are they trying to hide from me?," he asked.

His TYN consultant explained to him that since real estate is an important component of retail, asking a franchisor for their real estate site strategy was akin to asking McDonald's (before buying the franchise) for the recipe for their "secret sauce." That "it just wasn't going to happen... as site strategy in retail is considered proprietary and is not going to be shared until an owner has committed to purchase. And, by the way, this is true for all franchisors, not just this one."

Darryl's consultant went on to explain that in franchising, there are occasions where an owner has to take a "leap of faith" – and that this was one of them. If they bought into the inherent concept of franchising – that they were buying "experienced leadership, a proven concept, and a history of success in owner support and business growth" – they further needed to buy into the fact that these franchisors knew what they were doing, and would find appropriate retail locations for each owner. This kind of expertise was, in fact, exactly why a person considered

franchising to begin with – so they wouldn't have to be experts in multiple areas in order to own that particular kind of business.

Darryl struggled a bit with this and finally had to agree – that in his desire to "be thorough in his evaluation" he had forgotten the very reason why he was considering franchising... and that was to be part of a bigger organization so that he didn't have to DO everything, or be an expert in everything, himself! Yet, given the first chance to trust and respect the franchisor whose organization he was considering being a part of, he had doubted their expertise and "failed the test" so to say. "It's a lot like a marriage, isn't it?" chuckled Darryl... and his consultant had to agree with him!

There's another lesson in both of these examples – and that is to not "jump to conclusions" and immediately assume that if questions aren't answered, then "the franchisor must have hidden agendas!" All of the companies represented by The YOU Network have demonstrated a "win-win" philosophy and approach to working with their owners. In other words, they understand they don't exist unless their owners are successful, so they work VERY closely with owners to help them succeed, and regularly exhibit strong business ethics in how they work with owners. Not only are there no "hidden agendas," but the evaluation process is extremely transparent – particularly in comparison to most other investment purchases.

2. Believing that the sales and evaluation process is nothing more than the "franchisor controlling the information flow in an attempt to have the upper hand in eventual purchase negotiations."

Have you ever noticed that franchises look the same, feel the same, operate the same? McDonald's is probably the best example of this continuity. The reason for this is simple: the franchisor is selling a proven business concept which he has registered with the FTC – and he can't change how he offers that concept to a prospective owner (other than in very minor ways) and have it still be the same "proven" concept. In other words, the franchisor cannot "bend" from the offering put forth in the Franchise Disclosure Document (FDD) for a particular unit franchise – or he is in violation of FTC laws.

What this means to you is that the franchisor does not want to "negotiate" with you over major tenets of your final contract (the size of your territory, the cost of your franchise, the length of the contract, etc.,) because to do so, they are potentially in violation of the law. They can add an addendum to the contract that discusses some minor points, or they can adjust a zip code here and there for your territory definition – but they cannot change the inherent parameters of the "offering" as defined in the FDD. It's that simple.

To illustrate this point, we would point out that The YOU Network recommends to our clients that they use a franchise attorney to review their franchise agreement – and to help them fully understand the FDD – before purchasing a franchise. Every once in a while, an attorney (who generally has little expertise in franchising) will suggest to a client he can negotiate for them " a better deal" – and in attempting to do this, he or she gets his client disqualified from consideration from that franchisor. The franchisor, not wanting to break any laws, tells the potential buyer they would rather not do business with them than change their offering – just for them. So, if you think you can negotiate your "deal" – think again. The whole premise of franchising is offering "uniformity" – so don't forget this and you'll be much happier.

Hopefully, you now understand – the process has nothing to do with negotiations – it has to do with working within the laws – and still ensuring you get the information you need and want.

3. Assuming that in buying a franchise, you are buying an existing business that you just have to "operate or manage."

When you purchase a franchise, you are, for all practical purposes, buying ONLY a business "starter kit." A darn good "starter kit" – one which the franchisor has tested and tested, resulting in a "process" to building and operating a business that eliminates costly learning curves and delays if you were to try to do it completely on your own – but still a "starter kit." In other words, you will have contracted (usually for a ten-year period) to exclusively use (in a designated geographic area or territory,) a franchisor's idea and trademark, their proven marketing and operations plan, and their support staff (and often much more) – but YOU have to find customers. Without customers, you have no business to "operate or manage."

Now, some franchise models require you obtain customers through placing a lot of advertisements (provided to you by your franchisor) designed to attract customers. Some models would have you gain customers through direct sales (cold calling, consultative sales through lead generation and appointments, and/or networking.) Some may use a combination of several methods.

A good consultant will spend a great deal of time with you in a consultation session – learning about your skills in marketing and sales – as this will be a primary requirement for your potential success in a particular franchise model.

If after reviewing the marketing and/or sales component of a franchise offering, you do not believe you can successfully direct the marketing programs provided, you either need to ensure you have an employee or partner that can assist you in these functions – or you should not purchase a franchise. Your consultant will probe hard on this issue, as they want the confidence as well that you can "do what it takes" to succeed. You are the ultimate judge of this issue – and you need to listen and learn before making your decision.

4. Assuming your franchise will make a profit from which you can draw monies for yourself, from the very beginning of operations.

There is a similarity to this notion to #3 – in that you must understand you are purchasing a "starter kit" for a business – and that business needs customers before it will begin to make money for you.

Timing for business ramp up is going to differ significantly, depending upon the business you are evaluating. In general, the simpler the business model, the more rapidly the business ramps up. Similarly, the more complex the model, the longer it takes to make money – but the more complex models are also more likely to be bigger "equity builders" than some of the simpler models. So, it's a "tradeoff."

Your TYN consultant will explain to you that all business models have three "financial indicators" with which you want to be comfortable:

- The timing for when the business goes "cash flow positive" – meaning there is more money coming in the door, than going out the door in expenses
- The timing for when you can begin to take money out of the business for yourself (owner compensation)
- The timing for when your business has reached its projected ideal sales and profit levels

When you evaluate franchises, you want to gain an understanding of owner experiences with these indicators, so you can plan accordingly. If the business is not designed to ramp up fast enough for your owner compensation needs, then you need to reserve sufficient living expenses until it does.

Every franchise business is going to have slightly different financial performance, because every owner/operator is different – and is going to run his or her business with their own personal touch. Some owners simply work harder than others – and are going to achieve different results. Again, the franchisor can give you the model – but you have to provide the energy and follow their system.

5. Assuming that your spouse or "significant other" will be "on board" with whatever you decide, regardless of their involvement in the evaluation process.

An average client spends something in the neighborhood of 10-20 hours per brand during the evaluation process. An enormous amount of information is disseminated – about franchising in general, about specific brands and their offering, and about financial considerations.

Yet, many clients have only casual conversations with their spouses throughout this process, resulting in spouses being "left in the dark" with regard to the choices their partner is making. Under a "worst case" scenario, the spouse is hearing about the franchise opportunity (or details) for the first time when both parties attend a final meeting with the franchisor team at their headquarters. Not surprisingly, a spouse who has not been "kept informed" is asking questions at that meeting that should have been answered months before – and can appear disruptive and challenging.

A good franchisor does not want an owner whose spouse is not "on board" with regard to their choice. There are two reasons for this:

1. Most states require both spouses to sign franchise agreements, so they can hardly request a spouse sign any document with which they are unfamiliar
2. They want to ensure that their new owners have "smooth sailing" in starting up their new businesses. If a spouse isn't behind them and is bringing conflict into their surroundings, it can impact their performance. Remember, a franchise is only as strong as their owners – so they want to ensure from the very beginning that you have the tools to succeed.

If a franchisor is not confident the spouse is "behind the owner" in their choice of that franchise – they will likely not offer an opportunity to purchase the franchise until they receive this confidence. This can mean a delay in starting the business, or a permanent withdrawal.

The safe bet is to include the spouse in the evaluation process – and your TYN consultant can help you do this in the best and most time efficient way.

In conclusion, let your TYN consultant guide you and help you – every step of the way. If you have questions or issues about anything, bring them up with them. They know this industry, they know the brands you're evaluating, and they know small business – and have been in your shoes before. You'll find that in really using their services, you'll have "wind in your sails" both through the process – and when you begin your new business.

FRANCHISING TERMINOLOGY

Every industry has its "language" – here are some terms with which you will want to become familiar.

Executive Summary

Every industry has its language – and so does franchising! You may want to keep this guide handy until you become more familiar with various terms.

The first ten below are the most commonly used terms or phrases you will find in franchising.

Capital Required: The amount of money a Franchisee will need to ramp up their franchise business during the start-up phase (average 3 to 15 months) to the point of producing a profit.

Exclusive Territory: This is the region or area a Franchisee will have exclusive rights to operate within. It is generally defined and mapped in terms of targeted households or population.

FDD: An acronym for "Franchise Disclosure Document" – an extensive legal document that provides you with "all you need to know" about a particular franchise. Regulated by the FTC, the FDD contents must be disclosed to potential buyers before purchase.

Franchise: The legal rights (the surrounding trademarks, copyrights, franchise operating system, support, training, product or service) a Franchisee obtains from a Franchisor under a franchise agreement to operate within a designated contract period as their business.

Franchisee: The person, partnership or company who pays the Franchisor for the right to own and operate a business using the Franchisor's marks and system.

Franchisor: The person, partnership or company that controls the overall rights to the franchise.

Franchise Agreement: A non-negotiable contract, per FTC regulations, between a Franchisor and a Franchisee in which the Franchisor grants the Franchisee certain legal rights to use the Franchisor's marks and system in connection with a business to be independently owned and operated by the Franchisee.

Liquidity: The total cash available to a franchise owner for business operation or living expenses.

Assignment: The sale of a franchise by one Franchisee (assignor) to another (assignee) is called an "assignment." In most FDD's, the Franchisor designates an "assignment fee" that must be paid by the original franchisee – which is then used by the Franchisor to train and induct the new Franchisee.

Net Worth: Your assets (i.e., the cash value of all you own) minus your liabilities (i.e., what you owe).

Royalty Fee: An ongoing fee paid to your Franchisor for support services received through the life of your contract – usually a percentage of gross income or a flat monthly fee.

If there are any terms you do not see, ask your consultant.

A

Acknowledgment Of Receipt: This is a page signed by prospective franchisees upon receipt of the FDD, and then returned to the franchisor, as proof that the franchisor delivered the FDD on a particular date.

Advertising Fee: A franchise agreement may request a contribution by each franchisee to an "advertising fund." This is a periodic fee to fund specific advertising and marketing program development for the franchised business, such as artwork for ads or coupons, radio spots, etc. It does not replace local marketing efforts by the franchisee. It may be based on a percentage of the franchisees' revenues (typically less than 3%) or a flat fee. It may be due weekly, monthly, quarterly or annually.

Affiliate: A business entity that is controlled by the franchisor, or that controls the franchisor, or that is under common control with the franchisor.

Approved Supplier: A supplier of products and services is approved by the franchisor to provide products or services to its franchisees. A franchisor may designate itself or its affiliates as approved suppliers. Franchisee may sometimes be required to purchase certain products or services only from approved suppliers.

Arbitration: Arbitration is a form of dispute resolution in the event of a disagreement between the Franchisee and the Franchisor, and is normally chaired by a nominated individual or independent third-party. The Franchise Agreement may or may not provide for arbitration between the parties to the Agreement.

Area Development Agreement: A term that refers to the specific agreement provided for multiple unit or territory purchases of a particular franchise. Generally, an ADA will allow a prospective Franchisee to purchase several units – but not have to open all of the units or territories at once. With a cash deposit, the Franchisee can "hold" the units, and then open them at a designated time in the Area Development Agreement – usually 12-15 months after the opening of the prior unit.

B

B-2-B: An acronym for "Business to Business." Used to describe a type of franchise whereby a Franchisee offers products or services of use to other businesses, not to consumers.

B-2-C: An acronym for "Business to Consumers." Used to describe a type of franchise whereby a Franchisee offers products or services of use to consumers (B-2-C).

Business Opportunity: A term used to describe a non-regulated business offering. Buyers should be beware that these offerings are not protected by FDD compliance laws. (Also known as "Biz Opp.")

C

Capital Required: The amount of money a Franchisee will need to ramp up their franchise business during the start-up phase (average 3 to 15 months) to the point of producing a profit.

Company-Owned Units: Units (or territories) of a franchise that are owned by the Franchisor. Such units allow the Franchisor the ability to test new ideas and products without detriment to the overall operation of a particular franchise. Usually these units are required to contribute to an advertising fee or any such group expenses.

Consumer-Driven: a term that is often applied to franchises that appeal only to consumers rather than businesses. Same as B2C, or "Business to Consumer."

Conversion Franchise: When a franchisor purchases a business or existing franchise with the intention of converting that business to a "newly-fitted" franchise business. Some printing franchisors, for example, use this model to convert older, offset printing businesses to new, digital printing franchises.

D

Default: The failure of the franchisor or franchisee to perform according to its obligations under the Franchise Agreement. Either party is said to be "in default" with regard to their agreement.

Disclosure Document: See "FDD."

Disclosure Laws: State and federal laws that require franchisors to provide certain information to prospective franchisees before they sell them a franchise.

Disenfranchise: The withdrawal of the franchise by the Franchisor from the Franchisee. This is likely to occur when there have been persistent breaches of the Franchise Agreement by the Franchisee that have been brought to the Franchisee's attention, and have not been resolved.

Dispute Resolution: A mechanism provided in a Franchise Agreement for Franchisors and Franchisees to deal with disagreements, should they occur. Not quite the same as arbitration – usually precedes arbitration and is designed to resolve issues before they require legal intervention.

E

Earnings Claim: Any information that a franchisor provides to a prospective franchisee from which a specific level, or range, of actual or potential sales, costs, income or profit can be easily ascertained relating to franchised units or company-owned units.

Exclusive Territory: This is the region or area a Franchisee will have exclusive rights to operate within. It is generally defined and mapped in terms of targeted households or population. (Note: Not every franchise offers this right, but many do.)

Expiration: Used to describe natural end of a franchise agreement term – generally 10 years.

F

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Federal Trade Commission (FTC): The Federal agency in Washington, D.C. that regulates franchises.

Franchise: The legal rights (the surrounding marks, system, support, training, product or service) a Franchisee obtains from a Franchisor under a franchise agreement to operate within a designated contract period as their business.

Franchisee Advisory Council: The Franchise Agreement may provide for the formation of a Franchise Advisory Council – with Franchisees assuming the role of assisting the Franchisor with certain group decisions.

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Franchisee: The person, partnership or company who pays the Franchisor for the right to own and operate a business using the Franchisor's marks and system.

Franchise Fee: Often referred to as "initial franchise fee." This is a one-time, up-front payment by the Franchisee to the Franchisor for the rights to a franchise. This fee is due and paid once the Franchise Agreement is signed, is generally non-refundable, and precedes final payments.

Franchisor: The creator of a franchise system. The party to a franchise agreement who grants prospective Franchisees the right to use the Franchisor's marks and system.

G

Goodwill: A term used to describe the value of trade already established in a particular business that is likely to continue to the benefit of the new business owner.

I

Intellectual Property Rights: Trademarks, service marks, know-how and copyright. These often form an important component of the franchise system.

Initial Investment: The minimum amount of money generally required to begin operating a franchise. This amount typically includes the initial franchise fee, any required purchases from the franchisor, and all other common costs and expenses involved in starting up a franchised unit. Most Franchise Agreements provide an estimated range of investment costs, taking geographic variances into account.

Initial Training: The formal instruction the Franchisor provides its Franchisees in terms of operating the system. Generally includes (at minimum) a comprehensive review of operations manual, training on scheduling and/or financial software, marketing and advertising, and legal requirements.

L

Lease: A rental contract for a retail space.

Licensee: See Franchisee or Master Licensee.

Liquidity: The total cash available to a franchise owner for business operation or living expenses.

M

Marketing Fee: See "Advertising Fee."

Marketing Manual: A manual of information intended to guide a new franchise owner in how to promote and effectively market their products or services into the community. Such manuals will provide bromides of forms and posters to be used, together with details of how to monitor performance of the promotions conducted.

Marks: The trademarks, services marks, logo, trade dress, and other commercial symbols the franchisor grants the franchisee the right to use in the operation of their franchise.

Master Licensee: The person to whom the franchisor grants exclusive rights to offer and sell franchises within a particular territory using the franchisor's marks and system. Sometimes called a "master, or sub-franchisor."

Multi-Unit Franchise: A Franchisee that owns more than one unit. Multi-unit owners are often the strongest operators in a franchise system – plus, a system with many multi-unit operators is one that is likely performing quite well.

Multiple Franchisors: Franchisors offering more than one franchise concept.

N

NASAA: The North American Securities Administrators Association, which prepares the FDD Guidelines to facilitate compliance with state franchise registration and disclosure laws.

Net Worth: Your assets (i.e., the cash value of all you own) minus your liabilities (i.e., what you owe). Most franchise companies have minimum net worth requirements to prohibit buyers from overextending.

O

Offer: A verbal or written proposal to sell a franchise to a prospective Franchisee upon understood general terms and conditions.

Offering Circular: Used to refer to UFOC, previous description for document now called "FDD."

Opening: The time when a franchised unit first opens for business.

Owners: The individual owner(s) of a franchise that is a legal entity such as a corporation, general partnership, limited partnership, or limited liability company.

Operations Manual: The "handbook" a Franchisor provides to its Franchisees in printed or electronic form about the in-depth operations of the franchised business.

P

Predecessor: Any person from whom the Franchisor obtained most of its assets.

Public Figure: Any celebrity or well-known figure who endorses a franchise or whose name or image appears in the franchise name or symbol.

R

Registration: The process of officially filing with state franchise regulators certain specific information and forms required by state law. In many states with franchise registration laws, registration is not effective until the franchisor's application is approved by the state franchise regulators.

Registration Laws: State laws that require franchisors to register the franchise with the state before making any offer or sale of a franchise in the state.

Relationship Laws: State laws that govern the relationship between franchisors and franchisees, such as laws that limit the grounds for which a franchise can be terminated.

Renewal: The extension of the term of an expiring franchise, or the granting of a new franchise upon the expiration of the old one.

Royalty Fee: An ongoing fee paid to your franchisor for support services received through the life of your contract – usually a percentage of gross income or a flat monthly fee.

S

Service Mark: A distinctive name or symbol used to identify the franchisor's services and to distinguish them from the services of others.

T

Term: The time period during which the franchise agreement will be in effect.

Termination: The premature ending of the term of a franchise agreement by one of the parties to the agreement.

Trademark: A distinctive name or symbol used to identify the franchisor's products and to distinguish them from the products of others.

Transfer: The sale or other transfer of the ownership of the franchise agreement, the franchised unit, or assets of the franchised unit from the franchisee to another person.

U

UFOC: An acronym for "Uniform Franchise Offering Circular" – the document now known as the "FDD."

FREQUENTLY ASKED QUESTIONS ABOUT FRANCHISING...

And The YOU Network

If you have never evaluated a franchise before, it can be a rather overwhelming task. Many tell us they feel like a "babe in the woods" – and that they need someone like us to help them navigate the process.

So let us help you "walk before you run" – with some of the absolute basics you need to know about franchising...

WHAT EXACTLY IS FRANCHISING? IS IT THE SAME AS A "BUSINESS OPPORTUNITY?"

Franchising is a popular form of business – globally – and it basically involves this:

If a business owner has what they believe to be a successful concept, and wants to expand, they can attempt to raise capital (not always easy without substantial collateral); or they can expand by "franchising" their idea, trademark, business plan and proven operating "system" to investors, who, in turn, operate the franchised business within parameters defined at the time of sale through the Franchise Disclosure Document (and Franchise Agreement.) The Franchising Agreement is generally for a period of 10 years, and can be renewed upon completion of the time period, if both parties agree to do so.

Franchising is NOT the same as a "business opportunity." Franchising is governed by federal law (and by certain states) and provides its owners with significant legal protection. Business opportunities, on the other hand, are governed by a much less protective series of laws at both the federal and state levels – therefore offer their purchasers little or no protection. There are many perfectly "legal" business opportunities available – but "biz opp" purchasers need to be aware of the legal structure of their business and its severe limitations.

In addition, business opportunities tend to be much lower priced than franchises (under $60,000), and far less "comprehensive" in their total service offering to a buyer.

Whereas most franchises offer a trademark, a proven operating system, training, and ongoing support – many "biz opps" simply provide a self-training book and a product or service – and you're "on your own." Some may provide classroom training, and a few more amenities with the "sale" – but overall, you are not getting a proven "system" or any form of ongoing support – you're just purchasing a concept you may market.

WHAT ADVANTAGES DOES FRANCHISING OFFER ME – VERSUS "STARTING MY OWN BUSINESS?"

Anyone who has operated their own business will tell you "you have to wear MANY hats." One moment you're the company accountant, the next moment, the customer service representative, and the next – the marketing director, and so on. It can be overwhelming. AND, because you have so many learning curves to conquer, your chance of failure is quite high. In fact, U.S. government statistics generally indicate that a significant number of new (non-franchise) businesses started, eventually fail.

Franchising takes many of these "hats" away from your plate so that you can concentrate on making your business, and your unique skills, work for YOU. The franchise company has already experienced the learning curves for each required function – and has worked out a solution for each one. So, when you purchase their proven system for operating that business, you also get:

- Comprehensive training that gives you all you need to get started – including operations manuals and in most instances, back-room instruction, software, and support
- Professional support staff providing day-to-day (or 24/7) advice and help
- Easy-to-implement marketing and advertising programs THAT WORK
- A network of other owners who have "been there, done that" who can help you accelerate your learning curve

The bottom line of the franchising model is that it is designed to offer you a business with less risk – as so much has already been done for you. Think about the popular Verizon TV commercial – where "The Network" is behind you. In effect, this kind of "backup support" is what a franchise provides you, i.e., you are never "alone" having to make decisions in a vacuum.

The ongoing cost to you of having this support is generally referred to as "royalties" – which are generally charged to you monthly (by your franchisor) as a percentage of your gross business income (generally in the range of 5-11%.) We prefer they be called "service and support fees" – because that's exactly what they are. If you were to try to replicate these support functions on your own, they would cost FAR in excess of 5-11%. By being centrally managed, your franchisor is able to share costs across multiple owners like you – AND keep total costs down.

I KNOW WHAT FRANCHISE I WANT... WHY SHOULDN'T I JUST CONTACT THE FRANCHISE COMPANY DIRECTLY?

First of all, you need to understand that unlike buying a refrigerator – you are not necessarily "the consumer in control" when you are purchasing a franchise. The better franchise companies have high qualifying standards (your skills, your finances, etc., must meet their defined criteria,) and they expect you to demonstrate that you meet those standards before they will even consider you for their franchise opportunity. As a result, buying a franchise is a lot more like job interviewing. And, just like a job search, the companies don't necessarily solicit "cold calling" – as they find they have to spend WAY too much time educating people about franchising and their franchise offering – only to learn you weren't right for their business anyway. In certain instances, if you even try to call the company directly, you will find you can only leave a phone message – and you may not ever hear back from the company.

This is why most of the better companies prefer to work with franchise consultants like The YOU Network. They KNOW that our consultants will have already spent a great deal of time educating you about franchising and learning about you and your needs in a franchise – before they ever meet you. They KNOW that you are "pre-qualified" and far more likely to be someone that is right for their particular opportunity.

Using a consultant makes far more sense for you as well – it saves you from combing through a plethora of information AND it helps you avoid making expensive mistakes.

Our highly experienced consultants will make sure you "cover all of the bases" as you learn about opportunities as well – including making sure you are always prepared to represent yourself to franchise companies in the very best possible light.

And the best news – it costs you exactly the same, whether you use a consulting service like The YOU Network, or go directly to a particular franchise company. So you might as well take advantage of the valuable service we provide.

HOW DO YOU PROVIDE THIS SERVICE *FREE-OF-CHARGE?*

All of our services are complimentary to YOU. However, we most certainly are paid. We are paid by our group of franchisor companies because they value the education and pre-qualifying service we provide them. And because the law dictates that franchise companies cannot surcharge you when you use a consultant – or offer you a discount when you don't – the price of the franchise to you is exactly the same whether you choose to use The YOU Network, or not.

You should also know that the better franchise companies prefer to work with consultants like those with The YOU Network. They know from experience they will be speaking with a candidate that has been pre-educated, that is most likely a good fit for their business – and, as a result, they will be anxious to spend time with you. You might say our introductions "move you to the top of their list."

HOW IS YOUR "PROCESS" DIFFERENT OR BETTER THAN OTHER FRANCHISE CONSULTING COMPANIES?

In general, our approach is simply FAR more thorough, more comprehensive and frankly, more ethical, than our primary competitors. We don't "short cut" (or eliminate) steps, as many of our competitors do, that are necessary to "learning what you need to learn in order to make an educated decision." We offer the absolute best counsel, AND, our consultants are accessible to all clients AFTER they purchase their franchise – not just as they are considering a purchase.

At The YOU Network, we believe you deserve and WANT better service than what many "consulting services" claim to provide. If speaking with any franchise consultant outside of The YOU Network, we strongly recommend you check credentials. Most importantly, find out:

- the length of time your consultant has been in the franchise industry
- the number of companies they represent (anything less than 75 companies may limit your choices).
- whether their "matching" software or "test" has been market-validated or built specifically for franchising
- what services they offer beyond just "franchise matching" – and, in particular, the support they will provide you once they introduce you to your "franchise matches"

This company was created to provide people like you with an honest, professional, and ethical choice. So if you're serious about considering franchising and working with the best companies – then you want to work with The YOU Network. We're the seasoned pros, the "grey hairs," the folks with REAL business experience. We provide a FAR more comprehensive service to you – beyond just "matching" – because our reputations are built over time by placing successful owners, not selling franchises.

To even better understand what sets us apart, here's a sampling of what we DO and DO NOT provide you:

- We help you assess your skills, financial needs, strengths, weaknesses, aspirations and lifestyle requirements – BUT without gimmicky and unscientific personality "tests" that are no more than marketing ploys. Only The YOU Network utilizes the proven, market-validated Franchise Navigator program to assess your individual values and strengths vis-à-vis various specific franchise models.
- We direct you and introduce you to the appropriate franchise concepts that meet your needs – not just any franchise that is in business and is willing to pay a referral fee.
- We continue to work hand-in-hand with you as you investigate your franchise concepts, so that your evaluation process is focused, thorough, and you learn what you initially need to know about franchising – AND we can be available to you even AFTER you purchase a franchise. With many of our competitors – once you are introduced to your "franchise matches" you see or hear very little from your consultant again, making your investigation process and purchase both stressful and leaving you more uninformed than you would like.
- We publish a wealth of educational information that assists you in both your evaluation process and in your post-buy efforts to manage your franchise effectively and efficiently – instead of material designed to "convince you to buy a franchise." Only a franchisor can sell you a franchise – so our only role is to help you make an informed decision about your future.

In short, we provide a service similar to that of a "buyer's agent" in the world of real estate – only with a few "twists" unique only to franchising that serve to your benefit. And, just like a buyer's agent, our services to you are complimentary.

WHY DO I HAVE TO FILL OUT PROFILE FORMS? WHAT DO YOU LEARN FROM THEM?

Our private clients group of franchise companies consists of opportunities ranging in price from $50,000 to over $1 million. Some of them require industry experience, some not. Some require strong sales and marketing skills, some not. Some require an owner to hire up to 50 people in order to be successful – and if you're not comfortable managing people, this would hardly be a fit for you. Some require working an 80-hour work week, some an average 40-hour work week. And the list goes on...

The truth is, no two franchise companies are the same. And in order to guide you to the appropriate company, we have to get to know – in depth – what you're "good" at doing; what makes you "want to get out of bed in the morning and go to work;" what you "like to do or don't like to do;" how you intend to finance your business; how much you are looking to spend on a business; when you're looking to open up your business...and more.

With this profile information, we will be able to guide you and suggest franchise opportunities that meet your appropriate personal criteria. If you tried to screen franchises on your own, you would be reviewing among the 3500 franchise opportunities available today – and quite frankly, this level of search would be exhausting for any buyer.

Remember, The YOU Network has already done a lot of "up-front" work for you. We have companies in every category imaginable – including such popular categories as food, fitness, automotive, in-home services, retail, and business-to-business.

DO YOU SHARE MY PERSONAL INFORMATION WITH FRANCHISORS?

Only if and when you give us permission to do so. Obviously, it is to your advantage to share this information, as the franchisor will otherwise simply ask you many of the same questions and thus duplicate your efforts. Nevertheless, we value your privacy and ALWAYS request your permission in this matter.

HOW MIGHT I KNOW IF I HAVE "WHAT IT TAKES" FOR FRANCHISING?

Obviously, the real proof is "in the pudding." NO ONE can absolutely predict or promise your success in franchising. YOU have to make it work, having been given the tools to get started. That being said, there is a great deal you can do to better ensure that you purchase a franchise that is more closely aligned with your unique skills and needs – and you will receive the support you need and want. And, of course, this is the service The YOU Network provides you.

If we do not believe we have a franchise that meets your needs, we would let you know quickly so as to not waste your time – or our franchise companies' time.

CAN I AFFORD TO BUY A FRANCHISE?

Franchise opportunities range in price from as low as $50,000 – to into the millions of dollars. In order to assess "affordability" you need to look at the amount of liquidity, or cash, you have available – so that you can cover your personal needs until your business begins to show a profit – and the total cost of the franchise.

As a guideline, the minimum requirement to qualify for most lower- priced franchise opportunities tends to be $40,000 liquid and $200,000 net worth – plus "cash to live on." As most franchises are financed beyond a cash down-payment, you will likely need to understand how financing works. Your consultant can help you understand what you can most likely afford, and what your financial options might be.

HOW DO I OBTAIN FINANCING?

Simply put, financing IS obtainable. However, if your credit is poor (below 700,) you probably should wait until you improve upon your rating before you consider purchasing a franchise – or credit might be hard to find.

Each financing option comes with its own set of requirements – so in order to understand which might be most appropriate for you, we recommend you discuss your financing options with your consultant – who will then introduce you to experts who can guide you as needed.

WHAT IS AN FDD?

The Franchise Disclosure Document is the document that a franchise company is required by federal law to give to a prospective franchise buyer before the franchise can be purchased, and includes a wealth of information about the franchise, including:

1. The history of the franchise and its officers and directors.
2. A complete description of the business to be franchised.
3. All costs and fees that you will be subject to under the agreement.
4. All obligations of either party to the other during the term of the agreement and thereafter.
5. Any relevant litigation history of the company or its officers.
6. Any business failures, ownership transfers, franchise agreement terminations or other potentially adverse information relating to the success rate of the existing units in the system.
7. Audited financial statements for the previous three years for the franchise company.
8. A list of the existing franchisees.
9. A complete copy of the actual franchise agreement document.

The FDD's primary purpose is to provide any prospective franchise buyer with uniform information with which they can make a decision about the purchase of one franchise over another. It is the most important and valuable document in your "learning process" about a franchise.

The YOU Network consultant assigned to you will spend a great deal of time with you, helping you understand the purpose, the content and the value of the FDD. This, again, is one of the reasons why you benefit from having a franchise consultant. They will ensure you fully understand this document, before you make any decision about a franchise.

I WANT TO HAVE MY BUSINESS UP AND RUNNING AS SOON AS POSSIBLE – HOW SOON CAN I GET GOING?

The simple answer is – as quickly as 30 days or as long as a year. Obviously, every franchise business will have slightly different requirements, but here are a few considerations that will help you get a sense of timing possibilities:

- If your business is RETAIL, you will, of course, need to find a site, unless you already own a building or have space that meets the franchisor company's requirements. This process can take you, on the average, 1-6 months. The Franchise Agreement will generally include specific requirements regarding site selection and many franchise companies even can provide you with assistance in this process.

- You need to know when your franchisor conducts their initial training program. If you have missed the enrollment deadline for the nearest date, you will have to wait until the next available class. It always pays to have a conversation about this with your franchisor as you are investigating the opportunity.

- Your financing can take anywhere from 30 days to 6 months, depending upon complexity. The rule-of-thumb, however, is 30-60 days. Again, the sooner you begin this process, the better – particularly if you desire to take advantage of peak seasons and have a strong need to open "on time."

- You may have hiring requirements – or family commitments – that can affect your ability to open. Be sure to "clean your slate" of family needs – and focus on networking within your community early, so that you can get a jump on hiring.

Your consultant will share with you a proven process for evaluation of franchise concepts that will allow you to learn all you need and want to know – before ever making a decision. Quite frankly, it is our philosophy – and that of the franchise companies we work with – that the best owners are buyers who made informed decisions. Let us help you become one.

"BUT I JUST WANTED INFORMATION..."

Why this means you are already going about the process of evaluating a franchise the wrong way

Buying a franchise is not like buying a refrigerator. If you think all you have to do is "collect the facts" and then make a decision... you have much to learn that might surprise you.

It's always been your way of doing things. You go online and collect information. Or you buy several books on the topic. Then you evaluate the information. And when you are ready to make a decision, you contact the company – on YOUR timetable – and tell them you're potentially "ready to buy" after they answer a few questions from you. It's the "signature approach" of smart, independent business people.

Unfortunately, if you are thinking you can follow this familiar "buying" approach in finding a quality franchise for yourself – you are very much mistaken. Here's why:

1. The better franchise companies will award you an opportunity to purchase a franchise – so you can't just call them up and say you want to buy one. The reason for this is that their overall success as an organization is dependent upon their achieving a very high success rate among their franchisee owners – so they don't just sell to anyone who expresses an interest and has a checkbook. They screen for appropriate buyers, heavily and extensively. And if any company doesn't screen their prospective owners – you don't want anything to do with them, because it means they are NOT being particular in their selection of owners.

   Part of their decision whether or not to award you an opportunity to purchase a franchise involves their evaluating you on many levels – to judge if you "have what it takes to succeed" in their particular franchise system. In fact, the entire process of franchise evaluation is FAR more akin to "finding a job," than it is to your "buying something." A franchise company will most certainly have several executives interview you; they might want to profile you against other successful owners; and more often than not, they might even prefer you work first with a franchise consultant – so that your skills, financials, business acumen, ability to follow a system, and profile potential will have already been assessed before they meet you. Like a job interview, if you so much as fail to show up from an appointment with them on time – you CAN be disqualified from consideration. And don't think this can't occur – we see it happen every day.

2. You can't learn about a particular franchise from online sources – or from books. Franchising is an industry regulated by the Federal Trade Commission (FTC) and much of the specific information you would need about a franchise is available ONLY in documents that are provided you AFTER you have been "disclosed" – meaning, you have been presented with, and you have read, the company's Franchise Disclosure Document, or FDD. The FDD will be the most comprehensive and explanatory document you will receive from a franchise – and they don't send it out arbitrarily until they have learned some things about you, first.

3. Something else that differentiates franchising from other business models is that franchising is VERY MUCH about people. And unless you have the right kind of access to people, where you can learn who they are, and what they are all about – then you, quite simply, don't have the ability to find out what you need – and want – to know. Another way of saying this is that you want an approach to buying a franchise that will enable you to tell "the good guys from the bad guys" so that your hard-earned savings are well invested.

   Among the "good guys" you will want to learn from include a franchise's executives, its support team, and its owners. You would NEVER want to purchase a franchise without speaking to a good number of owners in that system – to learn from them first-hand what it might be like to BE an owner with that particular franchise.

4. And, of course, the franchise industry, like all industries, has its percentage of less-than-reputable characters who will try to sell you a franchise – despite the fact you are not remotely qualified to operate it. Or those

who will let you believe you can make a far greater return on your investment than what is normally feasible. And, yes, even those who sell you something – that can't live up to its promises or simply provides them the highest commission. You simply want to avoid these people at all costs – but it isn't always easy to know who they are. THIS is why franchise consultants exist.

When you first request information from The You Network, a highly experienced franchise consultant, will call you and ask for 10 minutes of your time. **YOU NEED TO GRANT THEM THIS TIME.** You should know that the purpose of this call with you is to both help you understand what our free consulting service can provide you in your search for a quality franchise – but it is also to help you QUICKLY understand what you don't know about franchising, so that you cease making any further, and potentially costly, mistakes.

It has been our experience that every single client starts out with us thinking they know a lot about franchising – and learn, through our approach, that they really knew very little at all. Many customers come to us thinking they want a Subway, and end up buying a maid service. They learn from working with us that their business skills, lifestyle requirements, financial needs didn't match what Subway, (or whatever franchise they thought they wanted) could provide them – and that there were a host of other companies they needed to consider instead. If we just introduced you to firms you thought you would like, odds are you might make big mistakes.

In addition, while finding a franchise that works for YOU is important – it's not all we do. Our support is the most comprehensive on the market – even helping you with decisions AFTER you have decided to purchase a particular franchise. We are the "grey-hairs," some of the most experienced, straight-talking, ethical franchise consultants in the industry – and there is NO BETTER RESOURCE for helping you find and evaluate the right franchises for you and your family.

There are 8 essential steps to our approach – all designed to help you find a quality franchise opportunity and for our franchise clients to learn about you as well! Many even refer to this process as "mutual assessment" because they are going to be learning about you – as you learn about them!

Most of these steps are by telephone and do require a time commitment on your part, which would be explained to you by your TYN consultant – when you finally have "that ten-minute call." In fact, if you haven't scheduled your initial call with your consultant yet, pick up the phone and do so, right now – you'll find it to be invaluable.

OUR PROCESS:
PART I: PERSONAL ASSESSMENT

1. The first step is a ten-minute telephone conversation between you and your TYN consultant, so you can learn more about each other – and YOU can decide if you want to get started in your search, using the TYN approach.

2. If you and your consultant mutually decide that it makes sense to continue, your consultant will send you our Confidential Personal Profile form. This form requests more information about YOU, including your business interests, your self-assessment of selected skills, your preferred level of investment, an overview of your financial situation, location preferences, etc., so that your consultant has the initial background he or she needs to assist you. Your consultant may also send you a web link to access the Franchise Navigator survey, which we will also use to help in profiling your needs.

3. Once your consultant receives your completed form and Franchise Navigator results, they will schedule with you a 2-hour phone consultation session. The purpose of this is to share your profiling results, and to understand your answers to the questions on the CPP form. Your consultant will also run you through a few "mock" business exercises, so that you could get a feel for the type of work that would be required of you with different business models. We find that this session not only helps us truly understand your motivations and needs so that we can best work for you – but it allows us to teach you about franchising at the same time.

4. Your consultant will investigate possible franchise companies that meet your criteria. They will discuss you with owners and decide if a formal recommendation will be made to you. Then, in the next meeting with you...

5. You and your consultant will review the franchise companies that they feel are appropriate for you. IF one or more companies command your interest, then your consultant will contact the company on your behalf and they will contact you to provide specific information about their business.

PART II: MAKING GREAT FIRST IMPRESSIONS – AND LEARNING TO MAKE INFORMED DECISIONS

Your TYN consultant will help you prepare your "Personal Success Strategy," your approach for each company interview you undertake. Remember, this is a "2-way" evaluation process and these companies will be interviewing you as you will be interviewing them. These "personal appearances" (by telephone) before company executives are very important. Your consultant can help you make that highly important, strong first impression.

A representative from each of your selected franchise companies will then set up a series of meetings with you to help you understand their business, to review their FDD (Franchise Disclosure Document, a legal document that discloses details about a particular franchise) with you, and to arrange for you to do "validation calls" with other owners in which you can learn first-hand what it might like to be an owner.

Before each of these meetings, your TYN consultant will "arm" you with questions to ask so that your learning is optimized. They will help you understand "what it is you need to learn"– and how to get the information. They then stay at your side as your advocate/counsel and meet with you by phone each week to keep you focused and informed while you are evaluating franchises.

PART III: SUCCESS ON YOUR TERMS

Because of the outstanding impressions you have made with your franchise choices, you are "in demand." You are invited to attend a Discovery Day with several companies – and you choose the ONE company with which you want to go forward and meet face-to-face at their Discovery Day session.

You will ultimately decide if you want to purchase a franchise. If this occurs, your consultant will help prepare you for your "closing" – your meeting with your franchise company in which you purchase your business. They will cover specifics with regard to business structuring, outside resources needed (such as attorneys or accountants) and common sense advice for "getting ready to be a business owner." All other commonly-needed information is provided by your new franchise company representative. Your consultant will then also provide you with information about TYN post-buy services that you can leverage at any time after your franchise purchase. Your TYN consultant is now your new "sounding board" – a neutral resource-- for your ongoing personal growth and peace of mind.

WHAT **NOT** TO DO IN EVALUATING FRANCHISES

Are you wishing you could find "a short cut" in helping you evaluate franchises?

Are you seeking assurances that you don't "reinvent the wheel?" Just how do you avoid making mistakes? Read on.

WHAT NOT TO DO IN EVALUATING FRANCHISES

At The YOU Network, we take your desire to find the right franchise for you seriously. Our whole approach is designed to help YOU learn about YOU – and then learn about how YOU might best perform in various franchises. Hm-m-m, are you seeing a pattern here? Yes, it's about YOU.

We're not sure how many times it makes sense to remind potential buyers that the evaluation process is really about them. But just because it's "about them" doesn't meant that they are always in the "power seat" through the process.

Frankly, it's easy to be confused on this matter. In the United States, we are all trained and seasoned to believe that "the customer is always right." That the buying process is all about YOU the buyer deciding if the product or service is something they need or want – and the owner should bend over backwards to them if they want to make a "sale."

If you're serious about considering a franchise, the absolute first thing you need to know is that **the process of buying a franchise is more akin to interviewing for a job – not buying a television.** No one – including YOU – can purchase a franchise, just because they have the money. The better franchises are awarded for purchase, not "sold" – so the process of getting to that decision point is probably like nothing you have ever experienced before.

Your consultant has probably shared with you our "franchise evaluation process" – but we believe that sometimes the best way to learn how and why it is different than other buying processes is to understand how NOT to evaluate a franchise.

So let's get started.

WHAT NOT TO DO Rule #1

Be arrogant or controlling when speaking with a franchisor representative.

We deal with some pretty "high powered" individuals every day – individuals who have been very successful in their work lives and are accustomed to a certain level of "power" in their day-to-day dealings with others. We also deal with folks that would consider themselves more "regular," who are simply seeking the independence and freedom that franchising might offer them. Interestingly, both groups have been known to come off like "bulls in china shops" when first meeting their franchisor representatives – despite the pleadings of their consultants. They strive to "take control" of the meetings; they want their questions answered right away without listening first; or they just want to "get to the performance numbers" and ignore all else.

These people are systematically rejected by the franchise companies. And we, as consultants, are left saying

"What part about 'not being arrogant' was I not clear on?"

Imagine going to a job interview and acting this way. Would you get the job? Of course not. So don't for even two seconds assume that because you are BUYING a franchise that you have the right to lead the conversations in this manner. Franchises are "awarded for purchase," not sold.

When you are speaking with a franchisor representative you are developing a relationship. From the first phone call on – you are learning to "put your best foot forward" and to demonstrate your skills and capabilities, while also learning about the franchise company. There's nothing wrong with asking questions (in fact we encourage it), but you must learn to "spoon feed" the questions without "poking the representative in the eye" in the process. Your consultant will coach you in this, if you have any questions – but going in with a "think job interview" perspective is good general guidance.

Another thing you need to be aware of is that franchisors are seeking "team players" – not independent cowboys. They want the assurance you will "follow their system" and not be difficult to work with. They want you to succeed – and they have seen too many people stray from their system and fail. So they are going to try to "weed out the strays from the herd" right off the bat.

Remember, they have invested a great deal of time and money and aren't particularly seeking your advice on how they should be doing things. Once you have followed their system and proven yourself, you earn the right to start influencing potential changes or adaptations to their system.

So, if they ask you to fill out more forms about yourself after you filled out a whole bunch for us – fill out the forms. If they ask you to sit through a presentation that covers information you already saw on their website, bite your tongue and pay attention. Be more worried if they do NOT ask you to do certain things – that would mean they aren't as thorough as you would want your franchisor to be.

WHAT NOT TO DO Rule #2

Be sure to focus upon talking to owners who have failed – so you can learn what might go "wrong."

There is nothing wrong with speaking with system owner failures – as long as they are not the **only** people you speak with! Failures happen for a whole lot of reasons. An owner becomes ill and can't focus on their business. They have family pressures. A spouse is transferred and they have to sell or walk away, as they can no longer stay in the market in which they own the franchise. They change their mind (yes, people pay good money for franchises and simply walk away! Hard to believe, but it happens.) And some simply aren't equipped to "do the job" and therefore, fail.

The point is -- if this is your attitude going into the process, you're going about it from the wrong perspective. You need to enter it thinking, "how might I learn what is GOOD about this franchise? – while also learning about potential issues you may face. EVERY franchise has some issues – and yes, some failures. Even the biggest, most successful franchises have failures. Fact is, there is a human element to the success of any franchise – YOU have to make it happen. There are no guarantees. So your goal at this stage needs to be whether or not you have the "right stuff" to make a particular franchise work for you.

WHAT NOT TO DO Rule #3

Assume that the federal government has reviewed and approved each franchise on the market.

We're going to say this once and **LOUDLY.** The government does not get involved in the review or evaluation of ANY franchise opportunity. Did you hear that?

The federal government DOES require that every franchise file annually what is known as a Franchise Disclosure Document, or FDD. This document is the "franchise industry equivalent of a prospectus" – but much simpler to understand and read. The content of this is universal to every franchisor, meaning they all have to provide the same information. The purpose of the FDD is to protect YOU, the investor. It is universal in content, so as to make it easier for you to compare one franchise to another. And its outline covers those areas most relevant to your purchase of that franchise. If you were not shown an FDD in your evaluation of a franchise, you would not want to do business with that particular franchise. It would mean they are trying to hide something from you.

You should also know that there are "lower cost" offerings in the business market known as "business opportunities." These "opportunities" do not have to comply with the strict rules of franchising – and as a result, can often represent far more risk to you as an investor. They might be perfectly fine businesses, but if you experience issues of any sort with your seller, you have little recourse "after the fact" – as you would with a franchise.

The industry is also somewhat (but not entirely) shielded by the International Franchise Association (IFA). Members of the IFA represent honest, legitimate franchised businesses (see www.franchise.org). Before becoming members of the IFA, a franchise has to be able to demonstrate a level of legitimate opportunity, franchisee support, and success. That being said, "things sometimes change" after membership is granted – and it can be difficult for the IFA to continue their policing of each franchise member – unless the company's questionable actions become quite obvious. Similarly there are perfectly legitimate franchise companies that are not members of the IFA . It simply pays to do your homework.

The world of franchising offers no "guarantee" to new owners – because no one can perfectly predict how YOU the owner is going to act once you enter a business. This is why you go through this evaluation process. While all good franchises work hard to get to know you, YOU are ultimately responsible for making sure that the franchise you choose is a vehicle in which your particular skills and abilities can shine.

WHAT NOT TO DO Rule #4

Avoid using franchise consultants.

Obviously, we're a bit biased here. We truly believe that using a trained, experienced franchise consultant is the only way to go about the process of finding a quality franchise. Unfortunately, we acknowledge that: "not all franchise consultants are created equal." Among the segment of individuals who claim to be "your franchise consultant" there are:

- people with absolutely no franchising (or managerial business) experience at all
- people who simply use gimmicky and unscientific software programs or surveys to "match" you to franchises – then leave you on your own to conduct a proper evaluation
- people whose intent is to sell you specific franchises their company owns, rather than guiding you to franchises that fit your needs and skills
- people who will guide you to whatever franchise offers them the highest commission

It's no wonder that the media often prints reports that suggest you "use caution" in using franchise consultants. For those of us in this industry segment who are offering legitimate services to potential franchise buyers, we would like nothing better than to eliminate these so-called "franchise consultants" from the market – or at least require they call themselves something else. They are not professionals – and shouldn't claim to be as such.

A good consultant has "been in your shoes." They understand the frustration you are feeling in your career – and quite frankly, the fear you have in making any change from your current path. They will help you dig deep into your inner soul to determine what kind of franchise would be best for you. They can help you envision what ownership might be like – what you might like about it, and, similarly, dislike about it. They will teach you how to prepare for your meetings with franchisors and "put your best foot forward" while learning what's relevant. They are the epitome of "straight talk" – **if they don't think they have a franchise that is right for you, they will tell you.**

If you have any questions about the experience and capabilities of The YOU Network, discuss them with your consultant NOW – before you go any further in this process. This company works hard at "raising the bar" in terms of standards. We're the seasoned pros, the "grey hairs," the folks with REAL experience – and we work hard to gain your trust. We provide a FAR more comprehensive service to you – way beyond those of our competitors. And it costs you NOTHING. In our model, franchisors pay us -- not you -- for saving them time in finding the most qualified potential buyers.

WHAT NOT TO DO Rule #5

Shorten the evaluation process.

If we had a nickel for every time a buyer says, *"I know what I want, and I want to be in business by next month – so let's just cut through this and get it done."*

You may have real needs to get started quickly – this can be understandable – but we strongly suggest that you **do not circumvent any part of the evaluation process.** If you need to move quickly, ask your consultant to accelerate the process timing – but do not "skip" any of the process steps.

There are very strong and solid reasons for this point-of-view:

- Right now, you think you know what you want. We will tell you that 9 out of 10 times, potential buyers CHANGE THEIR MINDS about which franchises they want – after they learn more about possible franchise choices. Don't make an emotional, unquantified decision.
- Every step of the process is designed to help you gain a slightly different perspective about the franchise company – or YOU. If you shorten the process, you LOSE that 360 degree perspective gained from experiencing it in total. For example, some people think they can "skip" going to Discovery Day – and they forego a critical step that allows them to truly "bond" (or "not bond") with their franchisor "team." EVERY step is meaningful – or we wouldn't have it in the process.
- You will find there are franchisors on the market that will go right along with your wishes to "shorten the process." You will simply not find those particular franchisors in our client portfolio – because they also know the price that is paid if you make a decision in too great a rush. That being said, don't drag your feet, either. Everyone will have an expectation that you begin and end the process in 4-12 weeks. If you don't think you can complete your evaluations in that time frame, we would suggest delaying when you enter the process.

- You will be giving potential franchisors the impression that you are undisciplined, and impatient. Again, they aren't looking for people who can't play by their rules. There are incidents where candidates had premature discussions with owners in a system they were investigating – before the "permission" of the franchise representative – and, as a result, were not awarded a franchise opportunity. They will love your energy – just keep it moving in the right direction.

WHAT NOT TO DO Rule #6

Let your anxiety or fears get in the way of your desires for self-ownership.

If you finish an entire evaluation process and decide that "franchising isn't for you" – that's fine. We simply want you to truly understand WHY you made that decision.

Every day, we see people enter this process – all excited with the prospect of owning their own franchise business. Many of them have had visions of owning their own business since they were children. Then, they are at a get-together with family and friends, and a favorite uncle says to you, "you're considering a franchise? My best friend owned a (blank) franchise and lost his shirt."

Suddenly you're scared to death. Your fear begins to immobilize you. You start viewing the objective of the process as being "how can I be sure I don't get fooled?" instead of "how might I find the best franchise that is right for me?"

What has happened is that you have let one statement from an uninformed source "harpoon" your confidence in yourself. Instead of "dimensionalizing" and defining your fears – you've let them take control of you.

Your consultant may never know what happened to you – if you do call them, you end up saying something like, *"now just isn't the right time for me,"* or *"I don't think I have the money"* – or the BIG one: *"my wife isn't comfortable with this."*

All we can say is "don't let this happen to you." If you hear of something that raises your concerns, discuss these issues with your consultant. The majority of the time – these kinds of fears aren't real but imagined. Your consultant can help you better understand how to get a grip on your fears – or perhaps even help you realize that they are not going to go away, and that perhaps franchising isn't for you.

One thing to keep in mind: throughout most of the evaluation process, NO ONE is "selling you anything." A "sale" occurs ONLY when both you and your franchisor have decided it's the right choice for you. So, until you "fill out the check" so to say, you are simply "getting information." Don't thwart your learning process by pulling away too early - before you have learned what you need to learn.

If you follow this advice, regardless of your eventual conclusions, you at least know WHY you made the decision you did, and you won't be plagued for years to come that you never "saw through your potential."

WHAT NOT TO DO Rule #7

Assume that all of your prior business experience will ALWAYS directly translate to franchising.

Franchising is a different form of business than most people are familiar with. In its simplest form, it is a form of distribution – meaning, a company can choose to fund distribution of their business model by franchising. So, potential buyers can form opinions that are incorrect – unless they are careful and ask lots of questions.

Here's an example:

John Smith is reading a franchise company's FDD and notices that the company lost money last year. This concerns him, obviously. He wonders if he should continue to pursue this particular franchise. Then, John learns from his consultant that this was a "planned loss" due to re-investment in POS software development for all of the franchisees. And that the company put a "hold" new franchise sales until this software was developed and implemented. As the company's greatest income is from sales of franchises, and there were no sales that year, this reflected the loss.

When John continued with his validation calls, he discovered the majority of franchisees he spoke with had, in fact, experienced sales increases that year. He then realized he had jumped to a conclusion.

During the evaluation process, there will always be something that appears different or wrong to you. What's important is that you document your question, and share it with both your consultant and your franchisor representative. Then, ask the same questions when you are doing validation calls with owners. If you find that most everyone seems to answer your question the same way – you will learn what you need to learn.

WHAT NOT TO DO Rule #8

View the evaluation process as drudgery.

If you're not having fun in your evaluation process – we're going to tell you right now, you are either viewing it with the wrong attitude, or you are never going to be able to "pull the trigger" and buy a franchise.

That might sound a bit harsh, but it's been our experience that success in franchising requires a lot more "glass is full" attitudes than it does "glass is half empty" ones. Your attitude is contagious – and if we, or our franchisor clients, feel like you're just "going through the ropes," we'll probably tell you it's time for us to part company and end the process.

On the other hand, if you're truly finding the process to be difficult or tedious – one of two things is going on. Either you're wearing only your "due diligence" hat – during which you're trying to find something wrong with everything you look at instead of what's right (this is VERY stressful) -OR- you're having problems adapting to the idea of ownership (and need special counseling.) Either way, we ask that you share your feelings with your consultant. We want the process to be exciting for you – or we will not waste your time.

WHAT NOT TO DO Rule #9

Don't bother with taking notes – because you have a "photographic memory" you will remember all you hear.

As silly as this seems, this happens with far greater frequency than any consultant would prefer. Typically, we suggest – at the beginning of the evaluation process – that you buy a spiral notebook and take notes EVERY STEP OF THE WAY. At the end of your evaluation you need to have:

- Completed the requested forms for information about you
- Read the company brochures, materials, the Franchise Disclosure Document
- Discussed your concerns and questions with the franchise representative and your consultant (and other mentors of your choosing)
- Researched the market for the product or services within your area
- Completed your conversations (validation calls) with other franchise owners
- Attended a Discovery Day at the franchisor's home office
- Determined the specific steps next for a mutual decision on your part and on the part of the franchisor
- Obtained necessary information required for financing and registering your company, should you decide to purchase a franchise

You should keep thorough notes of your thoughts and questions at every step – and the answers you obtained when you raised questions. You will find that keeping your evaluation organized in this fashion will go a long way in helping you make your decisions at the end of the process.

WHAT NOT TO DO Rule #10

Don't include your spouse in the process – he or she will go along with whatever you decide.

We can say, unequivocally, that this NEVER happens. What occurs instead is that the spouse, having been completely left out of the process, either sabotages your decision (because they are afraid, and lack all of the facts you have accumulated) or they want to start at the beginning, and duplicate everything you have already done – so that they might develop their own opinions.

If your spouse doesn't work, they will likely carry with them a FAR higher degree of uncertainty about this process than you. YOU are their "security blanket" and they aren't particularly thrilled with your thinking about "shaking up the status quo." Plus, your family and friends are generally looking out for you – to ensure you aren't hurt. One of the ways they might want you to stay on this course is to avoid all risk. YOU have to remind them that starting ANY business involves some level of risk. But that this process is designed for you to make any such risk a calculated one.

DO YOU HAVE THE RIGHT STUFF TO SUCCEED IN FRANCHISING?

Why this means you are already going about the process of evaluating a franchise the wrong way

That really depends upon which franchise you choose, and whether or not you have the skills to manage that particular franchise. But there are some basic attributes that you may own that can boost your potential.

At The YOU Network, we work with hundreds of individuals each year, and they all want to know whether or not we believe they "have what it takes" to succeed in franchising.

No one can entirely predict a person's success in business, but there are ways we can get closer to helping you assess your own ability to succeed – which you learn when working with us.

This white paper focuses on our "shared experiences" as consultants – as to the qualities we have witnessed are shared by successful franchise owners. We hope you find it useful.

QUALITIES WE HAVE FOUND TO BE APPARENT IN SUCCESSFUL OWNERS

1. **Strong owners "count among their values" in life the good old American system of capitalism.**

   Don't laugh. If you have been an employee up until now, and you are considering franchise ownership, you're going to have to learn to "think like an owner" – possibly for the first time. This means, very simply, that the idea of building a business and making a good profit, and hiring and managing people, and building equity for your family's future – suits you just fine. In other words, you BELIEVE in it.

   Remarkably, some people who seek to enter franchising really don't philosophically "approve" of the fundamental elements that are required of managing a business, such as obtaining financing, managing and motivating people, or being in authority, or driving profits, or marketing or selling a product or service – or working hard. When pressed, they might admit to being a bit too "anti-authority" to become "the authority."

   If they are able to consider a business in which there are no employees, perhaps this may still be okay for them – but for most franchises, owning even a little bit of an "anti-business" or "anti-authority" attitude, or life philosophy, would be construed a mis-fit, as there is simply no point in fighting your own nature.

   Successful owners in franchising share a strong belief in capitalism and have common desires to "build" something in their lives that can be their own. They acknowledge that business owners tend to be the leaders in their communities – and they want to be part of that leadership.

2. **Strong owners have taken the time to understand and have bought-in to what is required of them, when working within a franchise system – before they buy.**

   When you work with an experienced consultant, they ensure you learn what's required of you, and what your franchise will be providing you. Point of fact – you don't want surprises AFTER you have purchased a franchise, so this learning is important.

   Inherent to all franchises is a requirement that you "follow their system." Unfortunately, many people construe "following a franchise system" as meaning they will have no control over all of their business decisions – which is a wholly incorrect assumption. "The system" in a franchise refers to "the approach the franchise recommends for building your business." It means you spend a minimum of "X" in advertising, or you spend your time in a particular pattern; that you hire a particular type of employee that they have experienced will be best for your business; that you operate your business financials using their provided software, and so on. The "system" is a foundation, a roadmap, if you may, for getting your business going. You can always do MORE than what they say – but you should never do less. And you make decisions about your business, on your own, every day. You have FAR more flexibility than you initially may believe.

Why do franchisors want you to follow their system? Because they want you to succeed. Because that is what you have bought – a proven business model. They have "been there, done that" – and know from years of experience that if anything less than this is attempted, you will probably not reach your desired goals. Inevitably, if they have an owner that is not doing well, a small amount of investigation tends to turn up that the owner wasn't following the system provided – he or she is spending too little in advertising, putting in half the time they indicated was required to accomplish a task, or some such similar error. And this frustrates franchisors to no end.

It seems obvious that it would make sense to follow the system, but, again, surprisingly, many owners buy a franchise then immediately start to reinvent the wheel... and then can't understand why they aren't meeting their performance numbers.

The best owners not only follow the system to a "T" – they do MORE than what the system demands. They are always coming up with new ideas and sharing them with their franchisor mentors – and doing things "over and above" what is required of them. And this isn't just about putting in extra time or money into their franchise – this is about embracing the business – learning it from the inside out – and making it "theirs to grow."

We always like to provide the analogy that being a new franchise owner is similar to being "the newest member of a group." If you came into a new group, and started telling everyone in the group how to do things, they probably wouldn't take kindly to your suggestions. You have to "earn your right" to contribute. You have to prove yourself and develop relationships with the group members for your ideas to be accepted. Well, the same occurs in a franchise. When you follow the franchise system, and get the results they know you can get, they tend to listen better to YOUR ideas. Most of the time, regardless of the owner's prior experience, the ideas new owners generate in the first 90 days of operations are all things the franchise has already tried – and either rejected because they didn't work – or have already implemented.

So the point is: learn ahead of time what "following the system" requires of you – so that you have no issues or surprises. The FDD is the starting point for this learning – and your franchise sales representative and consultant can "fill in the remaining blanks."

3. Strong owners have pretty much embraced "the buck stops here" as their personal philosophy.

Another way of saying this is that the better owners are very good at taking responsibility for their decisions – the good and the bad. They tend to persevere, to stick with a project until it is accomplished. They are individuals who are not swayed by the first problem they face; instead, they address it, and correct it, and move on. They are strong-willed. They are decisive by nature – not over-analytical. They do not necessarily own a strong personality but are strong of will. They are leaders, not followers.

Does this mean that if you don't consider yourself "strong-willed" you won't do well at franchising? No. We wouldn't suggest viewing each of these attributes quite so literally. You need to look more at the aggregate of such qualities. In other words, if you would say you aren't very good at sticking to a project, and that you have a history of being fairly indecisive and that you analyze things to death before you finally make a decision – then perhaps you're going to be more challenged by business ownership than others.

4. Strong owners know they don't know everything.

The most successful people in business know when to ask for help. In addition, they are willing and wanting to delegate to others, to ensure more work can be accomplished. And, quite frankly, they are just a little bit humble. They choose franchising because they don't WANT to "have all the answers" – they see the advantage to not having to always reinvent the wheel. A wise franchise CEO once said, "when you are purchasing a franchise, you are purchasing 20 years of someone else's mistakes – so that you don't have to make them." He was absolutely right.

5. Strong owners are "glass half full" people.

Quite simply, good owners are able to take most lemons, and turn them into lemonade. They are the kind of people that always have a smile on their face, are good listeners and have a sincere interest in what others are doing and seem to have a lot of people who want to be like them and emulate them. It's more than just natural leadership, it's that they tend to own a personal mantra that "you make your own happiness in this world" – versus looking to others to make happiness for them.

6. **Strong owners are not risk averse – but believe in calculated risk.**

   Risk is present in all we do, every day, every minute. We can fall down and break an ankle. We can go to the store and be hit by a bus. We can start a business – and succeed or fail. A strong owner will essentially recognize that acceptance of some element of risk is needed in life – or we become immobilized. But they are not reckless risk takers. They like calculated risk, where they have assessed probability of success and failure – and found that they liked the outcome. They are drawn to franchising because of its proven models, and reduced risk – versus starting a business on their own.

7. **Strong owners are "big picture" people – and can wear many hats**

   When you own your own business, there are a large number of hats you may need to put on at any given time. One minute you're answering a legal question; the next minute, an accounting question; the next minute you're focused on marketing; the next minute on hiring a new employee. One of the advantages of franchising is that they "take care" of a number of these hats for you, so that you can focus only on those tasks that mean the most to your business growth. Nevertheless, you still have to wear multiple hats. So, the better owners are those that are comfortable shifting roles with frequency – are "generalists" at heart. If someone has had an extremely focused career, e.g., has been a salesclerk in a retail store their entire career – and have done nothing else – they may find it far more difficult to adjust to multiple roles with any degree of speed. Most of the best owners made sure they covered numerous bases in their careers and received some sort of cross-functional training – or they have always just had the talent to see all sides of a situation.

8. **Strong owners are "adaptable" – and are adept at change**

   No business is static. No competitive environment is static. So, it simply goes without saying that change is inevitable when you own a business. The best owners acknowledge that this is part of what is necessary for them to succeed and they are in a constant mode of always looking for better ways to do things.

   The bottom line is that you don't have to have been a manager in the corporate world – in order to succeed in franchising. There are successful owners in franchising that come from all walks of life – they just happen to have some of these unique qualities. Here are just a few, to give you an example:

   - **Tradesmen** (Painters, Carpenters, Construction workers, Installers, Contractors, printers, etc.)
   - **Restaurateurs** (Anyone with experience managing or owning restaurants)
   - **Lifelong Corporate or Federal Employees** (Administrators, Managers, Directors, Project Managers, Service Providers, Marketers, Salesmen, Financiers, etc.)
   - **Entrepreneurs**
   - **Technicians** (Computer tech, engineers, etc.)
   - **Stay-at-Home Moms** ...
   - **AND Business Leaders** (CEO, CIO, CFO, Attorneys, Accountants, Doctors)

   We suggest you discuss your personal qualities with your consultant – and they can help steer you to businesses that make the most of your prior experience – and your future needs.

   Let us help YOU be as successful as you can.

THE FUNDAMENTAL TOOL IN PLANNING

If you could only do just one thing in planning for the career and life you want – and ignore everything else – this is what you want to be sure you have done right.

Most people that are considering the purchase of a franchise are at a "fork in the road" in their careers, and are therefore thinking through all sorts of possibilities for the next direction their life will take. Whether they are looking at an altogether new career direction, buying their own business, starting up their own business, or even opting for early retirement – it's definitely a time when "anything seems possible" – because current approaches are no longer working for them.

Yet from our perspective, many individuals go about this "seeking new career directions" process rather awkwardly. Some start a "horse race" – where they are madly evaluating multiple options and hoping that one will somehow intuitively "pop up" as the right choice. Some turn to family and/or friends and ask them what they should do. Some turn the process of career choice evaluation into a full-time job, because "keeping busy" keeps them from the toughest stage of all – having to actually make a choice. And as they continue to waste time, they burn up critical capital.

How do you avoid these kinds of mistakes?
By becoming a performance goal setter.

There is an old expression: any road will get you there if you don't know what you want. When we mention this expression to many people, they may get a bit defensive and say something in return like, "But I know exactly what I want! I want money, I want a comfortable retirement, I want money to put my kids through college, I want one good vacation a year..." and so on.
That's right – they have a "want" list, not a "plan."

If this sounds a bit like you, then your issue is in goal setting – learning to do it in a way that is productive, versus just being an undisciplined "want list."

Chances are, even if you have taken the time to sit down and make a list of your dreams or aspirations or desires in life – you have created something we call "outcome goals" – not "performance goals." It's the most common mistake in planning – and can make the difference between your success, or failure.

Let us give you a couple of examples:

1. An outcome goal says: I want to travel to worldly places when I get older. A performance goal says: I want to experience 3 major trips between age 45 and 60, and I'm going to do this by saving $2K a year until I reach $10K, then I'll take trip #1, and so on.

2. An outcome goal says: I need a living that pays for and promotes my standard of living, builds toward my retirement, and provides me with a sense of professional accomplishment. A performance goal says, I have determined that, in order to retire, I need to have $1.3 million in net worth by the time I am 65 (which is double my current net worth at 45.) In order to achieve this I need to accomplish the following over the next 20 years: (and this part is flexible, depending upon how you choose to carve out your portfolio.)

   a. Average annual savings of $20K, earning a minimum of 4.0% interest (Would accumulate $400K, without interest)

   a. Additional home equity of $100K (as financial experts predict is feasible) for which you could employ a reverse mortgage

   a. Investment equity of $200-300K – achieved either through business equity or stock market or 401K, etc.

Do you see the difference? By thinking in terms of "performance goals" instead of outcomes, you are able to quantify exactly what you need to achieve. And when there are numbers attached to your goals, it becomes easier to see what your choices might need to be.

Let's take this exercise a step further. Let's say you were comfortable with the idea of being able to save $20K a year – regardless of what you chose to do career-wise – if for no other reason than you believed you could still tighten your belts a bit to come up with that figure.

But point (c) has you a bit puzzled. The part about building equity through investments. You just don't know where to go to make this happen.

Equity is "the carrot" we're all chasing. It's about investing in something that will produce a higher return than traditional savings. And no equity plan is without risk. You just have to decide the level of risk with which you are comfortable. For example, let's expand on Point 2, above, where we discuss equity possibilities:

a. Let's say you decided to achieve your "equity" goal by doubling your annual savings – yet continuing to invest that additional money in low risk, albeit low-interest-bearing financial tools. In other words, you've decided you're going to save $40K a year (instead of $20K) for the next 20 years – to meet your goals. You then have to ask yourself, is this "do-able" if I remain an employee, working for someone else? Perhaps. That is, if you think you can stay employed for the next 20 years. Or, perhaps if you owned your own business, you could live more efficiently and save more in taxes – thereby making this easier to achieve.

b. Let's say you're going to invest in life insurance or in an annuity or in a 401K/IRA program – and let these moderate risk financial instruments build your long-term equity. Again, you have to remember, you can only contribute so much to these programs each year – and you have to have the cash to contribute. So it still begs the question of whether or not you believe you can remain an employee for the next 20 years. And, these can be very conservative investments – or hold greater risk -- depending on what exact instruments you choose to invest in. None are risk-free.

c. Let's say the whole financial market makes you nervous – it's been too volatile of late, you don't really have confidence in it, and you'd rather go in another direction to build equity. What's available to you? Land? Oil? Gas? Gold? Real Estate? Or starting your own business. Or buying a franchise. We can't really address what you would face if you started your own business – as we don't have enough information – but we can address some general considerations if you started a franchise. (But we can say that you will need to pay a significant number of outside service people to "support" you in your business, such as attorneys, and accountants, and real estate agents, and property managers, and IT managers, etc. – so don't forget to compare this expense to the royalty/support fees you would pay a franchise.)

Many franchise opportunities will provide you an opportunity to go cash positive somewhere within the first year of operations. All franchises are different, but you will have access to thorough and complete information regarding what the franchise owners in your particular system earn per year – before you buy your franchise. Unless you have purposely "bought low" in order to keep your investment level down, you have, by design, most likely purchased a system that will allow you income that you believe will at least meet, or exceed, what you brought home on a paycheck basis with your employer.

Now, in addition to income gained from a successful operation, one of the great benefits of business ownership is the opportunity to build significant equity – your "market value" for the business less what is owed on the business. Frequently, the equity that one might build from successful operation of a franchise can far exceed any investments that might have made in a 401K or IRA or even in "open investments" in the stock market. Here's one hypothetical example to illustrate this point:

Joe Smith used to work a white collar job, making $130,000 per year in salary. After paying taxes, Joe figured he cleared about $78,000 a year. So Joe decides to buy Franchise Company A for a total initial investment of $100,000. Over the following 2 years, he invested an additional $30,000 in capital equipment. Once his company achieved breakeven on his $130,000 investment (near the tenth month of operation), Joe was able to take $75,000 out of the business as income in the first 12 months after breakeven. In ensuing years, depending upon his personal needs or the strength of the business year, Joe would take anywhere from $150,000 to $200,000 per year as income. After 10 years of operating his business successfully, Joe sold his business for $1.4 million – that's 14 times what he initially paid for it. Another way of viewing this equity figure is that Joe's efforts every year netted him the equivalent of an additional $100,000+ per year – for every year he was in business.

From a tax perspective, Joe was able to take significant legal deductions against his business – ranging from common everyday business expenses, to client entertainment, to transportation. (These, by the way, were never items he could deduct when an employee, as he was reimbursed for these expenses – AND they were often taxed as income!) In addition, his accountant helped him understand what deductions were allowed him and his wife (as officers of his Sub Chapter S business structure) – such as medical or other insurance expenses. Joe soon realized that while his annual profit before taxes was "close" to his gross salary from his days in the corporate world – his net income was greater, as the tax benefits as a business owner far exceeded that of an individual. AND, he was building a business with strong potential resale value due to his solid performance history and loyal customer base.

Do you see how a franchise could help you build this elusive "equity?" Even if your business sold for exactly what you paid for it, after 10 years, you would still have experienced comparable or greater short term profits/cash flow than when you were an employee, which if you invested as you built your business, could have also resulted in the equity you crave.

The point of this exercise is that all this discussion STARTS with performance goal setting. As we said in the beginning, it is the ONE thing you need to learn to do – or none of your planning will work out for you.

Use this tool as your guide – it will help you make your goals more powerful and achievable. Learn to set SMART performance goals:

S Specific

M Measureable

A Attainable

R Relevant

T Time Bound

When your goals are THIS focused, it's much easier to align your plans with your goals – and know what you are really needing to achieve.

HOW TO AVOID CHASING WINDMILLS – AND BUSINESS SCAMS

Unfortunately, they exist. We wish they didn't.

You've always wanted to own your own business. One day, while in a "dreaming mood," you find this neat little franchise business online and decide to click for information. A representative calls you, and spends some time speaking with you on the phone. It's a business that provides a product for restaurants – and not only does it sound like a product that would be in REALLY high demand, the company sounds like "good people" with which you feel you could get along well. You worked in a restaurant years ago in college and not only do you know the product is needed and would "sell itself" – it's an industry you understand and enjoy. You're excited about the possibilities! This just might be your chance to get away from that dismal job that's slowly stealing your soul.

After several meetings with the franchise representative where they have seemingly covered all of the information about the company that you could ever imagine, you have a chat with your accountant and family, and you decide you're going to buy the franchise. Upon hearing this, the representative sends you their Franchise Agreement, along with a copy of their Franchise Disclosure Document (FDD) – and expects to hear back from you within the week.

Hm-m-m-m. You take a look at the FDD for the first time. It seems to you that this business has a VERY high failure rate among its owners, and this raises your eyebrows. You decide to do a little local homework, so you pop by a couple of restaurants in your neighborhood, and ask to speak to the owner/manager.

"Oh yes," the owner/manager says. "I'm familiar with that company. In fact, when I first heard about it, I was very excited as well – because there is a HUGE need for it. Problem is... IT DOESN'T WORK. In my last company, we had a contract with them – and tried it over and over again, because we WANTED it to work. But it just doesn't deliver. Once our contract was up, we, of course, didn't renew."

You go to the second restaurant. Same story. Oh-oh, a pattern is emerging...

SO, was that a "windmill" or a "scam?" And what's the difference?

A "windmill" is a franchise (or business opportunity) that sounds awfully good on paper, that follows all the legal requirements, yet comes up wanting – largely because it just isn't capable of living up to its hype. This doesn't mean it's a BAD business – but chances are, it's not the business you thought, or hoped, it was.

A "scam" is a franchise (or business opportunity) that is pure "smoke and mirrors" – providing the illusion of offering opportunity and being legal – but isn't. This one is tougher to identify and needs to be avoided at all costs.

Our little restaurant product franchise example was a "windmill." Here is a product for which there is pent-up demand – so much so that "selling it" is easy. Only problem is, the product doesn't live up to expectations. It will work, somewhat, in certain conditions or circumstances – but it doesn't solve the universal problem that everyone immediately thought it was designed to solve. Furthermore, while the franchise company is "following the rules" with regard to the laws about franchising sales, but they are certainly concealing their "dirty little secret" about the product performance. This was best demonstrated by the fact that they didn't provide the FDD to their candidate until he expressed interest in purchasing. By that point, they probably hoped that his exuberance would outweigh his due diligence, and that he wouldn't notice the "problems."

Nevertheless, this experience "spooked" the prospective buyer. Not only did he decide not to purchase this franchise, he decided against franchising altogether. This was a real shame, because there are many things about the franchising model that could have been just right for him and his family's needs.

What could he have done differently – without him giving up on his dream to own his own business?

Start with acknowledging you could use some assistance

Franchising is new to most people. And there are certain things about it that can be different from your corporate world (or other) experience, that you simply can't anticipate right away.

This is why there are franchise consultants. People like those at The YOU Network, whose sole purpose is to help you "navigate the new waters" and make informed choices – and avoid surprises.

There are certain elements that make a franchise "tick," and we call them "pulse points" – and they are usually indicators of a business' health.

The first "pulse points" concern the soundness of the franchise business proposition, and whether it meets the following criteria:

1. Regardless if the business idea is unique or not, the company has found a new and unique way to "serve it up." This is commonly called the business positioning. An example would be a maid service that has "gone green," using only environmentally-safe cleaning products. Or Burger King's grilled hamburgers. Instead of being a copycat to others in the segment, they have created an entity that will help their franchise truly stand out among the crowd. Ideally, this positioning should be easily defendable, and not quickly copied.

2. The business concept is "do-able," tested and proven, (preferably in more than a single unit) and offers a reasonable payout to the franchisee investor (1-3 years, and the sooner the better.) In fact, the better franchises have 95% or better success rates among owners.

3. There is a proven demand for the product or service – not just "fluff" or hyperbole, but numbers. And the more numbers, the better.

4. The franchise offering has a clearly defined "up-front training and development" component, it has an ongoing maintenance and support offering, and it doesn't "nickel and dime" its franchisees for every pen, piece of equipment, or even piece of paper published on their behalf. And the management of the system acknowledges that no business is static and works hard to keep abreast of market conditions and changes that require updates and reforms to the system. In other words, the franchisor is not just in the business of selling franchises, but of primarily managing a franchise system for growth. He is diligently working with his franchise owner to maximize their profitability.

The second group of "pulse points" are most apparent in the selling process ...

5. Where good franchisors sell only to candidates that exhibit either skills or prior experience where needed by that franchise proposition – instead of to anyone with a checkbook, or to those who simply have an affinity or desire for doing "something new." Where the wrong people are turned away.

6. Where good franchisors would no sooner make earnings claims (unless exactly as stated in their FDD) or mislead candidates in any way – because there is nothing gained in their doing this over the long term. In other words, no good franchisor wants a failure on their books or posted in their FDD.

7. Where there is obvious transparency in communications between franchisor and real or potential franchisee...in terms of creation of territories, Advisory Boards, prior failures, ability to speak with current owners, etc. – and in the "process" they use to sell their franchise to potential buyers.

The final group of "pulse points" are inherent in the company's management philosophies:

8. "Going the extra mile" is the credo...not just "doing only what is expected, or what is claimed in the FDD." Most good companies recognize that their success is dependent upon that of their franchisees and are certain to make this happen. Similarly, most good franchisees recognize this is necessary when dealing with their customers.

9. There is visible "balance" between divisions in the company – no one group "rules." Any company that is culturally driven by only one group, be it sales, or operations, or finance – is bound to eventually lose.

10. "Flexibility lives" within the consistency that is part and parcel of franchising. And the company knows WHAT can be flexible and what CANNOT – without risking the franchise.

There are over 3500 franchise companies in the U.S. – most of which are solid, well-managed companies. Franchising has its handful of less reputable companies – like any other industry out there. So don't let the bad apples get in your way. **Let The YOU Network help you find the right franchise for YOU.**

ARE YOU OWNERSHIP-AVERSE?

Many people seek the "greener pastures" of franchising as a "way out" of corporate job challenges.

But before they can consider purchasing a franchise, they may need to readjust their perspective...

A very successful business consultant once told us that she was raised in a family where "being a salesman" was considered the absolute lowest of professions. Just a mention of the term "salesman" conjured up images of "snake-oil salesmen," who sold door-to-door and were aggressive and obnoxious. And that was simply not the self-image she was seeking.

When she chose to go into the business world, she had to learn to overcome her "beginnings" – because she quickly learned that "being able to sell" was inherent to anyone's success in business – regardless whether they held a formal sales role or not. And the longer she was in business, she learned there were many, many different types of "sales" – from an ability to sell oneself – to selling ideas to others – to selling products – to networking with others to get referrals and results – to solving people's problems (a consultative session, resulting in a sale.) And a comfort with at least some of these types of sales was needed if she was to progress in her career. With time and study of each type of sales, she eventually became an expert in "consultative sales" – which required her solving other people's problems with education and counsel. She also eventually realized that her earliest perception of "sales" professions was WAY off-track.

The point of our telling this story is that if you think you are wholly averse to "sales" – then you either have misperceptions about what "sales" requires – or are likely averse to business ownership in general. Because ANY business you consider is going to require you being comfortable in some way or another with making sales. Sales are what drive your business – what bring your business an income, what ultimately makes you successful. What is important to learn – is what kinds of "sales" – like our successful consultant above learned – you could be comfortable with – so that you can pave the way for your success.

It's not unusual for people we speak with to tell us, upfront, "they are probably not right for franchising because they hate selling." After probing, we discover that they really just hate the idea of "tearing up the concrete" – of having to do "door-to-door, cold-calling sales." After even further probing, we learned they loved meeting new people – or loved solving business problems – or loved giving presentations. We realized, after much more discussion, that there were many business models available to these people – that leveraged what they loved to do, not what they didn't like to do. And while they would be "selling" in these businesses – they would not be "cold calling."

Having this particular conversation with your The YOU Network consultant is critical – because every business has to have customers, and those customers have to be found – either through some type of sales, or through marketing and advertising, or through a combination of both. Even if you choose a business model that is 100% advertising-driven – you still need to have this discussion, so that your consultant can gauge your overall communications skills – and direct you to appropriate franchise models.

Here's another tale. A client came to us and requested a franchise business that satisfied the following criteria:

- Wouldn't require him to sell anything, as selling was "outside of his comfort zone" (here we go again...)
- Would allow him to withdraw a substantial salary within the first year – like the salary he was accustomed to
- Would allow him frequent 2-week or more "vacations" where he could take motorcycle trips
- Wouldn't require him having to "do anything with numbers" as this isn't his strength
- Would provide him with a product or service he could really feel passionate about
- Wouldn't require any risk on his part – as he was over 50 and wanting to "hold on" to his money

His consultant quickly explained to him that he wasn't seeking ownership, he was seeking a job!!!

Not surprisingly, the client was a bit taken back by his consultant's comment. "*No,*" he said, "*I really want to buy a franchise.*"

His consultant then said in return, "*You may think you want ownership, but the criteria you just put forward to me can only be fulfilled from a job – or maybe (if we get lucky) a semi-passive investment in a franchise business. Or, if you're REALLY lucky, you can buy an existing non-franchise business and put someone in place to manage it for you. But if this is truly your criteria, you DON'T want ownership.*"

His consultant went on to explain to this client that if he really thought he wanted to consider franchising, they would need first to spend some time together "re-adjusting his expectations" about ownership in general.

Let's "dissect" the client's criteria to better understand what his consultant was informing him:

- A business with no sales or marketing requirements
  - We have already covered this, above.
- Would allow him to withdraw a substantial salary within the first year – like the salary he was accustomed to
- Businesses aren't built overnight. Most business models (franchise or other) take 1 – 3 years to reach optimum profit levels, and an owner needs to plan accordingly. As a rule of thumb, sales-driven business models often "ramp-up" a little faster than marketing-driven businesses, simply because they offer the owner more personal control.
- Would allow him frequent 2-week or more "vacations" where he could take motorcycle trips
  - Most businesses, whether self-started or franchised businesses, tend to allow an owner more personal freedom – but only after the business is "up and running." For the first three years or so, the owner has to recognize they will have many responsibilities that need be met, and that such frequent departures from their responsibilities would be detrimental to their business.
- Wouldn't require him having to "do anything with accounting" as this wasn't his strength
  - With most franchises, an owner is provided very sophisticated accounting and finance software that helps them manage their business – and they train them how to use it to their business' advantage. (If you were to start up your own business, you could use Quick Books, or Quicken, or similar financial management software packages, but would have to train yourself how to use them.) But even with these software packages, you have to take the initiative to find a good small business accountant that will help you manage your business from a tax and financial perspective – so that you can meet your family's long-term goals. You can't "avoid" numbers – they are the "scorecard" for ANY business.
- Would provide him with a product or service he could really feel passionate about
  - There is nothing wrong with this request. If a person can find a business that meets this criteria, that's absolutely wonderful. It can provide "wind in your sails." But it's naïve to think that you can't run a business without "passion" – particularly if you're 50-plus and are facing few other employment options. Many people have learned in evaluating business ownership that once they learn more about the actual business model – and not just a description of the product or service – they can LEARN to love the business, as it is meeting so many of their other needs. Another way of saying this is that there are many well-known businesses or franchises with great products or services – that aren't necessarily good investments. So sometimes, depending upon your life circumstances, you might have to ask yourself "which is more important?" – making the money you need, or making your head feel right.
- Wouldn't require any risk on his part – as he was over 50 and wanting to "hold on" to his money
  - This, more than anything the client has stated, reflects a naiveté on his part. Nothing in this world is without some risk. Even some of the most successful businesses, like McDonald's, have certain locations that fail. If John attempts to buy an existing non-franchised business, he needs to acknowledge that most people sell these businesses because they are "experiencing problems" – not because they are "doing well." The risk in buying any existing business is being able to fully ascertain the scope of problems the previous owner may have had – be

they customer issues or product failures, or poor service. In franchising, the franchise company can provide a new owner with their proven operating system and sales or marketing program – but the owner has to "work the business." The bottom line is that most business failures – franchised or otherwise – occurs when an owner is simply unwillingly to "put in the time" to make it happen – or to follow the "system" provided them. Or they went into the business expecting immediate results, and failed to preserve sufficient operating capital or living expenses. So to expect "no risk" is nothing short of naïve.

- Risk can be managed – and turned into "calculated risk." For example, working only with franchise companies with strong owner validation and track records can reduce risk – but the individual buyer/owner still has to "come to the table" so to say – and do what is required for success. Most trained franchise consultants can help a potential owner put their fears about risk into perspective – so that they don't overwhelm their logic.

- So – the long and the short of all this is that this client either needed to "get real" about what ownership could allow him – or he wasn't going to be happy with ownership. After additional conversation, his consultant classified him as the latter: as what we call "ownership-averse."

If you are looking at franchise ownership as a solution to your employment problems, be sure to read this – and discuss ANY potential issues with your franchise consultant. Ownership isn't for everyone – and you want to feel right about your decision.

What's most important is to keep an open mind. Go into the process assuming there is something right for you – and we'll either adjust your perspective – or let you know if there ARE solutions appropriate for you in the world of franchise ownership.

If we can't help you, we'll be the first to tell you.

FINDING COMFORT IN PARADOX: A COMPARISON OF FRANCHISING TO THE CORPORATE BUSINESS WORLD

The sun or the moon? Which world is right for you?

At The YOU Network, we speak with thousands of people throughout the year. And 5 out of 10 of them initially come to us thinking that owning and operating a franchise is the equivalent of their running a "branch office" of a larger national company.

It's not that this assumption is so wrong. It's just that it's incomplete. Without further understanding, a person could make some severe mistakes in judgment.

So what's "incomplete" about it?

For starters, while the "branch office" analogy isn't THAT terribly off-base, you need to at least be aware that being a "branch office" does not imply "guaranteed success." In addition, every franchise company is not "large" or "national." Many successful franchises have 100 locations or less and have only yet experienced that success on a regional basis – and they may not have recognition in the market you are considering. In assuming that the franchise company is "larger" – many potential purchasers also assume that brand recognition is so great that all they have to do is open their doors for business – and people will come running in. Instead, EVERY franchise requires its owner to invest time in sales or marketing tactics, developed by the franchise company, in order to "ramp-up" and develop a customer base for their particular location. This would be true for any brand – well-known or not. In other words, even McDonald's™ has to build a customer following for a new location – there are no guarantees. In fact, it has been proven many times in franchising that two locations, with identical demographics, can achieve entirely different results – because of the human factor – THE OWNER --involved. The owner has to make the location work. All the franchise can do is provide the owner with the tools to encourage it happening.

All right. So you can't assume that your franchise is just "another branch." YOU, the owner, are important to ultimate success.

OK. THEN WHAT EXACTLY IS FRANCHISING?

Let's start with an excerpt from Franchising 2030, a new book from The YOU Network:

> *The "ideal" of the franchising business model has always been pretty simple. If, as a business owner, you have a really good business in operation, you can attempt to raise capital yourself to expand your business (never an easy task) -- OR, you can franchise your business (become a franchisor) and use other people's money (franchise buyers, or franchisees) to help you gain distribution. In return for using "other people's money," franchisors provide their franchisees extensive training, use of their trademark and products and services, and a host of other varying and ongoing support services -- for a designated period of time averaging 10 years -- that are all designed to provide these franchisees the best possible chance of succeeding. In addition to "starter fees," most franchisors also charge ongoing royalty payments -- usually in the form of a percentage of sales -- so as to allow entry costs to be kept at practical minimums and to help the franchisors continue to build and maintain an optimally competitive "system."*

Sounds simple enough. And those differences from the corporate world would be?...

	Corporate World	Franchising
How you learn about a company's performance	Company growth largely tied to sales of product(s) or service(s) – you can read the annual report and make assessment of financial performance (public company only.)	Growth of company ultimately tied to sales of franchises – not just to product or service sales. If royalty (support) payments are down, this would reflect weaker performance among some owners – but this is not the ultimate barometer of success. Franchise Disclosure Documents (FDD), and potential buyer's interviews with owners provide financial performance information
The culture, the way-of-working	LOTS of politics; many "people" pressures; make change happen as matter of course in order to compete	Minimal politics; collaborative environment between owners and franchise company; "follow the system rules" first – then make recommendations for change
How you grow the business	Most frequently: top-down, directed from corporate, using national and local media and sales	Bottom-up, directed from owners, using local media and local sales, with plan and support from company headquarters. Some companies may have national or regional advertising once distribution is sufficient to allow it
How you make changes to the company	An employee makes recommendations, obtains buy-in and support, and implements	An individual owner (franchisee) makes recommendations to company headquarters – if accepted, franchisor will announce implementation THROUGH network of owners
Compensation criteria	May or may not be geared to performance	Directly related to performance; earnings claims, if provided, are as stated in FDD, but no guarantees are made
Tax deductions	Employee tax deductions go through individual or joint filings	Many deductions available through business structure – be it LLC, C Corp or Sub-Chapter S Corp. Owners draw income from business which is then separately taxable
Hours of working	Fairly inflexible; minimum 8 hours – sometimes more required plus travel	Flexible, depending upon franchise requirements and personal choices made; little travel required

Look closely at this chart and you will see that certain experiences in franchising are nearly THE EXACT OPPOSITE of same experiences in the corporate world. This is why we say that understanding and adapting to franchising can be like "finding comfort in paradox." It may seem almost "backwards" to you at first, but once you have adjusted your perceptions, it may, in fact, be what you have been looking for all along.

So...are you a "sun" or a "moon?"

Franchising isn't for everyone. Probably the most telling characteristic is your ability to follow directions. If you have a VERY strong sense of yourself, and "don't follow rules" very well, then franchising just may not be for you. Franchising REQUIRES people who can "follow the system"--particularly when you first enter the system as an owner. After all, you paid for their advice, so you might as well take it.

You also need to understand that franchise companies have invested a LOT of money and time in their "ways of doing things" – and they don't take too kindly to a strong force that comes into their world and, right or wrong, immediately starts to tell them "they need to do things differently." Once you have your business established, (and you followed their system in doing so) it's quite possible to influence the franchise company with your ideas and thoughts – and they are likely to listen a whole lot better to you by then as well -- as well as welcome your inputs.

You might even consider this: A leader in franchising was once quoted as saying, "When you buy a franchise, you are buying 20 years of mistakes. So why make them all over again? Chances are, that "great new idea" you have has already been tried, and failed. So don't try to reinvent the wheel – you're defeating the purpose of what you bought!"

Many, many people succeed in franchising around the world every day, every year. The best way to find out if YOU might be one of them is to contact The YOU Network and speak to a consultant today.

PUTTING FEAR INTO PERSPECTIVE

Are your fears blinding you like a harsh light? Or immobilizing you, and keeping you from achieving real success in your work life?

Then let's start with a "reality check." Understand that it's normal and healthy to have fears. You don't EVER conquer or control your fears entirely. But you can learn to manage them – and put them in perspective – so that they don't get in your way.

Gary Brock (not his real name) recently retired after a successful career as a stock market trader. In our personal opinion, there are very few people that can speak about personal fears in the workplace better than Gary. Because he was "on the front line," making tough decisions every day throughout his career – and each decision he made was capable of creating self-doubt, a lack of confidence, physical discomfort, and, YES, even personal bankruptcy.

Yet Gary learned to manage his fears – or do what we call "put his fears into perspective." As a result, he worked as a trader VERY successfully for over 25 years, and you would never know looking at him that he had any shadows lurking in the corners of his mind.

What can we learn from Gary? For starters, let's define the many types of fears that are common to individuals that are considering an important decision in their lives -- particularly those fears that are common to those who are considering the purchase of a franchise.

#1: FEAR OF UTTER FAILURE, OF "LOSING OUR SHIRT"

We all would prefer to go to sleep at night, knowing that we will have a roof over our heads, that we have an innate ability to feed ourselves and our family – and that we just might possibly have the opportunity to retire and relax some day. When we're young, we're "invincible" -- and we have total confidence in our ability to succeed. Then, one day, we experience one single failure that knocks us for a loop. From that point on – we risk falling into "analysis paralysis" – a pattern of "over-analysis" of every new opportunity that comes our way. We repeatedly convince ourselves that this is the "responsible" thing to do – yet, when we think about it, we have been fairly risk-averse for a long time now...so what does this mean?

If this sounds like YOU, let's clarify exactly WHAT you are doing to yourself. Or better yet, let's allow Gary to explain:

> *"When I first started as a trader, I wanted to be like the big guys. They all appeared to have "nerves of steel." I studied and studied and studied every opportunity that came my way – waiting for just one of them to leap out at me and tell me it was the one that was going to make me rich. But then I never pulled the trigger. Instead, I kept 'pecking with the chickens' and waited for my 'big opportunity.'*
>
> *One day, when playing golf with one of the more senior guys in my office, he told me that I was 'thinking backwards.' He told me that I was focusing all my energy on my potential loss – as opposed to my potential gain. Instead, he suggested that I start focusing on my overall trading plan – starting with sound trades mixed with some risky trades – and changing the mix over time as I gained more experience and confidence. He helped me understand that even the best guys in the shop had failures – but they anticipated a certain percentage of failures, so that they weren't knocked off their feet when they occurred.*
>
> *I took his advice – and my world changed! I gained more and more confidence with my "eyes on the prize" and began realizing that "better execution" was going to give me better success than "big ideas." I learned a HUGE lesson – and luckily when I was still young enough to enjoy it!"*

When you are considering the purchase of a franchise, it's utterly normal to have a "fear of failure" – and you, too, can possibly fall into "analysis paralysis" as a result of this fear. You have a family, you have responsibilities, and you are bound and determined to make absolutely sure that nothing could "go wrong" with the franchise you are considering – so that you don't risk your hard-earned money – or your family's future. (After all, if your business fails – it can't be as a result of something YOU did wrong, correct?) So you work double-time, reading articles, interviewing owners, combing over the disclosure documents, again and again. And what have you accomplished when you are done? Only in gaining an excess of one kind of information – a history of other people's performances.

Instead, you should be focusing also on "dimensionalizing" YOUR potential ability to do what is required for success in the franchise system. What this means, is that it doesn't do you any good to let a fear of any sort linger and grow exponentially. You have to pin it down, attack it, add numbers to it, discuss it, question it ... toss it around, and decide if it is really a "fear."

Which is exactly what The YOU Network helps you do. In fact, we're even going to suggest that you put yourself into the shoes of an owner – and answer for yourself whether or not you think you can do the work required. And, while you're at this – answer what would potentially happen in your current job if you didn't!

"Dimensionalizing" your fears is all about getting more information and, as a result, added perspective. In order to do this, you are going to be asked to do the following in your franchise evaluation process:

Speak with owners – and find out what their challenges are. Find out what THEY did, work-wise, before they became franchise owners. *Can you relate? See any common threads?*

Find out what personal strengths THEY believe are required for success – or what weaknesses would be problematic. *Do you own these strengths and weaknesses?*

Speak with the best owners in the company. *Do you have common skills or achievements? Like you, were they "B" students in school?*

Speak with your family and mentors. *Are they going to be there to boost you and support your efforts?*

Discuss your questions and fears with your The YOU Network consultant – and gain insight from their unique tools and experience.

Then look in the mirror. If you have never had a total abject failure in your life before, what makes you think you are going to now, with this venture? Get it all out on the table!

The best franchise owners are ones that realize there are always going to be risks – but if they focus on "dimensionalizing" first, and, then, "best execution," they will minimize those risks – and possibly avoid them altogether!

One other important but often overlooked point: don't forget that purchasing a franchise is not unlike purchasing ANY other asset – as an asset, a franchise has resale value. Obviously, if you have built a franchise system up to a profitable level it will have more resale value than one that has not – but nevertheless, the odds of your literally "losing it all" are FAR lower than you think. Put numbers on your fears before you let them take control of your head.

#2: FEAR OF NOT BEING 100% RIGHT – AND LOSING OTHERS' RESPECT

Too many people let their ego get in the way of their success. They may not be wholly afraid of failure, per se, but they haven't learned to live with the fact that it's "okay" to not be right all of the time. That you can still achieve results when you're only right part of the time. And that most people respect you even MORE if they understand you are HUMAN.

Gary has a really good story about this one:

"I once had a fellow on my staff that equated his entire self-worth with being 'right all of the time.' Another way of saying this is that 'he cared more about being proven right in his analysis on each trade – than looking at the business of trading as a probability game in which he was going to be both right and wrong on his sum of trades.' As a result, the guy was 'wired tighter' than anyone I ever knew. Because not only did he view his job as risky to his pocketbook – but to his entire self-image! Wow. That's really putting a load on yourself!"

"Now, I'm not a psychologist – and this isn't the kind of thing you can just 'tell' someone to stop doing, so I, instead, had an old teambuilding exercise do it for me. First, I asked all of the members of my team to go home and ask their spouses 'what are the three things you love most about me?' They did this, and you know – not one of the spouses wrote down 'your perfectionism' as a 'most admired' trait."

"This exercise was just the 'ice-breaker' for the session we proceeded to conduct – and was designed to shake up our self-perceptions a bit. We continued to have the team members identify each of their co-workers greatest strengths – and weaknesses – and, not surprisingly, when it came time to discuss 'Mr. Right All of the Time,' everyone jumped all over him. They explained to him that he seemed to view his trader life as 'all or none' – sort of a 'Get Rich Quick or BLOW OUT Trying' philosophy to trading. And, from their perspective, they were all waiting for the BLOW OUT part to occur..."

"When we were all done, he pulled me aside and admitted that the session was 'eye-opening' for him – and asked if he could spend more time with me later to set an improvement course!"

"Again, I am not a psychologist. But when I see someone heading for a brick wall, it's my nature to want to stop them from hitting it. And this kind of behavior will do that unless corrected early on."

In franchising, this particular fear mostly rears itself in a new franchise owner's "lack of ability to follow the franchise system." They buy a franchise, and immediately start challenging their franchisor with what they perceive to be "better ways to do this or that' – translation: 'do it MY way.' OR, even worse, they ignore their franchisor directions altogether and do what THEY think is right, regardless of what the franchisor tells them.

Being part of a franchise requires "parking your ego at the door" and following the system. That's the whole reason you bought the franchise to begin with (instead of starting your own business), so that you could minimize risk and learn from other's hard work and experience. Remember, your franchisor has already "made all of the mistakes" so that you don't have to repeat them. Once you are established in your business, there is plenty of opportunity to make positive changes in your franchise system.

If this "fear" has been in your way during your career, you need to either learn to overcome it – or, quite simply, avoid franchising. You will not be happy if you have to always be in total control of every decision made. Take a deep breath and let others show you the way for a change.

#3: BALANCING "FEAR OF MISSING OUT" WITH "FEAR OF RISK"

Most people judge "good franchises" as "whatever they hear is the hottest trend." As a result of this (mis)perception. one of the first things we often have to explain to them is that a franchise's sales popularity does not necessarily mean it is a "good franchise." It can mean the franchise has a really good sales team in place – or that the franchise is simply riding a hot, new trend – OR that the business really does, in fact, represent a good opportunity.

When you go to the internet, you see banner ads and browser references that say things like "hottest franchises" or "top 50 franchises." All these references mean is that this particular franchise is doing a really good job of selling franchises. It doesn't speak to how each franchise owner is doing, performance wise. And, keep in mind – when a franchise company is first starting out and grows from having 5 franchise locations to 10 franchise locations – that is a 100% growth rate! But they still only have 10 locations. Which REALLY means that, for all practical purposes, their performance is relatively unproven – and they are still pretty "risky" investments.

We speak to people every day that want to be introduced to whatever the "latest and greatest" franchise is – and that's okay, as long as they put their "fear of missing out" on the latest trend into perspective. For example:

Yes, "senior care" is projected to be a growth area – but this doesn't mean that all senior care franchises are solid investments.

Yes, "automotive" is a recent high growth area where many ex-high school gear heads think they want to spend their time – until they realize that some of these business models require better sales and management skills than mechanical skills.

What IS important is gauging your capacity for risk – if it is higher than most people's, consideration of newer unproven franchises – for which the long term payout could be quite high – might be "spot on" for you. If your capacity for risk is only moderate, then you will probably want to stick with the "tried and true."

Our friend, Gary, can certainly relate to the "fear of missing out." Remember the Internet investment craze? Gary remembered people calling his firm, saying "I don't care what it takes – I want to get in at any cost!" He has "ridden" many a market trend – and will ALWAYS say that caution needs to be used.

Your The YOU Network consultant will ask you many questions – and ask you to participate in certain behavioral profiling tests – to help you put these particular fears into perspective.

#4: FEAR OF "NO WAY OUT"

Most franchise companies have a 10-year contract with their owners. Some potential franchise buyers hear this, and "head for the hills!" The very concept of a ten-year relationship frightens them to death! Why, they haven't had a marriage that lasted that long, they, jokingly, say! Others are simply afraid they will become bored – and will want to move onto something else.

If you think you're among the commitment-averse, it is probably important to discuss an "exit strategy" with your The YOU Network consultant – before making (or avoiding) a franchise purchase. And when that discussion occurs, be sure to understand:

1. A franchise is an asset – like a house, or a car, or a Star Wars action figure collection. There will be times the asset has higher value, or resale potential, based upon market conditions. In the specific case of franchising, resale potential will be higher if the business is already showing a profit – and isn't still "ramping up." In other words, you can always try to SELL your franchise.

2. Many people purchase franchises – with full intent to sell the business after 4-6 years, and/or when they have reached what they believe to be their maximum profitability levels. They do this because they always want to be learning and doing something new – or they have personal reasons that require they "move on."

3. Many people like to start businesses – but don't like to manage them once they are "up and running." When this occurs, they usually hire a manager to step in for them. This may reduce their profits on the business, but it allows them to retain some profit – while freeing them to pursue other interests.

4. Some people lack the capital to buy the particular franchise they REALLY want – so they purchase what is known in the business as a "starter franchise." After building the business to a profit – they bring in a manager, or sell the business, so they can pursue their original goals.

#5: FEAR OF "I'VE NEVER RUN A BUSINESS BEFORE"

Quality franchises are developed to largely be "turn-key." What is meant by this is they are developed and packaged, if you may, in order to provide you everything you would need to get started in business. But you have to put in the sweat. It doesn't "do it for you."

So – unlike regular business ownership, you could say that franchising has already taken care of a significant number of the requirements, and most certainly the "headaches," of starting up a business.

What You Get – When You Purchase A Quality Franchise:

1. A Proven Operating System – complete with manuals

2. Focused and Comprehensive Initial Training – to start you off properly

3. Ongoing Operations Training and Support – so that you grow with your business

4. Marketing and Sales Training – so getting customers isn't "rocket science"

5. A Proven Marketing Plan – not one that you have to test and test and test, until you get it right

6. Ongoing R & D (research and development) – so that your franchise grows and adapts with the times and changing customer needs

7. 24/7 Customer Service Support – so that you are NEVER alone in your business

8. Defined, Targeted Territories – using sophisticated demographic data

9. Technical and Administrative Support – including management software, IT advice, web support, and franchise-specific legal, accounting and tax counsel

10. A Brand Name and Image – that grows and grows and grows in value

In addition, with many franchise companies you may also receive, as appropriate:

11. Site Support from leading real estate companies. including location, negotiation and lease education and counsel

12. Hiring and Employee Profiling support, so that you can get the best staff

13. National Contract support, where leads are passed along to you if a national company under contract has presence in your territory

14. Significant Cost Savings from bulk equipment buys

15. Licensing, Bonding and Insurance support and savings

16. HR Software support and counsel

So you can see, with a franchise you are "in business for yourself, but not by yourself."

Gary tells us that, in his business, this particular fear manifests itself in the origin of "day trading." Customers that can't see beyond a 24-hour window of opportunity think they will thrive in this arena – but are also never able to take advantage of the long-term equity plays. "Each to his own," he says, "as long as they know WHY they do what they do."

We agree with Gary.

READING A BUSINESS' FINANCIALS

How can you tell what is a "fair" valuation of an existing business? Are you letting a good operation slip through your fingers out of "fear of the unknown?"

When should you enlist an outside party to help you?

A pro forma financial statement provides potential or current investors with an idea of the future financial fitness of a company. The problem with a pro forma is that it's only as good as its estimator. And if little category data is available, as is the case with franchised businesses, the estimation can be suspect.

So let's start with stating that few franchise businesses have a CPA prepare a pro forma financial statement when they are preparing a company for sale. As a potential investor, you might more likely be looking at a *regular financial statement* – which has all of the same basic elements as a pro forma financial statement, but includes fewer estimates for the future of the business, such as educated guesses about your future cash flow, current assets, fixed assets or liabilities – or even market size. Or you might only have access to a business' Profit & Loss Statement. And keep in mind – *there is nothing wrong with a seller providing you less than a full-blown pro forma*; these other financial documents can be just as insightful to you. You just have to learn how to read whatever set of financials is available to you.

ELEMENTS OF TRADITIONAL FINANCIAL STATEMENTS

Balance Sheet. The business' current and fixed assets, liabilities and shareholders' equity. Shareholder's equity is estimated by subtracting the liabilities from the assets.

Income Statement. Includes new income, sales or purchase of assets and issuance of stock, and such items as bond or dividend payouts.

Profit and Loss Statement. Include all sales revenues, the cost of goods sold, losses taken, taxes paid or owed, and depreciation of company resources and operating expenses.

The Balance Sheet and Income Statement are "what they are." They reflect a "snapshot in time" about a business, and provide only a static bit of insight to you on a business' net worth. For this task, most people use the Profit and Loss Statement.

USING A P & L TO MANAGE AND/OR VALUE A BUSINESS

To try to get a sense of the worth of a small franchise business, a cursory understanding of a Profit & Loss statement (P&L) – *not a severe exercise in number-crunching* – is critical. A P & L will generally provide a peek into the company's short-term as well as its long-term viability. It essentially measures how well the business is utilizing company assets, personnel procedures, marketing and facilities in its effectiveness of serving customers – while keeping a keen eye on profit maximization.

When you study 2 -3 years of P & L reports for a specific business, you can determine various rates of return on the business investments, (such as marketing or sales or equipment) and then detect both positive and negative trends – and take corrective actions. As a result, a good manager can optimize business performance.

And you simply want to understand the basics: the business' income (and its sources), what is driving this income (marketing or sales) and the trends/costs associated with these actions, and other general shifts in the marketplace that could impact performance – particularly labor costs and or market potential. ALL else is potentially helpful, but, more often, superfluous.

Why do we say this? The reason is because of two factors: one, this is a franchise operation that has had the franchisor's "eyes" overlooking its reported income up to

this point, so as to capture royalties from the said owner. If the owner were misreporting, it would more likely be in reporting LESS income than MORE, so you have little to be concerned about here; and two, this is a small business. Small business performance can be changed by a good manager rather quickly – so it's not as if you're having to move the *Titanic*. The key is to learn to look at general trends, and then ask WHY something is performing as it is. And then ask yourself if you think you can build upon or change that performance. Just don't expect the "numbers" to be all that will tell you what you need to learn. Common sense should prevail.

For example, let's look at Business A. Business A has $850,000 in income reported for last year – which has remained fairly constant for the past 3 years. OK. That seems pretty good to you. But what do you know (from the owner) about the sources of that income? Is it mostly from new customers? Repeat customers? What is the average transaction value? Let's say that you learn that the majority of income is from new accounts. There is nothing wrong with this occurrence if your marketing expenses are fairly controllable and constant, but if your marketing expenses have been going up for each of these 3 years, *this means the gross margin for this business is slowly eroding.* And it might not yet have shown up to the degree that you can immediately notice it. Either you have to figure out a way to get more business from existing accounts – or find more cost effective marketing methods – *or you are looking at a declining business.* And all of this insight came from asking "WHY??"

So what does this little exercise leave you with regard to business valuation? What it means is that if you don't personally have an easy answer to the questions or challenges your trend analyses offer you, *the business is likely worth less than it might appear on the surface.*

Yet, you should know *that there is no magic formula for business valuations.* A business is worth what you, the buyer, **think it is worth** – despite accounting methodologies. An accountant can take you through various approaches: an asset-based valuation, an income-based valuation, and/or a market-based valuation. All three will produce different "numbers" – ***and the business is still worth what the owner is willing to accept for it.*** It just doesn't make sense to get caught in "analysis paralysis" with a small business – it is what it is, and you can crunch numbers until you're blue, and it's not going to tell you that much more than you knew when you started. Cover the basics (mentioned above) and then use your common sense. It's the smarter way to go.

So, what this means is that you need to pick a figure that you're willing to pay, and offer it to the business owner. Your "worst case" is that you can be turned down – or a counter offer might be made that will bring both parties closer together. And if the owner has an inflated sense of value, they will lose out. *It's that simple.*

Other Line items in the P & L (besides the basics) of potential relevance for your review include:

GROSS MARGIN

A gross margin is calculated by subtracting the company's *cost of goods sold from sales and by dividing its result by sales.* Cost of goods sold is best measured as a percentage and *proper care should be exercised to ensure that the period's P & L has properly allocated all direct sales cost to cost of goods sold.* (Typically most all of these costs will vary proportionally to the amount of product/services sold and delivered. A proper and consistently applied "cut-off" of accounting data is critical to this evaluation as otherwise the data/margins are unduly skewed to start.)

Another area of costs with which you need to be aware of trends are marketing (and sales) expenses – not just trends in *total* expenditures, but trends in *types* of expenses. Much of marketing today is shifting from traditional media venues to internet media venues, which are frequently more cost efficient to operators. Find out whether the marketing plan needs "refreshing" and whether the costs are realistic or inflated. Similarly, be sure to see several years of performance so that marketing costs reflect normal activity and not recession-based attempts to offset one-time customer erosion. In other words, if the margin is down versus prior years, it could only be reflecting short-term marketing needs versus actual business model or business valuation issues.

PRETAX MARGIN

Knowing what a business nets in dollars (and as a percent of sales) are an essential part of understanding the business. A business pre-tax margin is determined by subtracting from sales, all cost of goods sold, personnel, sales and operating expenses. Knowledge of this margin is essential as it is a leading indicator of business future assets; liabilities and equity as well as the respective income taxes you would be required to pay as an owner.

IF YOU READ ONE THING IN THIS DOCUMENT, PLEASE READ AND UNDERSTAND THIS:

Herein lies one of the greatest difficulties in reading a small business owner's P & L. Many small business owners will do all they can to lower their pretax margin – ***so as to avoid tax liability.*** When you are evaluating a business' margin, be aware of every expense the owners have allowed and ask yourself if they are expensing:

- A company car and all associated expenses?
- A wife (or other relative's) "salary?"
- Rented office space AND home office space?
- Pension programs and/or medical expenses for company officers?
- Undue entertainment/marketing expenses?
- Or any similar expenses that could potentially be reflecting that they have been "living" through their business and expensing more than normal?

It's not up to you to decide which deductions are legal and which are suspect – but if most other owners in a franchise system are producing 20% or better pretax margins – and this owner is producing only 9%, don't assume it is simply due to performance issues. It might be that the owner is "playing the tax game" – and you may not agree with some of his/her choices. Again, ASK WHY numbers are what they are. An owner that wants to sell their business will provide you with facts.

NET MARGIN/NET INCOME AFTER TAXES

A company's net margin reflects the company's earnings. It is what is earned after paying all of a business' expenses, depreciation, interest and taxes to both the IRS and the respective states in which a business operates.

To clearly understand this figure, you have to have an understanding of how the business has been taxed. To that end, it is wise, again, to ASK WHY:

- Does the business keep its internal books on an accrual basis and file the tax returns on a cash basis? Are the appending timing differences carefully delineated, documented and understood? For example, business owners might inadvertently neglect to recall that receivables billed and reported in an earlier period when financials are prepared on an accrual basis will have to be reported on a subsequent year's tax return when the cash-based tax return is prepared.
- What does your accountant say might "change" in terms of tax liabilities – based upon your considered business structure and/or approach for financing your business? For example if you use 401K rollover monies to finance your business, and therefore structure your business as a C Corp, what impact will this have on your taxes for the business?

When you are getting close to deciding to buy a franchise, it always makes sense to hire an accountant who can help you understand HOW you will be taxed. Tax laws vary by state and by business structure – so it makes sense to discuss these areas with an accountant before you buy. Then you can build these estimates into your preliminary business plan, so that you have no "surprises" going forward.

Your business structures are also going to be inherently linked to the type of business you buy and the financing choices you have. Use your accountant to help you plan your tax liabilities and your structure – *not as a sounding board on whether or not to purchase the business.* Unless the accountant has first-hand experience with franchising, or the business model you are reviewing, they will lack the experience or facts to provide you with relevant insights.

And whatever you do, ***don't make the mistake of asking a "friend" in the financial world to value a resale franchise business for you.*** Again, unless they are involved first-hand in franchising – or this particular company you are evaluating – they will lack the appropriate facts to assist you. And because they are your "friend" they will likely read your request as asking them to help you diffuse ANY risk. So, in the absence of facts, all they can do is tell you to "not do it." It's the equivalent of asking a parent whether you should accept a tough new job opportunity. The majority of the time, they will answer you in a way that will spare you from risk or pain – rather than what might help you build and grow your career.

In other words, *be very careful not to enlist a third party to make your decisions for you.* Accountants will help you understand your tax liabilities, attorneys will help you understand the FDD and the franchise agreement, franchise consultants will guide you to business models that utilize your strengths – and you have to make your own decisions with regard to business ownership. It's the only way you will succeed.

And finally, don't confuse the *valuation process* with a *validation process.* Valuation is what you do to decide what a particular franchise location might be worth – while validation is the process you undertake to "read" the entire business model/investment opportunity and is only gained from speaking with multiple franchise owners. More often than not, a third party will mistakenly think you are seeking *validation* – and will not be aware of the process you have already been engaged in that is better designed to help you evaluate the overall franchise opportunity.

WHY YOU WANT TO OWN YOUR OWN FRANCHISE BUSINESS

The obvious advantages to ownership of any business are the personal freedom you gain -- and the potential for long-term equity. But why do you want to own a franchise – versus some other choice?

WHY YOU WANT TO OWN YOUR OWN FRANCHISE BUSINESS

From our experience, just about every single person on this earth, at some time in their lives, experiences a desire to own their own business. Some people address this urge very early on in life – and open lemonade stands or become internet whiz kids! Some skip a formal education and become entrepreneurs. Some receive a formal education – and still become entrepreneurs. Some buy existing businesses. And many, many others become franchise owners.

Regardless of the route an individual might take to become a business owner, these owners, say when interviewed, that they believe they work harder, earn more money, and live happier than if they had been employed. Why do you suppose they believe this?

Probably because it is true.

Owning a business can be hard work – no doubt about it. And you probably know that anything worth getting in life tends to require some work! If you don't want to work relatively hard, say at least 40-60 hours a week, for at least the first several years of owning your business, you probably shouldn't consider full-time ownership. Because with any business, you have to build your client base – and this effort doesn't occur without a little blood, sweat and tears. It's a path that can take two steps forward and one step back – or better yet, let's say you gain 10 clients and then lose one. And you have to repeat this pattern, over and over, again and again – until, whoa! – after a few years you have a steady base of clients and referrals and business! That is, assuming you deliver to your clients what you say you're going to deliver.

But do business owners really earn more money? Yes, they do. Business owners are leaders by nature...leaders in their community, in government and policy, in their immediate and extended families. And they know how to lead others toward results. Usually, they tend to be multi-faceted individuals – with interests in a lot of areas. They want to make a difference in their lives, to ensure they saw through their own potential – and didn't take "the easy route." And they want to be compensated for this. And they make sure they are. With that kind of drive, focus and ability, they tend to be in the top 10% of money-makers in our country.

And happy? Too often you hear career advisors saying something like, "do what you love and you will succeed." There is some truth to this old adage, but it also plays to a person's idealism and isn't terribly practical. We would prefer to say "you make your own happiness in this life"-- because this statement tends to come closer to the prevailing attitudes of the winners we see every day in business. Fact is, any decision you make in life is going to contain risks and rewards – and the sooner you learn this, the happier you are. Even jobs contain risks. So happiness is relative. For some – freedom to make one's own decisions brings happiness. For others, it comes from an ability to make ALL decisions. For others, the appeal is in gaining control over one's destiny and time – even more so than the money they might make. And so on. In other words, most business owners recognize that once they make a decision – they make the decision work for them, not against them. If they aren't happy with their choice, they move on and try again – and learn from their mistakes. So "happiness" becomes something they create, not some illusion that they sit back and hope will come their way.

So – if ownership, in general, certainly has its benefits – what then does franchising bring to the party?
Here's our list...

WHAT YOU GET – WHEN YOU PURCHASE A QUALITY FRANCHISE

1. **A Proven Operating System –** complete with manuals
2. **Focused and Comprehensive Initial Training –** to start you off properly
3. **Ongoing Operations Training and Support –** so that you grow with your business
4. **Marketing and Sales Training –** so getting customers isn't "rocket science"
5. **A Proven Marketing Plan –** not one that you have to test and test and test, until you get it right
6. **Ongoing R & D (research and development) –** so that your franchise grows and adapts with the times and changing customer needs
7. **24/7 Customer Service Support –** so that you are NEVER alone in your business
8. **Defined, Targeted Territories –** using sophisticated demographic data
9. **Technical and Administrative Support –** including management software, IT advice, web support, and franchise-specific legal, accounting and tax counsel
10. **A Brand Name and Image –** that grows and grows and grows in value

In addition, with many franchise companies you may also receive, as appropriate:

11. **Site Support** from leading real estate companies, including location, negotiation and lease education and counsel
12. **Hiring and Employee Profiling** support, so that you can get the best staff
13. **National Contract** support, where leads are passed along to you if a national company under contract has presence in your territory
14. **Significant Cost Savings** from bulk equipment buys
15. **Licensing, Bonding and Insurance** support and savings
16. **HR Software** support and counsel

When most people see this kind of comprehensive list, their first reaction is, "wow!, I had no idea you get that much." The perception most people have, going into their investigation of franchising, is that you would get the franchise company name over the door, and access to their product or service – and beyond that – you're pretty much on your own.

Nothing could be further from the truth. That is, with the quality franchise companies – the kind The YOU Network strives to include in their portfolio of companies.

Quality franchises are developed to largely be "turn-key." What is meant by this is they are developed and packaged, if you may, in order to provide you everything you would need to get started in business. But you have to put in the sweat. It doesn't "do it for you."

So – unlike regular business ownership, you could say that franchising has already taken care of a significant number of the requirements, and most certainly the "headaches," of starting up a business. But there are also advantages in owning a franchise versus corporate jobs – and, if you are like most others, these are the advantages you probably haven't begun to think about:

- **Lifestyle flexibility –** In a job, you can only work so many hours a week on a steady basis, without becoming physically and mentally exhausted. As an owner, you can delegate to others staff members, and gain some flexibility. Furthermore, you may work the hours you want to work, when you want to work them – not as dictated by a company. If you want to work only early evening hours and weekends and have traditional office hours free, then you can seek a franchise that can satisfy this – or vice versa. And, depending upon the business, you may even be able to work from home, rather than a rented commercial or office space.

- **No more bureaucratic politics –** Franchise companies thrive on collaboration among owners. As each owner has a protected territory, there exist virtually no in-fighting or political barriers that keep people from sharing ideas and results – for the betterment of the whole organization.

- **No capped income –** In a job, your salary "is what it is." Your income is in the hands of your supervisor, who can never pay you what you think you are worth to them. Partial or straight commission jobs may allow you higher income than a straight salary, but you lose a certain degree of predictability. As an owner, you can delegate to other staff members, increase your marketing or sales, and meet or exceed your financial objectives – as needed.

- **Favorable tax structure –** One of the great things about America is that its tax structure offers a lot of advantages for small businesses that are not available to employees. A small business accountant can explain what deductions are available to your business – thus reducing your tax exposure and also increasing your long-term equity potential. Similarly, as an officer of your company, should you choose to incorporate, there are various deductions available to you through your company that can also save you money on personal taxes. Again, these are conversations you should have with your tax accountant.

- **Equity potential –** Most employees wake up at age 40 and realize that if they are not already part of the elite 1% in their company – they aren't going to advance much further. And, therefore, their opportunity to build equity through employment is non-existent. Their choice, for achieving that illusive equity they need for retirement: they either start their own business -- or find lucrative outside investments that will help them achieve long-term equity goals. Franchising has a proven track record that is far superior to that of individual business ownership – and thus offers an owner a much better chance of achieving that equity goal.

HOW DO YOU CHOOSE – STARTING ON YOUR OWN, OR BUYING A FRANCHISE?

If the concept of business ownership is brand-new to you, you probably want to consider franchising first. The support, training, and ongoing boost you receive from a growing brand certainly puts "wind in your sails" as you learn what it's like to own your own business.

Some people are often afraid that they can't "be their own person" when they own a franchise – that the franchise is always going to be "telling them what to do." For most people, even very strong-willed individuals, this is simply not the case. What does occur on occasion – is that new owners come into a franchise and immediately begin trying to "reinvent the wheel" instead of following the marketing plan and operating system laid out for them by their franchisor. In this instance, the franchisor will likely tell them they are being foolish, and perhaps also ask why they bought a franchise to begin with, if all they wanted to do was "their own thing?" If you have never been able to take direction from others. than perhaps you shouldn't consider franchising – but statistics show you would certainly be in the minority in doing so.

Working with The YOU Network, you don't have to make a commitment to buy a franchise – only a commitment to learn about franchising. Then, as an adult, you can make the choice that's correct for your particular situation.

Let us help you get started.

AM I BUILDING THE EQUITY I NEED?

We all face the time in life where building personal equity for our future and our family becomes all-important. What are some ways you can build equity?

AM I BUILDING THE EQUITY I NEED?

You have worked within corporations throughout your career, you've invested in mutual funds and money market funds and annuities (through your company profit sharing) and maybe you also have stocks or your own IRA on the side – and yet, just recently, you realized: you may not always be employed with this same company, (or any other company, for that matter.) There are lots of changes occurring in your industry, and you're not sure how you will survive those changes. Recently, you have come to the conclusion that without these contributions to your company profit sharing, you may not meet your long-term retirement goals. In fact, some of you may have already realized that you cannot reach your retirement goals EVEN if you remain employed to retirement age!

What! How can this be?

Well, let's see. If you're like most people, you've been fighting an uphill battle from Day One of your adult career. When you first got out of college, perhaps you had student loans to retire. So you scrimped and saved and retired those debts. Then you started saving toward owning a home. You got married and finally invested in a home. It took a while to get the home filled with furniture and looking like something you had dreamed of owning. Then – kids. (And while, of course, you love them, they are expensive to support, aren't they?) Then...college. More expense or more debt.

Whew! If it weren't for that IRA or 401K, or profit sharing, at work, you probably wouldn't have had a chance to even stash away a nickel. Now, with the kids' college accounted for – (and you probably also had to borrow from those IRA's/401K's to pay for those educations) you *finally* have time to focus on rebuilding those 401K or IRA nest eggs, and you need for them to *really* start growing, as time-is-a-tickin'. But, wait a minute – at exactly the wrong time for your planning purposes, the investment world seems to have gone awry – and the average ROI on Wall Street investments seems to have gone into the gutter! And your job is in jeopardy? What could possibly next occur to impede your retirement plans?

It's time to change your focus – and stop expecting corporate America and Wall Street to solve your investment needs. Start thinking about other ways to build EQUITY.

What do we mean by "equity?" In general, you can think of equity as ownership value in any asset after all debts associated with that asset are paid off. Your home equity is the difference between the market value and your mortgage balance. Your auto equity is the difference between the market value of your cars and the balance on your auto loan. Your equity in a stock is the market value less what you paid for it. And so on. All "equity" is dependent upon the market value of the asset you own, regardless of whether or not it is debt-free. So if the "market crashes," you are subject to loss of equity until that asset gains in market value again.

Which makes building equity in your business a bit more interesting than standard options subject to market volatility.

Equity in your business is the profit you might have taken away from operating that business each year (after all debts have been paid off) PLUS the money you would make should you choose to sell the business someday.

If you are dependent upon your business for income, you begin to build personal equity from the amount your business earns after you have taken your owner's draw.

In other words, let's say if you invest $150,000 in a business, and after 3 years of operation, you have made enough money to retire any debt you paid on the business. By then you are netting $130,000 a year from the business (after $40K owner's draw, those withdrawals you may take for your personal living expenses.) For argument's sake, let's say this level continues until the beginning of your 9th year, and then you decide you

might want to sell the business. You realize a reasonable asking price for your business would be 2-3X net earnings, which means you could legitimately sell your business for $260,000 - $390,000, depending upon market demand. When the sale would be complete, you would have then -- in addition to the $800,000 net profit (see chart below) you gained from the business after reaching 100% ROI on your initial investment -- cleared another $110,000-240,000 in equity (your selling price less original price for the business.) But as you already paid off your investment, your accumulated wealth, in 8 years, is $1,060,000-1,190,000 in wealth – off an original investment of $150,000. And this doesn't include any gains you would have made from further investing your annual business earnings.

So, you can see why we like to think of equity as your personal "wealth creation."

	Net Earnings After Owner's Draw[1]
Year One	-0-
Year Two	$60,000
Year Three	$90,000
Year Four	$130,000
Year Five	$130,000
Year Six	$130,000
Year Seven	$130,000
Year Eight	$130,000
Total	$800,000

[1]Hypothetical example: not to be interpreted as feasible earnings on any and all investments of $150,000. Reflects pre-tax earnings only.

Do you know of any 401K or Wall Street investment that would allow you that kind of return today?

The point we are trying to make is that you may build wealth by combining the net annual returns you made from a business with the eventual resale value of that business. Plus, as a business owner, you realize significant tax savings for owning your own business (a good accountant once said that once you are a business owner, you only need 70 cents for every dollar you used to make as an employee, to maintain the same lifestyle.) We like to say that you are "living through your business" to a certain extent. You will witness that many expenses you that you used to have as an employee are feasible deductions from your business, so those earnings per year take on an even "stronger light."

AND, you should know that you don't have to SELL your business to realize equity. Many people choose to renew their franchise agreement as they near retirement and stay active in their business – OR they put a general manager, or even one of their adult children, in charge -- which allows them to continue to receive income from their business, enjoy the tax benefits, and not have to tap into their retirement assets.

There are also some business investments that allow you to keep your full-time job, and "manage a manager" on the side...a more conservative means of building even greater equity. You may also investigate additional tax shelters and defined benefit programs available to corporate owners that can layer additional wealth to the scenario we described above. Any good accountant can provide you with this education, or ask your The YOU Network consultant to paint a "broad stroke" picture for you.

Here's yet one more way to put your equity options into perspective:

We have many, many clients who tell us they want to "stick with their jobs" – while even knowing that their future is fraught with high potential that they won't have their jobs until retirement. We would ask them to do a simple exercise: one which compares how much they may earn toward retirement if they continue to work a job – to how much they might build toward retirement if they bought and operated a franchise company.

Obviously, we cannot know how your money is invested within your company's 401 K or profit sharing plan, but we do know that you probably have restrictions in terms of the amount you can invest in these programs. Most of these investment programs "max out" at 8.5-10% of your salary, meaning you would need to be making over a million dollars in salary to invest that same $130,000 a year that we reflected in the business ownership example. In fact, even if your net earnings were half that of the example we showed, you would still need to be making a huge salary ($650,000) to match that "half." When, in fact, the average amount U.S. employees are able to contribute to their 401K's, or employee profit sharing programs last year (2018) was $6850 -- a far cry from the business example that allowed you to invest upward to $130,000 per year.

Now granted, if you are one sharp investment cookie, and you save and invest on your own – way beyond the amount your corporate program allows you, you could potentially "match" our example. But most of our clients will say that are not that savvy when it comes to investments and are uncomfortable with the volatility of typical investments.

Which leads you to "investing in yourself" instead. Taking that knowledge and experience you gained in the corporate world and translating it into franchise ownership. Instead of throwing the dice toward "pure" entrepreneurship, you invest in a franchise that has a proven operations plan, and a proven marketing plan.

One final comment.

We hear from many that they don't even know what is a reasonable amount needed for retirement. Many backed into a figure based upon the old "4% rule" – which is running into some roadblocks:

This so called 4% rule was devised in the 1990's by California financial planner William Bengen and later refined by other retirement-planning academics. Mr. Bengen analyzed historical returns of stocks and bonds and found that portfolios with 60% of their holdings in large-company stocks and 40% in intermediate-term U.S. bonds could sustain withdrawal rates starting at 4.15%, and adjusted each year for inflation, for every 30-year span going back to 1926-55.

Well, it was beautiful while it lasted. In recent years, the 4% rule has been thrown into doubt, thanks to an unexpected hazard: the risk of a prolonged market rout the first two, or even three, years of your retirement. In other words, timing is everything. If your nest egg loses 25% of its value just as you start using it, the 4% may no longer hold, and the danger of running out of money increases.[2]

We are not financial experts. You need to have in-depth discussions with your accountant and financial planners to put a figure on what you need for retirement. For many, franchise ownership provides unique wealth creation possibilities that help them reach their retirement goals.

Furthermore, for thousands of individuals, franchising has provided the environment and culture they have been seeking, without their knowing it, for years – PLUS an ability to build equity and personal freedom. The YOU Network process is simply designed to help candidates determine if they are one of those individuals.

To learn more, contact us at www.theyounetwork.com or have a discussion with your personal The YOU Network consultant.

[2] "Say Good Bye to the 4% Rule," The Wall Street Journal, March 1, 2013.

Franchisee: The person, partnership or company who pays the Franchisor for the right to own and operate a business using the Franchisor's marks and system.

Franchise Fee: Often referred to as "initial franchise fee." This is a one-time, up-front payment by the Franchisee to the Franchisor for the rights to a franchise. This fee is due and paid once the Franchise Agreement is signed, is generally non-refundable, and precedes final payments.

Franchisor: The creator of a franchise system. The party to a franchise agreement who grants prospective Franchisees the right to use the Franchisor's marks and system.

G

Goodwill: A term used to describe the value of trade already established in a particular business that is likely to continue to the benefit of the new business owner.

I

Intellectual Property Rights: Trademarks, service marks, know-how and copyright. These often form an important component of the franchise system.

Initial Investment: The minimum amount of money generally required to begin operating a franchise. This amount typically includes the initial franchise fee, any required purchases from the franchisor, and all other common costs and expenses involved in starting up a franchised unit. Most Franchise Agreements provide an estimated range of investment costs, taking geographic variances into account.

Initial Training: The formal instruction the Franchisor provides its Franchisees in terms of operating the system. Generally includes (at minimum) a comprehensive review of operations manual, training on scheduling and/or financial software, marketing and advertising, and legal requirements.

L

Lease: A rental contract for a retail space.

Licensee: See Franchisee or Master Licensee.

Liquidity: The total cash available to a franchise owner for business operation or living expenses.

M

Marketing Fee: See "Advertising Fee."

Marketing Manual: A manual of information intended to guide a new franchise owner in how to promote and effectively market their products or services into the community. Such manuals will provide bromides of forms and posters to be used, together with details of how to monitor performance of the promotions conducted.

Marks: The trademarks, services marks, logo, trade dress, and other commercial symbols the franchisor grants the franchisee the right to use in the operation of their franchise.

Master Licensee: The person to whom the franchisor grants exclusive rights to offer and sell franchises within a particular territory using the franchisor's marks and system. Sometimes called a "master, or sub-franchisor."

Multi-Unit Franchise: A Franchisee that owns more than one unit. Multi-unit owners are often the strongest operators in a franchise system – plus, a system with many multi-unit operators is one that is likely performing quite well.

Multiple Franchisors: Franchisors offering more than one franchise concept.

N

NASAA: The North American Securities Administrators Association, which prepares the FDD Guidelines to facilitate compliance with state franchise registration and disclosure laws.

Net Worth: Your assets (i.e., the cash value of all you own) minus your liabilities (i.e., what you owe). Most franchise companies have minimum net worth requirements to prohibit buyers from overextending.

O

Offer: A verbal or written proposal to sell a franchise to a prospective Franchisee upon understood general terms and conditions.

Offering Circular: Used to refer to UFOC, previous description for document now called "FDD."

Opening: The time when a franchised unit first opens for business.

Owners: The individual owner(s) of a franchise that is a legal entity such as a corporation, general partnership, limited partnership, or limited liability company.

Operations Manual: The "handbook" a Franchisor provides to its Franchisees in printed or electronic form about the in-depth operations of the franchised business.

P

Predecessor: Any person from whom the Franchisor obtained most of its assets.

Public Figure: Any celebrity or well-known figure who endorses a franchise or whose name or image appears in the franchise name or symbol.

R

Registration: The process of officially filing with state franchise regulators certain specific information and forms required by state law. In many states with franchise registration laws, registration is not effective until the franchisor's application is approved by the state franchise regulators.

Registration Laws: State laws that require franchisors to register the franchise with the state before making any offer or sale of a franchise in the state.

Relationship Laws: State laws that govern the relationship between franchisors and franchisees, such as laws that limit the grounds for which a franchise can be terminated.

Renewal: The extension of the term of an expiring franchise, or the granting of a new franchise upon the expiration of the old one.

Royalty Fee: An ongoing fee paid to your franchisor for support services received through the life of your contract – usually a percentage of gross income or a flat monthly fee.

S

Service Mark: A distinctive name or symbol used to identify the franchisor's services and to distinguish them from the services of others.

T

Term: The time period during which the franchise agreement will be in effect.

Termination: The premature ending of the term of a franchise agreement by one of the parties to the agreement.

Trademark: A distinctive name or symbol used to identify the franchisor's products and to distinguish them from the products of others.

Transfer: The sale or other transfer of the ownership of the franchise agreement, the franchised unit, or assets of the franchised unit from the franchisee to another person.

U

UFOC: An acronym for "Uniform Franchise Offering Circular" – the document now known as the "FDD."

FREQUENTLY ASKED QUESTIONS ABOUT FRANCHISING...

And The YOU Network

If you have never evaluated a franchise before, it can be a rather overwhelming task. Many tell us they feel like a "babe in the woods" – and that they need someone like us to help them navigate the process.

So let us help you "walk before you run" – with some of the absolute basics you need to know about franchising...

WHAT EXACTLY IS FRANCHISING? IS IT THE SAME AS A "BUSINESS OPPORTUNITY?"

Franchising is a popular form of business – globally – and it basically involves this:

If a business owner has what they believe to be a successful concept, and wants to expand, they can attempt to raise capital (not always easy without substantial collateral); or they can expand by "franchising" their idea, trademark, business plan and proven operating "system" to investors, who, in turn, operate the franchised business within parameters defined at the time of sale through the Franchise Disclosure Document (and Franchise Agreement.) The Franchising Agreement is generally for a period of 10 years, and can be renewed upon completion of the time period, if both parties agree to do so.

Franchising is NOT the same as a "business opportunity." Franchising is governed by federal law (and by certain states) and provides its owners with significant legal protection. Business opportunities, on the other hand, are governed by a much less protective series of laws at both the federal and state levels – therefore offer their purchasers little or no protection. There are many perfectly "legal" business opportunities available – but "biz opp" purchasers need to be aware of the legal structure of their business and its severe limitations.

In addition, business opportunities tend to be much lower priced than franchises (under $60,000), and far less "comprehensive" in their total service offering to a buyer.

Whereas most franchises offer a trademark, a proven operating system, training, and ongoing support – many "biz opps" simply provide a self-training book and a product or service – and you're "on your own." Some may provide classroom training, and a few more amenities with the "sale" – but overall, you are not getting a proven "system" or any form of ongoing support – you're just purchasing a concept you may market.

WHAT ADVANTAGES DOES FRANCHISING OFFER ME – VERSUS "STARTING MY OWN BUSINESS?"

Anyone who has operated their own business will tell you "you have to wear MANY hats." One moment you're the company accountant, the next moment, the customer service representative, and the next – the marketing director, and so on. It can be overwhelming. AND, because you have so many learning curves to conquer, your chance of failure is quite high. In fact, U.S. government statistics generally indicate that a significant number of new (non-franchise) businesses started, eventually fail.

Franchising takes many of these "hats" away from your plate so that you can concentrate on making your business, and your unique skills, work for YOU. The franchise company has already experienced the learning curves for each required function – and has worked out a solution for each one. So, when you purchase their proven system for operating that business, you also get:

- Comprehensive training that gives you all you need to get started – including operations manuals and in most instances, back-room instruction, software, and support
- Professional support staff providing day-to-day (or 24/7) advice and help
- Easy-to-implement marketing and advertising programs THAT WORK
- A network of other owners who have "been there, done that" who can help you accelerate your learning curve

The bottom line of the franchising model is that it is designed to offer you a business with less risk – as so much has already been done for you. Think about the popular Verizon TV commercial – where "The Network" is behind you. In effect, this kind of "backup support" is what a franchise provides you, i.e., you are never "alone" having to make decisions in a vacuum.

The ongoing cost to you of having this support is generally referred to as "royalties" – which are generally charged to you monthly (by your franchisor) as a percentage of your gross business income (generally in the range of 5-11%.) We prefer they be called "service and support fees" – because that's exactly what they are. If you were to try to replicate these support functions on your own, they would cost FAR in excess of 5-11%. By being centrally managed, your franchisor is able to share costs across multiple owners like you – AND keep total costs down.

I KNOW WHAT FRANCHISE I WANT... WHY SHOULDN'T I JUST CONTACT THE FRANCHISE COMPANY DIRECTLY?

First of all, you need to understand that unlike buying a refrigerator – you are not necessarily "the consumer in control" when you are purchasing a franchise. The better franchise companies have high qualifying standards (your skills, your finances, etc., must meet their defined criteria,) and they expect you to demonstrate that you meet those standards before they will even consider you for their franchise opportunity. As a result, buying a franchise is a lot more like job interviewing. And, just like a job search, the companies don't necessarily solicit "cold calling" – as they find they have to spend WAY too much time educating people about franchising and their franchise offering – only to learn you weren't right for their business anyway. In certain instances, if you even try to call the company directly, you will find you can only leave a phone message – and you may not ever hear back from the company.

This is why most of the better companies prefer to work with franchise consultants like The YOU Network. They KNOW that our consultants will have already spent a great deal of time educating you about franchising and learning about you and your needs in a franchise – before they ever meet you. They KNOW that you are "pre-qualified" and far more likely to be someone that is right for their particular opportunity.

Using a consultant makes far more sense for you as well – it saves you from combing through a plethora of information AND it helps you avoid making expensive mistakes.

Our highly experienced consultants will make sure you "cover all of the bases" as you learn about opportunities as well – including making sure you are always prepared to represent yourself to franchise companies in the very best possible light.

And the best news – it costs you exactly the same, whether you use a consulting service like The YOU Network, or go directly to a particular franchise company. So you might as well take advantage of the valuable service we provide.

HOW DO YOU PROVIDE THIS SERVICE *FREE-OF-CHARGE?*

All of our services are complimentary to YOU. However, we most certainly are paid. We are paid by our group of franchisor companies because they value the education and pre-qualifying service we provide them. And because the law dictates that franchise companies cannot surcharge you when you use a consultant – or offer you a discount when you don't – the price of the franchise to you is exactly the same whether you choose to use The YOU Network, or not.

You should also know that the better franchise companies prefer to work with consultants like those with The YOU Network. They know from experience they will be speaking with a candidate that has been pre-educated, that is most likely a good fit for their business – and, as a result, they will be anxious to spend time with you. You might say our introductions "move you to the top of their list."

HOW IS YOUR "PROCESS" DIFFERENT OR BETTER THAN OTHER FRANCHISE CONSULTING COMPANIES?

In general, our approach is simply FAR more thorough, more comprehensive and frankly, more ethical, than our primary competitors. We don't "short cut" (or eliminate) steps, as many of our competitors do, that are necessary to "learning what you need to learn in order to make an educated decision." We offer the absolute best counsel, AND, our consultants are accessible to all clients AFTER they purchase their franchise – not just as they are considering a purchase.

At The YOU Network, we believe you deserve and WANT better service than what many "consulting services" claim to provide. If speaking with any franchise consultant outside of The YOU Network, we strongly recommend you check credentials. Most importantly, find out:

- the length of time your consultant has been in the franchise industry
- the number of companies they represent (anything less than 75 companies may limit your choices).
- whether their "matching" software or "test" has been market-validated or built specifically for franchising
- what services they offer beyond just "franchise matching" – and, in particular, the support they will provide you once they introduce you to your "franchise matches"

This company was created to provide people like you with an honest, professional, and ethical choice. So if you're serious about considering franchising and working with the best companies – then you want to work with The YOU Network. We're the seasoned pros, the "grey hairs," the folks with REAL business experience. We provide a FAR more comprehensive service to you – beyond just "matching" – because our reputations are built over time by placing successful owners, not selling franchises.

To even better understand what sets us apart, here's a sampling of what we DO and DO NOT provide you:

- We help you assess your skills, financial needs, strengths, weaknesses, aspirations and lifestyle requirements – BUT without gimmicky and unscientific personality "tests" that are no more than marketing ploys. Only The YOU Network utilizes the proven, market-validated Franchise Navigator program to assess your individual values and strengths vis-à-vis various specific franchise models.
- We direct you and introduce you to the appropriate franchise concepts that meet your needs – not just any franchise that is in business and is willing to pay a referral fee.
- We continue to work hand-in-hand with you as you investigate your franchise concepts, so that your evaluation process is focused, thorough, and you learn what you initially need to know about franchising – AND we can be available to you even AFTER you purchase a franchise. With many of our competitors – once you are introduced to your "franchise matches" you see or hear very little from your consultant again, making your investigation process and purchase both stressful and leaving you more uninformed than you would like.
- We publish a wealth of educational information that assists you in both your evaluation process and in your post-buy efforts to manage your franchise effectively and efficiently – instead of material designed to "convince you to buy a franchise." Only a franchisor can sell you a franchise – so our only role is to help you make an informed decision about your future.

In short, we provide a service similar to that of a "buyer's agent" in the world of real estate – only with a few "twists" unique only to franchising that serve to your benefit. And, just like a buyer's agent, our services to you are complimentary.

WHY DO I HAVE TO FILL OUT PROFILE FORMS? WHAT DO YOU LEARN FROM THEM?

Our private clients group of franchise companies consists of opportunities ranging in price from $50,000 to over $1 million. Some of them require industry experience, some not. Some require strong sales and marketing skills, some not. Some require an owner to hire up to 50 people in order to be successful – and if you're not comfortable managing people, this would hardly be a fit for you. Some require working an 80-hour work week, some an average 40-hour work week. And the list goes on...

The truth is, no two franchise companies are the same. And in order to guide you to the appropriate company, we have to get to know – in depth – what you're "good" at doing; what makes you "want to get out of bed in the morning and go to work;" what you "like to do or don't like to do;" how you intend to finance your business; how much you are looking to spend on a business; when you're looking to open up your business...and more.

With this profile information, we will be able to guide you and suggest franchise opportunities that meet your appropriate personal criteria. If you tried to screen franchises on your own, you would be reviewing among the 3500 franchise opportunities available today – and quite frankly, this level of search would be exhausting for any buyer.

Remember, The YOU Network has already done a lot of "up-front" work for you. We have companies in every category imaginable – including such popular categories as food, fitness, automotive, in-home services, retail, and business-to-business.

DO YOU SHARE MY PERSONAL INFORMATION WITH FRANCHISORS?

Only if and when you give us permission to do so. Obviously, it is to your advantage to share this information, as the franchisor will otherwise simply ask you many of the same questions and thus duplicate your efforts. Nevertheless, we value your privacy and ALWAYS request your permission in this matter.

HOW MIGHT I KNOW IF I HAVE "WHAT IT TAKES" FOR FRANCHISING?

Obviously, the real proof is "in the pudding." NO ONE can absolutely predict or promise your success in franchising. YOU have to make it work, having been given the tools to get started. That being said, there is a great deal you can do to better ensure that you purchase a franchise that is more closely aligned with your unique skills and needs – and you will receive the support you need and want. And, of course, this is the service The YOU Network provides you.

If we do not believe we have a franchise that meets your needs, we would let you know quickly so as to not waste your time – or our franchise companies' time.

CAN I AFFORD TO BUY A FRANCHISE?

Franchise opportunities range in price from as low as $50,000 – to into the millions of dollars. In order to assess "affordability" you need to look at the amount of liquidity, or cash, you have available – so that you can cover your personal needs until your business begins to show a profit – and the total cost of the franchise.

As a guideline, the minimum requirement to qualify for most lower- priced franchise opportunities tends to be $40,000 liquid and $200,000 net worth – plus "cash to live on." As most franchises are financed beyond a cash down-payment, you will likely need to understand how financing works. Your consultant can help you understand what you can most likely afford, and what your financial options might be.

HOW DO I OBTAIN FINANCING?

Simply put, financing IS obtainable. However, if your credit is poor (below 700,) you probably should wait until you improve upon your rating before you consider purchasing a franchise – or credit might be hard to find.

Each financing option comes with its own set of requirements – so in order to understand which might be most appropriate for you, we recommend you discuss your financing options with your consultant – who will then introduce you to experts who can guide you as needed.

WHAT IS AN FDD?

The Franchise Disclosure Document is the document that a franchise company is required by federal law to give to a prospective franchise buyer before the franchise can be purchased, and includes a wealth of information about the franchise, including:

1. The history of the franchise and its officers and directors.
2. A complete description of the business to be franchised.
3. All costs and fees that you will be subject to under the agreement.
4. All obligations of either party to the other during the term of the agreement and thereafter.
5. Any relevant litigation history of the company or its officers.
6. Any business failures, ownership transfers, franchise agreement terminations or other potentially adverse information relating to the success rate of the existing units in the system.
7. Audited financial statements for the previous three years for the franchise company.
8. A list of the existing franchisees.
9. A complete copy of the actual franchise agreement document.

The FDD's primary purpose is to provide any prospective franchise buyer with uniform information with which they can make a decision about the purchase of one franchise over another. It is the most important and valuable document in your "learning process" about a franchise.

The YOU Network consultant assigned to you will spend a great deal of time with you, helping you understand the purpose, the content and the value of the FDD. This, again, is one of the reasons why you benefit from having a franchise consultant. They will ensure you fully understand this document, before you make any decision about a franchise.

I WANT TO HAVE MY BUSINESS UP AND RUNNING AS SOON AS POSSIBLE – HOW SOON CAN I GET GOING?

The simple answer is – as quickly as 30 days or as long as a year. Obviously, every franchise business will have slightly different requirements, but here are a few considerations that will help you get a sense of timing possibilities:

- If your business is RETAIL, you will, of course, need to find a site, unless you already own a building or have space that meets the franchisor company's requirements. This process can take you, on the average, 1-6 months. The Franchise Agreement will generally include specific requirements regarding site selection and many franchise companies even can provide you with assistance in this process.

- You need to know when your franchisor conducts their initial training program. If you have missed the enrollment deadline for the nearest date, you will have to wait until the next available class. It always pays to have a conversation about this with your franchisor as you are investigating the opportunity.

- Your financing can take anywhere from 30 days to 6 months, depending upon complexity. The rule-of-thumb, however, is 30-60 days. Again, the sooner you begin this process, the better – particularly if you desire to take advantage of peak seasons and have a strong need to open "on time."

- You may have hiring requirements – or family commitments – that can affect your ability to open. Be sure to "clean your slate" of family needs – and focus on networking within your community early, so that you can get a jump on hiring.

Your consultant will share with you a proven process for evaluation of franchise concepts that will allow you to learn all you need and want to know – before ever making a decision. Quite frankly, it is our philosophy – and that of the franchise companies we work with – that the best owners are buyers who made informed decisions. Let us help you become one.

"BUT I JUST WANTED INFORMATION..."

Why this means you are already going about the process of evaluating a franchise the wrong way

Buying a franchise is not like buying a refrigerator. If you think all you have to do is "collect the facts" and then make a decision... you have much to learn that might surprise you.

It's always been your way of doing things. You go online and collect information. Or you buy several books on the topic. Then you evaluate the information. And when you are ready to make a decision, you contact the company – on YOUR timetable – and tell them you're potentially "ready to buy" after they answer a few questions from you. It's the "signature approach" of smart, independent business people.

Unfortunately, if you are thinking you can follow this familiar "buying" approach in finding a quality franchise for yourself – you are very much mistaken. Here's why:

1. The better franchise companies will award you an opportunity to purchase a franchise – so you can't just call them up and say you want to buy one. The reason for this is that their overall success as an organization is dependent upon their achieving a very high success rate among their franchisee owners – so they don't just sell to anyone who expresses an interest and has a checkbook. They screen for appropriate buyers, heavily and extensively. And if any company doesn't screen their prospective owners – you don't want anything to do with them, because it means they are NOT being particular in their selection of owners.

   Part of their decision whether or not to award you an opportunity to purchase a franchise involves their evaluating you on many levels – to judge if you "have what it takes to succeed" in their particular franchise system. In fact, the entire process of franchise evaluation is FAR more akin to "finding a job," than it is to your "buying something." A franchise company will most certainly have several executives interview you; they might want to profile you against other successful owners; and more often than not, they might even prefer you work first with a franchise consultant – so that your skills, financials, business acumen, ability to follow a system, and profile potential will have already been assessed before they meet you. Like a job interview, if you so much as fail to show up from an appointment with them on time – you CAN be disqualified from consideration. And don't think this can't occur – we see it happen every day.

2. You can't learn about a particular franchise from online sources – or from books. Franchising is an industry regulated by the Federal Trade Commission (FTC) and much of the specific information you would need about a franchise is available ONLY in documents that are provided you AFTER you have been "disclosed" – meaning, you have been presented with, and you have read, the company's Franchise Disclosure Document, or FDD. The FDD will be the most comprehensive and explanatory document you will receive from a franchise – and they don't send it out arbitrarily until they have learned some things about you, first.

3. Something else that differentiates franchising from other business models is that franchising is VERY MUCH about people. And unless you have the right kind of access to people, where you can learn who they are, and what they are all about – then you, quite simply, don't have the ability to find out what you need -- and want -- to know. Another way of saying this is that you want an approach to buying a franchise that will enable you to tell "the good guys from the bad guys" so that your hard-earned savings are well invested.

   Among the "good guys" you will want to learn from include a franchise's executives, its support team, and its owners. You would NEVER want to purchase a franchise without speaking to a good number of owners in that system – to learn from them first-hand what it might be like to BE an owner with that particular franchise.

4. And, of course, the franchise industry, like all industries, has its percentage of less-than-reputable characters who will try to sell you a franchise – despite the fact you are not remotely qualified to operate it. Or those

who will let you believe you can make a far greater return on your investment than what is normally feasible. And, yes, even those who sell you something – that can't live up to its promises or simply provides them the highest commission. You simply want to avoid these people at all costs – but it isn't always easy to know who they are. THIS is why franchise consultants exist.

When you first request information from The You Network, a highly experienced franchise consultant, will call you and ask for 10 minutes of your time. **YOU NEED TO GRANT THEM THIS TIME.** You should know that the purpose of this call with you is to both help you understand what our free consulting service can provide you in your search for a quality franchise – but it is also to help you QUICKLY understand what you don't know about franchising, so that you cease making any further, and potentially costly, mistakes.

It has been our experience that every single client starts out with us thinking they know a lot about franchising – and learn, through our approach, that they really knew very little at all. Many customers come to us thinking they want a Subway, and end up buying a maid service. They learn from working with us that their business skills, lifestyle requirements, financial needs didn't match what Subway, (or whatever franchise they thought they wanted) could provide them – and that there were a host of other companies they needed to consider instead. If we just introduced you to firms you thought you would like, odds are you might make big mistakes.

In addition, while finding a franchise that works for YOU is important – it's not all we do. Our support is the most comprehensive on the market – even helping you with decisions AFTER you have decided to purchase a particular franchise. We are the "grey-hairs," some of the most experienced, straight-talking, ethical franchise consultants in the industry – and there is NO BETTER RESOURCE for helping you find and evaluate the right franchises for you and your family.

There are 8 essential steps to our approach – all designed to help you find a quality franchise opportunity and for our franchise clients to learn about you as well! Many even refer to this process as "mutual assessment" because they are going to be learning about you – as you learn about them!

Most of these steps are by telephone and do require a time commitment on your part, which would be explained to you by your TYN consultant – when you finally have "that ten-minute call." In fact, if you haven't scheduled your initial call with your consultant yet, pick up the phone and do so, right now – you'll find it to be invaluable.

OUR PROCESS:

PART I: PERSONAL ASSESSMENT

1. The first step is a ten-minute telephone conversation between you and your TYN consultant, so you can learn more about each other – and YOU can decide if you want to get started in your search, using the TYN approach.

2. If you and your consultant mutually decide that it makes sense to continue, your consultant will send you our Confidential Personal Profile form. This form requests more information about YOU, including your business interests, your self-assessment of selected skills, your preferred level of investment, an overview of your financial situation, location preferences, etc., so that your consultant has the initial background he or she needs to assist you. Your consultant may also send you a web link to access the Franchise Navigator survey, which we will also use to help in profiling your needs.

3. Once your consultant receives your completed form and Franchise Navigator results, they will schedule with you a 2-hour phone consultation session. The purpose of this is to share your profiling results, and to understand your answers to the questions on the CPP form. Your consultant will also run you through a few "mock" business exercises, so that you could get a feel for the type of work that would be required of you with different business models. We find that this session not only helps us truly understand your motivations and needs so that we can best work for you – but it allows us to teach you about franchising at the same time.

4. Your consultant will investigate possible franchise companies that meet your criteria. They will discuss you with owners and decide if a formal recommendation will be made to you. Then, in the next meeting with you...

5. You and your consultant will review the franchise companies that they feel are appropriate for you. IF one or more companies command your interest, then your consultant will contact the company on your behalf and they will contact you to provide specific information about their business.

PART II: MAKING GREAT FIRST IMPRESSIONS – AND LEARNING TO MAKE INFORMED DECISIONS

Your TYN consultant will help you prepare your "Personal Success Strategy," your approach for each company interview you undertake. Remember, this is a "2-way" evaluation process and these companies will be interviewing you as you will be interviewing them. These "personal appearances" (by telephone) before company executives are very important. Your consultant can help you make that highly important, strong first impression.

A representative from each of your selected franchise companies will then set up a series of meetings with you to help you understand their business, to review their FDD (Franchise Disclosure Document, a legal document that discloses details about a particular franchise) with you, and to arrange for you to do "validation calls" with other owners in which you can learn first-hand what it might like to be an owner.

Before each of these meetings, your TYN consultant will "arm" you with questions to ask so that your learning is optimized. They will help you understand "what it is you need to learn"– and how to get the information. They then stay at your side as your advocate/counsel and meet with you by phone each week to keep you focused and informed while you are evaluating franchises.

PART III: SUCCESS ON YOUR TERMS

Because of the outstanding impressions you have made with your franchise choices, you are "in demand." You are invited to attend a Discovery Day with several companies – and you choose the ONE company with which you want to go forward and meet face-to-face at their Discovery Day session.

You will ultimately decide if you want to purchase a franchise. If this occurs, your consultant will help prepare you for your "closing" – your meeting with your franchise company in which you purchase your business. They will cover specifics with regard to business structuring, outside resources needed (such as attorneys or accountants) and common sense advice for "getting ready to be a business owner." All other commonly-needed information is provided by your new franchise company representative. Your consultant will then also provide you with information about TYN post-buy services that you can leverage at any time after your franchise purchase. Your TYN consultant is now your new "sounding board" – a neutral resource-- for your ongoing personal growth and peace of mind.

WHAT **NOT** TO DO IN EVALUATING FRANCHISES

Are you wishing you could find "a short cut" in helping you evaluate franchises?

Are you seeking assurances that you don't "reinvent the wheel?" Just how do you avoid making mistakes? Read on.

WHAT NOT TO DO IN EVALUATING FRANCHISES

At The YOU Network, we take your desire to find the right franchise for you seriously. Our whole approach is designed to help YOU learn about YOU – and then learn about how YOU might best perform in various franchises. Hm-m-m, are you seeing a pattern here? Yes, it's about YOU.

We're not sure how many times it makes sense to remind potential buyers that the evaluation process is really about them. But just because it's "about them" doesn't meant that they are always in the "power seat" through the process.

Frankly, it's easy to be confused on this matter. In the United States, we are all trained and seasoned to believe that "the customer is always right." That the buying process is all about YOU the buyer deciding if the product or service is something they need or want – and the owner should bend over backwards to them if they want to make a "sale."

If you're serious about considering a franchise, the absolute first thing you need to know is that **the process of buying a franchise is more akin to interviewing for a job – not buying a television.** No one – including YOU – can purchase a franchise, just because they have the money. The better franchises are awarded for purchase, not "sold" – so the process of getting to that decision point is probably like nothing you have ever experienced before.

Your consultant has probably shared with you our "franchise evaluation process" – but we believe that sometimes the best way to learn how and why it is different than other buying processes is to understand how NOT to evaluate a franchise.

So let's get started.

WHAT NOT TO DO Rule #1

Be arrogant or controlling when speaking with a franchisor representative.

We deal with some pretty "high powered" individuals every day – individuals who have been very successful in their work lives and are accustomed to a certain level of "power" in their day-to-day dealings with others. We also deal with folks that would consider themselves more "regular," who are simply seeking the independence and freedom that franchising might offer them. Interestingly, both groups have been known to come off like "bulls in china shops" when first meeting their franchisor representatives – despite the pleadings of their consultants. They strive to "take control" of the meetings; they want their questions answered right away without listening first; or they just want to "get to the performance numbers" and ignore all else.

These people are systematically rejected by the franchise companies. And we, as consultants, are left saying

"What part about 'not being arrogant' was I not clear on?"

Imagine going to a job interview and acting this way. Would you get the job? Of course not. So don't for even two seconds assume that because you are BUYING a franchise that you have the right to lead the conversations in this manner. Franchises are "awarded for purchase," not sold.

When you are speaking with a franchisor representative you are developing a relationship. From the first phone call on – you are learning to "put your best foot forward" and to demonstrate your skills and capabilities, while also learning about the franchise company. There's nothing wrong with asking questions (in fact we encourage it), but you must learn to "spoon feed" the questions without "poking the representative in the eye" in the process. Your consultant will coach you in this, if you have any questions – but going in with a "think job interview" perspective is good general guidance.

Another thing you need to be aware of is that franchisors are seeking "team players" – not independent cowboys. They want the assurance you will "follow their system" and not be difficult to work with. They want you to succeed – and they have seen too many people stray from their system and fail. So they are going to try to "weed out the strays from the herd" right off the bat.

Remember, they have invested a great deal of time and money and aren't particularly seeking your advice on how they should be doing things. Once you have followed their system and proven yourself, you earn the right to start influencing potential changes or adaptations to their system.

So, if they ask you to fill out more forms about yourself after you filled out a whole bunch for us – fill out the forms. If they ask you to sit through a presentation that covers information you already saw on their website, bite your tongue and pay attention. Be more worried if they do NOT ask you to do certain things – that would mean they aren't as thorough as you would want your franchisor to be.

WHAT NOT TO DO Rule #2

Be sure to focus upon talking to owners who have failed – so you can learn what might go "wrong."

There is nothing wrong with speaking with system owner failures – as long as they are not the **only** people you speak with! Failures happen for a whole lot of reasons. An owner becomes ill and can't focus on their business. They have family pressures. A spouse is transferred and they have to sell or walk away, as they can no longer stay in the market in which they own the franchise. They change their mind (yes, people pay good money for franchises and simply walk away! Hard to believe, but it happens.) And some simply aren't equipped to "do the job" and therefore, fail.

The point is -- if this is your attitude going into the process, you're going about it from the wrong perspective. You need to enter it thinking, "how might I learn what is GOOD about this franchise? – while also learning about potential issues you may face. EVERY franchise has some issues – and yes, some failures. Even the biggest, most successful franchises have failures. Fact is, there is a human element to the success of any franchise – YOU have to make it happen. There are no guarantees. So your goal at this stage needs to be whether or not you have the "right stuff" to make a particular franchise work for you.

WHAT NOT TO DO Rule #3

Assume that the federal government has reviewed and approved each franchise on the market.

We're going to say this once and **LOUDLY.** The government does not get involved in the review or evaluation of ANY franchise opportunity. Did you hear that?

The federal government DOES require that every franchise file annually what is known as a Franchise Disclosure Document, or FDD. This document is the "franchise industry equivalent of a prospectus" – but much simpler to understand and read. The content of this is universal to every franchisor, meaning they all have to provide the same information. The purpose of the FDD is to protect YOU, the investor. It is universal in content, so as to make it easier for you to compare one franchise to another. And its outline covers those areas most relevant to your purchase of that franchise. If you were not shown an FDD in your evaluation of a franchise, you would not want to do business with that particular franchise. It would mean they are trying to hide something from you.

You should also know that there are "lower cost" offerings in the business market known as "business opportunities." These "opportunities" do not have to comply with the strict rules of franchising – and as a result, can often represent far more risk to you as an investor. They might be perfectly fine businesses, but if you experience issues of any sort with your seller, you have little recourse "after the fact" – as you would with a franchise.

The industry is also somewhat (but not entirely) shielded by the International Franchise Association (IFA). Members of the IFA represent honest, legitimate franchised businesses (see www.franchise.org). Before becoming members of the IFA, a franchise has to be able to demonstrate a level of legitimate opportunity, franchisee support, and success. That being said, "things sometimes change" after membership is granted – and it can be difficult for the IFA to continue their policing of each franchise member – unless the company's questionable actions become quite obvious. Similarly there are perfectly legitimate franchise companies that are not members of the IFA . It simply pays to do your homework.

The world of franchising offers no "guarantee" to new owners – because no one can perfectly predict how YOU the owner is going to act once you enter a business. This is why you go through this evaluation process. While all good franchises work hard to get to know you, YOU are ultimately responsible for making sure that the franchise you choose is a vehicle in which your particular skills and abilities can shine.

WHAT NOT TO DO Rule #4

Avoid using franchise consultants.

Obviously, we're a bit biased here. We truly believe that using a trained, experienced franchise consultant is the only way to go about the process of finding a quality franchise. Unfortunately, we acknowledge that: "not all franchise consultants are created equal." Among the segment of individuals who claim to be "your franchise consultant" there are:

- people with absolutely no franchising (or managerial business) experience at all
- people who simply use gimmicky and unscientific software programs or surveys to "match" you to franchises – then leave you on your own to conduct a proper evaluation
- people whose intent is to sell you specific franchises their company owns, rather than guiding you to franchises that fit your needs and skills
- people who will guide you to whatever franchise offers them the highest commission

It's no wonder that the media often prints reports that suggest you "use caution" in using franchise consultants. For those of us in this industry segment who are offering legitimate services to potential franchise buyers, we would like nothing better than to eliminate these so-called "franchise consultants" from the market – or at least require they call themselves something else. They are not professionals – and shouldn't claim to be as such.

A good consultant has "been in your shoes." They understand the frustration you are feeling in your career – and quite frankly, the fear you have in making any change from your current path. They will help you dig deep into your inner soul to determine what kind of franchise would be best for you. They can help you envision what ownership might be like – what you might like about it, and, similarly, dislike about it. They will teach you how to prepare for your meetings with franchisors and "put your best foot forward" while learning what's relevant. They are the epitome of "straight talk" – **if they don't think they have a franchise that is right for you, they will tell you.**

If you have any questions about the experience and capabilities of The YOU Network, discuss them with your consultant NOW – before you go any further in this process. This company works hard at "raising the bar" in terms of standards. We're the seasoned pros, the "grey hairs," the folks with REAL experience – and we work hard to gain your trust. We provide a FAR more comprehensive service to you – way beyond those of our competitors. And it costs you NOTHING. In our model, franchisors pay us -- not you -- for saving them time in finding the most qualified potential buyers.

WHAT NOT TO DO Rule #5

Shorten the evaluation process.

If we had a nickel for every time a buyer says, *"I know what I want, and I want to be in business by next month – so let's just cut through this and get it done."*

You may have real needs to get started quickly – this can be understandable – but we strongly suggest that you **do not circumvent any part of the evaluation process.** If you need to move quickly, ask your consultant to accelerate the process timing – but do not "skip" any of the process steps.

There are very strong and solid reasons for this point-of-view:

- Right now, you think you know what you want. We will tell you that 9 out of 10 times, potential buyers CHANGE THEIR MINDS about which franchises they want – after they learn more about possible franchise choices. Don't make an emotional, unquantified decision.
- Every step of the process is designed to help you gain a slightly different perspective about the franchise company – or YOU. If you shorten the process, you LOSE that 360 degree perspective gained from experiencing it in total. For example, some people think they can "skip" going to Discovery Day – and they forego a critical step that allows them to truly "bond" (or "not bond") with their franchisor "team." EVERY step is meaningful – or we wouldn't have it in the process.
- You will find there are franchisors on the market that will go right along with your wishes to "shorten the process." You will simply not find those particular franchisors in our client portfolio – because they also know the price that is paid if you make a decision in too great a rush. That being said, don't drag your feet, either. Everyone will have an expectation that you begin and end the process in 4-12 weeks. If you don't think you can complete your evaluations in that time frame, we would suggest delaying when you enter the process.

- You will be giving potential franchisors the impression that you are undisciplined, and impatient. Again, they aren't looking for people who can't play by their rules. There are incidents where candidates had premature discussions with owners in a system they were investigating – before the "permission" of the franchise representative – and, as a result, were not awarded a franchise opportunity. They will love your energy – just keep it moving in the right direction.

WHAT NOT TO DO Rule #6

Let your anxiety or fears get in the way of your desires for self-ownership.

If you finish an entire evaluation process and decide that "franchising isn't for you" – that's fine. We simply want you to truly understand WHY you made that decision.

Every day, we see people enter this process – all excited with the prospect of owning their own franchise business. Many of them have had visions of owning their own business since they were children. Then, they are at a get-together with family and friends, and a favorite uncle says to you, "you're considering a franchise? My best friend owned a (blank) franchise and lost his shirt."

Suddenly you're scared to death. Your fear begins to immobilize you. You start viewing the objective of the process as being "how can I be sure I don't get fooled?" instead of "how might I find the best franchise that is right for me?"

What has happened is that you have let one statement from an uninformed source "harpoon" your confidence in yourself. Instead of "dimensionalizing" and defining your fears – you've let them take control of you.

Your consultant may never know what happened to you – if you do call them, you end up saying something like, *"now just isn't the right time for me,"* or *"I don't think I have the money"* – or the BIG one: *"my wife isn't comfortable with this."*

All we can say is "don't let this happen to you." If you hear of something that raises your concerns, discuss these issues with your consultant. The majority of the time – these kinds of fears aren't real but imagined. Your consultant can help you better understand how to get a grip on your fears – or perhaps even help you realize that they are not going to go away, and that perhaps franchising isn't for you.

One thing to keep in mind: throughout most of the evaluation process, NO ONE is "selling you anything." A "sale" occurs ONLY when both you and your franchisor have decided it's the right choice for you. So, until you "fill out the check" so to say, you are simply "getting information." Don't thwart your learning process by pulling away too early - before you have learned what you need to learn.

If you follow this advice, regardless of your eventual conclusions, you at least know WHY you made the decision you did, and you won't be plagued for years to come that you never "saw through your potential."

WHAT NOT TO DO Rule #7

Assume that all of your prior business experience will ALWAYS directly translate to franchising.

Franchising is a different form of business than most people are familiar with. In its simplest form, it is a form of distribution – meaning, a company can choose to fund distribution of their business model by franchising. So, potential buyers can form opinions that are incorrect – unless they are careful and ask lots of questions.

Here's an example:

John Smith is reading a franchise company's FDD and notices that the company lost money last year. This concerns him, obviously. He wonders if he should continue to pursue this particular franchise. Then, John learns from his consultant that this was a "planned loss" due to re-investment in POS software development for all of the franchisees. And that the company put a "hold" new franchise sales until this software was developed and implemented. As the company's greatest income is from sales of franchises, and there were no sales that year, this reflected the loss.

When John continued with his validation calls, he discovered the majority of franchisees he spoke with had, in fact, experienced sales increases that year. He then realized he had jumped to a conclusion.

During the evaluation process, there will always be something that appears different or wrong to you. What's important is that you document your question, and share it with both your consultant and your franchisor representative. Then, ask the same questions when you are doing validation calls with owners. If you find that most everyone seems to answer your question the same way – you will learn what you need to learn.

WHAT NOT TO DO Rule #8

View the evaluation process as drudgery.

If you're not having fun in your evaluation process – we're going to tell you right now, you are either viewing it with the wrong attitude, or you are never going to be able to "pull the trigger" and buy a franchise.

That might sound a bit harsh, but it's been our experience that success in franchising requires a lot more "glass is full" attitudes than it does "glass is half empty" ones. Your attitude is contagious – and if we, or our franchisor clients, feel like you're just "going through the ropes," we'll probably tell you it's time for us to part company and end the process.

On the other hand, if you're truly finding the process to be difficult or tedious – one of two things is going on. Either you're wearing only your "due diligence" hat – during which you're trying to find something wrong with everything you look at instead of what's right (this is VERY stressful) -OR- you're having problems adapting to the idea of ownership (and need special counseling.) Either way, we ask that you share your feelings with your consultant. We want the process to be exciting for you – or we will not waste your time.

WHAT NOT TO DO Rule #9

Don't bother with taking notes – because you have a "photographic memory" you will remember all you hear.

As silly as this seems, this happens with far greater frequency than any consultant would prefer. Typically, we suggest – at the beginning of the evaluation process – that you buy a spiral notebook and take notes EVERY STEP OF THE WAY. At the end of your evaluation you need to have:

- Completed the requested forms for information about you
- Read the company brochures, materials, the Franchise Disclosure Document
- Discussed your concerns and questions with the franchise representative and your consultant (and other mentors of your choosing)
- Researched the market for the product or services within your area
- Completed your conversations (validation calls) with other franchise owners
- Attended a Discovery Day at the franchisor's home office
- Determined the specific steps next for a mutual decision on your part and on the part of the franchisor
- Obtained necessary information required for financing and registering your company, should you decide to purchase a franchise

You should keep thorough notes of your thoughts and questions at every step – and the answers you obtained when you raised questions. You will find that keeping your evaluation organized in this fashion will go a long way in helping you make your decisions at the end of the process.

WHAT NOT TO DO Rule #10

Don't include your spouse in the process – he or she will go along with whatever you decide.

We can say, unequivocally, that this NEVER happens. What occurs instead is that the spouse, having been completely left out of the process, either sabotages your decision (because they are afraid, and lack all of the facts you have accumulated) or they want to start at the beginning, and duplicate everything you have already done – so that they might develop their own opinions.

If your spouse doesn't work, they will likely carry with them a FAR higher degree of uncertainty about this process than you. YOU are their "security blanket" and they aren't particularly thrilled with your thinking about "shaking up the status quo." Plus, your family and friends are generally looking out for you – to ensure you aren't hurt. One of the ways they might want you to stay on this course is to avoid all risk. YOU have to remind them that starting ANY business involves some level of risk. But that this process is designed for you to make any such risk a calculated one.

DO YOU HAVE THE RIGHT STUFF TO SUCCEED IN FRANCHISING?

Why this means you are already going about the process of evaluating a franchise the wrong way

That really depends upon which franchise you choose, and whether or not you have the skills to manage that particular franchise. But there are some basic attributes that you may own that can boost your potential.

At The YOU Network, we work with hundreds of individuals each year, and they all want to know whether or not we believe they "have what it takes" to succeed in franchising.

No one can entirely predict a person's success in business, but there are ways we can get closer to helping you assess your own ability to succeed – which you learn when working with us.

This white paper focuses on our "shared experiences" as consultants – as to the qualities we have witnessed are shared by successful franchise owners. We hope you find it useful.

QUALITIES WE HAVE FOUND TO BE APPARENT IN SUCCESSFUL OWNERS

1. **Strong owners "count among their values" in life the good old American system of capitalism.**

   Don't laugh. If you have been an employee up until now, and you are considering franchise ownership, you're going to have to learn to "think like an owner" – possibly for the first time. This means, very simply, that the idea of building a business and making a good profit, and hiring and managing people, and building equity for your family's future – suits you just fine. In other words, you BELIEVE in it.

   Remarkably, some people who seek to enter franchising really don't philosophically "approve" of the fundamental elements that are required of managing a business, such as obtaining financing, managing and motivating people, or being in authority, or driving profits, or marketing or selling a product or service – or working hard. When pressed, they might admit to being a bit too "anti-authority" to become "the authority."

   If they are able to consider a business in which there are no employees, perhaps this may still be okay for them – but for most franchises, owning even a little bit of an "anti-business" or "anti-authority" attitude, or life philosophy, would be construed a mis-fit, as there is simply no point in fighting your own nature.

   Successful owners in franchising share a strong belief in capitalism and have common desires to "build" something in their lives that can be their own. They acknowledge that business owners tend to be the leaders in their communities – and they want to be part of that leadership.

2. **Strong owners have taken the time to understand and have bought-in to what is required of them, when working within a franchise system – before they buy.**

   When you work with an experienced consultant, they ensure you learn what's required of you, and what your franchise will be providing you. Point of fact -- you don't want surprises AFTER you have purchased a franchise, so this learning is important.

   Inherent to all franchises is a requirement that you "follow their system." Unfortunately, many people construe "following a franchise system" as meaning they will have no control over all of their business decisions – which is a wholly incorrect assumption. "The system" in a franchise refers to "the approach the franchise recommends for building your business." It means you spend a minimum of "X" in advertising, or you spend your time in a particular pattern; that you hire a particular type of employee that they have experienced will be best for your business; that you operate your business financials using their provided software, and so on. The "system" is a foundation, a roadmap, if you may, for getting your business going. You can always do MORE than what they say – but you should never do less. And you make decisions about your business, on your own, every day. You have FAR more flexibility than you initially may believe.

Why do franchisors want you to follow their system? Because they want you to succeed. Because that is what you have bought – a proven business model. They have "been there, done that" – and know from years of experience that if anything less than this is attempted, you will probably not reach your desired goals. Inevitably, if they have an owner that is not doing well, a small amount of investigation tends to turn up that the owner wasn't following the system provided – he or she is spending too little in advertising, putting in half the time they indicated was required to accomplish a task, or some such similar error. And this frustrates franchisors to no end.

It seems obvious that it would make sense to follow the system, but, again, surprisingly, many owners buy a franchise then immediately start to reinvent the wheel... and then can't understand why they aren't meeting their performance numbers.

The best owners not only follow the system to a "T" – they do MORE than what the system demands. They are always coming up with new ideas and sharing them with their franchisor mentors – and doing things "over and above" what is required of them. And this isn't just about putting in extra time or money into their franchise – this is about embracing the business – learning it from the inside out – and making it "theirs to grow."

We always like to provide the analogy that being a new franchise owner is similar to being "the newest member of a group." If you came into a new group, and started telling everyone in the group how to do things, they probably wouldn't take kindly to your suggestions. You have to "earn your right" to contribute. You have to prove yourself and develop relationships with the group members for your ideas to be accepted. Well, the same occurs in a franchise. When you follow the franchise system, and get the results they know you can get, they tend to listen better to YOUR ideas. Most of the time, regardless of the owner's prior experience, the ideas new owners generate in the first 90 days of operations are all things the franchise has already tried – and either rejected because they didn't work – or have already implemented.

So the point is: learn ahead of time what "following the system" requires of you – so that you have no issues or surprises. The FDD is the starting point for this learning – and your franchise sales representative and consultant can "fill in the remaining blanks."

3. Strong owners have pretty much embraced "the buck stops here" as their personal philosophy.

Another way of saying this is that the better owners are very good at taking responsibility for their decisions – the good and the bad. They tend to persevere, to stick with a project until it is accomplished. They are individuals who are not swayed by the first problem they face; instead, they address it, and correct it, and move on. They are strong-willed. They are decisive by nature – not over-analytical. They do not necessarily own a strong personality but are strong of will. They are leaders, not followers.

Does this mean that if you don't consider yourself "strong-willed" you won't do well at franchising? No. We wouldn't suggest viewing each of these attributes quite so literally. You need to look more at the aggregate of such qualities. In other words, if you would say you aren't very good at sticking to a project, and that you have a history of being fairly indecisive and that you analyze things to death before you finally make a decision – then perhaps you're going to be more challenged by business ownership than others.

4. Strong owners know they don't know everything.

The most successful people in business know when to ask for help. In addition, they are willing and wanting to delegate to others, to ensure more work can be accomplished. And, quite frankly, they are just a little bit humble. They choose franchising because they don't WANT to "have all the answers" – they see the advantage to not having to always reinvent the wheel. A wise franchise CEO once said, "when you are purchasing a franchise, you are purchasing 20 years of someone else's mistakes – so that you don't have to make them." He was absolutely right.

5. Strong owners are "glass half full" people.

Quite simply, good owners are able to take most lemons, and turn them into lemonade. They are the kind of people that always have a smile on their face, are good listeners and have a sincere interest in what others are doing and seem to have a lot of people who want to be like them and emulate them. It's more than just natural leadership, it's that they tend to own a personal mantra that "you make your own happiness in this world" – versus looking to others to make happiness for them.

6. **Strong owners are not risk averse – but believe in calculated risk.**

Risk is present in all we do, every day, every minute. We can fall down and break an ankle. We can go to the store and be hit by a bus. We can start a business – and succeed or fail. A strong owner will essentially recognize that acceptance of some element of risk is needed in life – or we become immobilized. But they are not reckless risk takers. They like calculated risk, where they have assessed probability of success and failure – and found that they liked the outcome. They are drawn to franchising because of its proven models, and reduced risk – versus starting a business on their own.

7. **Strong owners are "big picture" people – and can wear many hats**

When you own your own business, there are a large number of hats you may need to put on at any given time. One minute you're answering a legal question; the next minute, an accounting question; the next minute you're focused on marketing; the next minute on hiring a new employee. One of the advantages of franchising is that they "take care" of a number of these hats for you, so that you can focus only on those tasks that mean the most to your business growth. Nevertheless, you still have to wear multiple hats. So, the better owners are those that are comfortable shifting roles with frequency – are "generalists" at heart. If someone has had an extremely focused career, e.g., has been a salesclerk in a retail store their entire career – and have done nothing else – they may find it far more difficult to adjust to multiple roles with any degree of speed. Most of the best owners made sure they covered numerous bases in their careers and received some sort of cross-functional training – or they have always just had the talent to see all sides of a situation.

8. **Strong owners are "adaptable" – and are adept at change**

No business is static. No competitive environment is static. So, it simply goes without saying that change is inevitable when you own a business. The best owners acknowledge that this is part of what is necessary for them to succeed and they are in a constant mode of always looking for better ways to do things.

The bottom line is that you don't have to have been a manager in the corporate world – in order to succeed in franchising. There are successful owners in franchising that come from all walks of life – they just happen to have some of these unique qualities. Here are just a few, to give you an example:

- **Tradesmen** (Painters, Carpenters, Construction workers, Installers, Contractors, printers, etc.)
- **Restaurateurs** (Anyone with experience managing or owning restaurants)
- **Lifelong Corporate or Federal Employees** (Administrators, Managers, Directors, Project Managers, Service Providers, Marketers, Salesmen, Financiers, etc.)
- **Entrepreneurs**
- **Technicians** (Computer tech, engineers, etc.)
- **Stay-at-Home Moms** ...
- **AND Business Leaders** (CEO, CIO, CFO, Attorneys, Accountants, Doctors)

We suggest you discuss your personal qualities with your consultant – and they can help steer you to businesses that make the most of your prior experience – and your future needs.

Let us help YOU be as successful as you can.

THE FUNDAMENTAL TOOL IN PLANNING

If you could only do just one thing in planning for the career and life you want – and ignore everything else – this is what you want to be sure you have done right.

Most people that are considering the purchase of a franchise are at a "fork in the road" in their careers, and are therefore thinking through all sorts of possibilities for the next direction their life will take. Whether they are looking at an altogether new career direction, buying their own business, starting up their own business, or even opting for early retirement – it's definitely a time when "anything seems possible" – because current approaches are no longer working for them.

Yet from our perspective, many individuals go about this "seeking new career directions" process rather awkwardly. Some start a "horse race" – where they are madly evaluating multiple options and hoping that one will somehow intuitively "pop up" as the right choice. Some turn to family and/or friends and ask them what they should do. Some turn the process of career choice evaluation into a full-time job, because "keeping busy" keeps them from the toughest stage of all – having to actually make a choice. And as they continue to waste time, they burn up critical capital.

How do you avoid these kinds of mistakes?
By becoming a performance goal setter.

There is an old expression: any road will get you there if you don't know what you want. When we mention this expression to many people, they may get a bit defensive and say something in return like, "But I know exactly what I want! I want money, I want a comfortable retirement, I want money to put my kids through college, I want one good vacation a year..." and so on.
That's right – they have a "want" list, not a "plan."

If this sounds a bit like you, then your issue is in goal setting – learning to do it in a way that is productive, versus just being an undisciplined "want list."

Chances are, even if you have taken the time to sit down and make a list of your dreams or aspirations or desires in life – you have created something we call "outcome goals" – not "performance goals." It's the most common mistake in planning – and can make the difference between your success, or failure.

Let us give you a couple of examples:

1. An outcome goal says: I want to travel to worldly places when I get older. A performance goal says: I want to experience 3 major trips between age 45 and 60, and I'm going to do this by saving $2K a year until I reach $10K, then I'll take trip #1, and so on.

2. An outcome goal says: I need a living that pays for and promotes my standard of living, builds toward my retirement, and provides me with a sense of professional accomplishment. A performance goal says, I have determined that, in order to retire, I need to have $1.3 million in net worth by the time I am 65 (which is double my current net worth at 45.) In order to achieve this I need to accomplish the following over the next 20 years: (and this part is flexible, depending upon how you choose to carve out your portfolio.)

    a. Average annual savings of $20K, earning a minimum of 4.0% interest (Would accumulate $400K, without interest)

    a. Additional home equity of $100K (as financial experts predict is feasible) for which you could employ a reverse mortgage

    a. Investment equity of $200-300K – achieved either through business equity or stock market or 401K, etc.

Do you see the difference? By thinking in terms of "performance goals" instead of outcomes, you are able to quantify exactly what you need to achieve. And when there are numbers attached to your goals, it becomes easier to see what your choices might need to be.

Let's take this exercise a step further. Let's say you were comfortable with the idea of being able to save $20K a year – regardless of what you chose to do career-wise – if for no other reason than you believed you could still tighten your belts a bit to come up with that figure.

But point (c) has you a bit puzzled. The part about building equity through investments. You just don't know where to go to make this happen.

Equity is "the carrot" we're all chasing. It's about investing in something that will produce a higher return than traditional savings. And no equity plan is without risk. You just have to decide the level of risk with which you are comfortable. For example, let's expand on Point 2, above, where we discuss equity possibilities:

a. Let's say you decided to achieve your "equity" goal by doubling your annual savings – yet continuing to invest that additional money in low risk, albeit low-interest-bearing financial tools. In other words, you've decided you're going to save $40K a year (instead of $20K) for the next 20 years – to meet your goals. You then have to ask yourself, is this "do-able" if I remain an employee, working for someone else? Perhaps. That is, if you think you can stay employed for the next 20 years. Or, perhaps if you owned your own business, you could live more efficiently and save more in taxes – thereby making this easier to achieve.

b. Let's say you're going to invest in life insurance or in an annuity or in a 401K/IRA program – and let these moderate risk financial instruments build your long-term equity. Again, you have to remember, you can only contribute so much to these programs each year – and you have to have the cash to contribute. So it still begs the question of whether or not you believe you can remain an employee for the next 20 years. And, these can be very conservative investments – or hold greater risk -- depending on what exact instruments you choose to invest in. None are risk-free.

c. Let's say the whole financial market makes you nervous – it's been too volatile of late, you don't really have confidence in it, and you'd rather go in another direction to build equity. What's available to you? Land? Oil? Gas? Gold? Real Estate? Or starting your own business. Or buying a franchise. We can't really address what you would face if you started your own business – as we don't have enough information – but we can address some general considerations if you started a franchise. (But we can say that you will need to pay a significant number of outside service people to "support" you in your business, such as attorneys, and accountants, and real estate agents, and property managers, and IT managers, etc. – so don't forget to compare this expense to the royalty/support fees you would pay a franchise.)

Many franchise opportunities will provide you an opportunity to go cash positive somewhere within the first year of operations. All franchises are different, but you will have access to thorough and complete information regarding what the franchise owners in your particular system earn per year – before you buy your franchise. Unless you have purposely "bought low" in order to keep your investment level down, you have, by design, most likely purchased a system that will allow you income that you believe will at least meet, or exceed, what you brought home on a paycheck basis with your employer.

Now, in addition to income gained from a successful operation, one of the great benefits of business ownership is the opportunity to build significant equity – your "market value" for the business less what is owed on the business. Frequently, the equity that one might build from successful operation of a franchise can far exceed any investments that might have made in a 401K or IRA or even in "open investments" in the stock market. Here's one hypothetical example to illustrate this point:

Joe Smith used to work a white collar job, making $130,000 per year in salary. After paying taxes, Joe figured he cleared about $78,000 a year. So Joe decides to buy Franchise Company A for a total initial investment of $100,000. Over the following 2 years, he invested an additional $30,000 in capital equipment. Once his company achieved breakeven on his $130,000 investment (near the tenth month of operation), Joe was able to take $75,000 out of the business as income in the first 12 months after breakeven. In ensuing years, depending upon his personal needs or the strength of the business year, Joe would take anywhere from $150,000 to $200,000 per year as income. After 10 years of operating his business successfully, Joe sold his business for $1.4 million – that's 14 times what he initially paid for it. Another way of viewing this equity figure is that Joe's efforts every year netted him the equivalent of an additional $100,000+ per year – for every year he was in business.

From a tax perspective, Joe was able to take significant legal deductions against his business – ranging from common everyday business expenses, to client entertainment, to transportation. (These, by the way, were never items he could deduct when an employee, as he was reimbursed for these expenses – AND they were often taxed as income!) In addition, his accountant helped him understand what deductions were allowed him and his wife (as officers of his Sub Chapter S business structure) – such as medical or other insurance expenses. Joe soon realized that while his annual profit before taxes was "close" to his gross salary from his days in the corporate world – his net income was greater, as the tax benefits as a business owner far exceeded that of an individual. AND, he was building a business with strong potential resale value due to his solid performance history and loyal customer base.

Do you see how a franchise could help you build this elusive "equity?" Even if your business sold for exactly what you paid for it, after 10 years, you would still have experienced comparable or greater short term profits/cash flow than when you were an employee, which if you invested as you built your business, could have also resulted in the equity you crave.

The point of this exercise is that all this discussion STARTS with performance goal setting. As we said in the beginning, it is the ONE thing you need to learn to do – or none of your planning will work out for you.

Use this tool as your guide – it will help you make your goals more powerful and achievable. Learn to set SMART performance goals:

S Specific

M Measureable

A Attainable

R Relevant

T Time Bound

When your goals are THIS focused, it's much easier to align your plans with your goals – and know what you are really needing to achieve.

HOW TO AVOID CHASING WINDMILLS – AND BUSINESS SCAMS

Unfortunately, they exist. We wish they didn't.

You've always wanted to own your own business. One day, while in a "dreaming mood," you find this neat little franchise business online and decide to click for information. A representative calls you, and spends some time speaking with you on the phone. It's a business that provides a product for restaurants – and not only does it sound like a product that would be in REALLY high demand, the company sounds like "good people" with which you feel you could get along well. You worked in a restaurant years ago in college and not only do you know the product is needed and would "sell itself" – it's an industry you understand and enjoy. You're excited about the possibilities! This just might be your chance to get away from that dismal job that's slowly stealing your soul.

After several meetings with the franchise representative where they have seemingly covered all of the information about the company that you could ever imagine, you have a chat with your accountant and family, and you decide you're going to buy the franchise. Upon hearing this, the representative sends you their Franchise Agreement, along with a copy of their Franchise Disclosure Document (FDD) – and expects to hear back from you within the week.

Hm-m-m-m. You take a look at the FDD for the first time. It seems to you that this business has a VERY high failure rate among its owners, and this raises your eyebrows. You decide to do a little local homework, so you pop by a couple of restaurants in your neighborhood, and ask to speak to the owner/manager.

"Oh yes," the owner/manager says. "I'm familiar with that company. In fact, when I first heard about it, I was very excited as well – because there is a HUGE need for it. Problem is... IT DOESN'T WORK. In my last company, we had a contract with them – and tried it over and over again, because we WANTED it to work. But it just doesn't deliver. Once our contract was up, we, of course, didn't renew."

You go to the second restaurant. Same story. Oh-oh, a pattern is emerging...

SO, was that a "windmill" or a "scam?" And what's the difference?

A "windmill" is a franchise (or business opportunity) that sounds awfully good on paper, that follows all the legal requirements, yet comes up wanting – largely because it just isn't capable of living up to its hype. This doesn't mean it's a BAD business – but chances are, it's not the business you thought, or hoped, it was.

A "scam" is a franchise (or business opportunity) that is pure "smoke and mirrors" – providing the illusion of offering opportunity and being legal – but isn't. This one is tougher to identify and needs to be avoided at all costs.

Our little restaurant product franchise example was a "windmill." Here is a product for which there is pent-up demand – so much so that "selling it" is easy. Only problem is, the product doesn't live up to expectations. It will work, somewhat, in certain conditions or circumstances – but it doesn't solve the universal problem that everyone immediately thought it was designed to solve. Furthermore, while the franchise company is "following the rules" with regard to the laws about franchising sales, but they are certainly concealing their "dirty little secret" about the product performance. This was best demonstrated by the fact that they didn't provide the FDD to their candidate until he expressed interest in purchasing. By that point, they probably hoped that his exuberance would outweigh his due diligence, and that he wouldn't notice the "problems."

Nevertheless, this experience "spooked" the prospective buyer. Not only did he decide not to purchase this franchise, he decided against franchising altogether. This was a real shame, because there are many things about the franchising model that could have been just right for him and his family's needs.

What could he have done differently – without him giving up on his dream to own his own business?

Start with acknowledging you could use some assistance

Franchising is new to most people. And there are certain things about it that can be different from your corporate world (or other) experience, that you simply can't anticipate right away.

This is why there are franchise consultants. People like those at The YOU Network, whose sole purpose is to help you "navigate the new waters" and make informed choices – and avoid surprises.

There are certain elements that make a franchise "tick," and we call them "pulse points" – and they are usually indicators of a business' health.

The first "pulse points" concern the soundness of the franchise business proposition, and whether it meets the following criteria:

1. Regardless if the business idea is unique or not, the company has found a new and unique way to "serve it up." This is commonly called the business positioning. An example would be a maid service that has "gone green," using only environmentally-safe cleaning products. Or Burger King's grilled hamburgers. Instead of being a copycat to others in the segment, they have created an entity that will help their franchise truly stand out among the crowd. Ideally, this positioning should be easily defendable, and not quickly copied.

2. The business concept is "do-able," tested and proven, (preferably in more than a single unit) and offers a reasonable payout to the franchisee investor (1-3 years, and the sooner the better.) In fact, the better franchises have 95% or better success rates among owners.

3. There is a proven demand for the product or service – not just "fluff" or hyperbole, but numbers. And the more numbers, the better.

4. The franchise offering has a clearly defined "up-front training and development" component, it has an ongoing maintenance and support offering, and it doesn't "nickel and dime" its franchisees for every pen, piece of equipment, or even piece of paper published on their behalf. And the management of the system acknowledges that no business is static and works hard to keep abreast of market conditions and changes that require updates and reforms to the system. In other words, the franchisor is not just in the business of selling franchises, but of primarily managing a franchise system for growth. He is diligently working with his franchise owner to maximize their profitability.

The second group of "pulse points" are most apparent in the selling process ...

5. Where good franchisors sell only to candidates that exhibit either skills or prior experience where needed by that franchise proposition – instead of to anyone with a checkbook, or to those who simply have an affinity or desire for doing "something new." Where the wrong people are turned away.

6. Where good franchisors would no sooner make earnings claims (unless exactly as stated in their FDD) or mislead candidates in any way – because there is nothing gained in their doing this over the long term. In other words, no good franchisor wants a failure on their books or posted in their FDD.

7. Where there is obvious transparency in communications between franchisor and real or potential franchisee...in terms of creation of territories, Advisory Boards, prior failures, ability to speak with current owners, etc. – and in the "process" they use to sell their franchise to potential buyers.

The final group of "pulse points" are inherent in the company's management philosophies:

8. "Going the extra mile" is the credo...not just "doing only what is expected, or what is claimed in the FDD." Most good companies recognize that their success is dependent upon that of their franchisees and are certain to make this happen. Similarly, most good franchisees recognize this is necessary when dealing with their customers.

9. There is visible "balance" between divisions in the company – no one group "rules." Any company that is culturally driven by only one group, be it sales, or operations, or finance – is bound to eventually lose.

10. "Flexibility lives" within the consistency that is part and parcel of franchising. And the company knows WHAT can be flexible and what CANNOT – without risking the franchise.

There are over 3500 franchise companies in the U.S. – most of which are solid, well-managed companies. Franchising has its handful of less reputable companies – like any other industry out there. So don't let the bad apples get in your way. **Let The YOU Network help you find the right franchise for YOU.**

ARE YOU OWNERSHIP-AVERSE?

Many people seek the "greener pastures" of franchising as a "way out" of corporate job challenges.

But before they can consider purchasing a franchise, they may need to readjust their perspective...

A very successful business consultant once told us that she was raised in a family where "being a salesman" was considered the absolute lowest of professions. Just a mention of the term "salesman" conjured up images of "snake-oil salesmen," who sold door-to-door and were aggressive and obnoxious. And that was simply not the self-image she was seeking.

When she chose to go into the business world, she had to learn to overcome her "beginnings" – because she quickly learned that "being able to sell" was inherent to anyone's success in business – regardless whether they held a formal sales role or not. And the longer she was in business, she learned there were many, many different types of "sales" – from an ability to sell oneself – to selling ideas to others – to selling products – to networking with others to get referrals and results – to solving people's problems (a consultative session, resulting in a sale.) And a comfort with at least some of these types of sales was needed if she was to progress in her career. With time and study of each type of sales, she eventually became an expert in "consultative sales" – which required her solving other people's problems with education and counsel. She also eventually realized that her earliest perception of "sales" professions was WAY off-track.

The point of our telling this story is that if you think you are wholly averse to "sales" – then you either have misperceptions about what "sales" requires – or are likely averse to business ownership in general. Because ANY business you consider is going to require you being comfortable in some way or another with making sales. Sales are what drive your business – what bring your business an income, what ultimately makes you successful. What is important to learn – is what kinds of "sales" – like our successful consultant above learned – you could be comfortable with – so that you can pave the way for your success.

It's not unusual for people we speak with to tell us, upfront, "they are probably not right for franchising because they hate selling." After probing, we discover that they really just hate the idea of "tearing up the concrete" – of having to do "door-to-door, cold-calling sales." After even further probing, we learned they loved meeting new people – or loved solving business problems – or loved giving presentations. We realized, after much more discussion, that there were many business models available to these people – that leveraged what they loved to do, not what they didn't like to do. And while they would be "selling" in these businesses – they would not be "cold calling."

Having this particular conversation with your The YOU Network consultant is critical – because every business has to have customers, and those customers have to be found – either through some type of sales, or through marketing and advertising, or through a combination of both. Even if you choose a business model that is 100% advertising-driven – you still need to have this discussion, so that your consultant can gauge your overall communications skills – and direct you to appropriate franchise models.

Here's another tale. A client came to us and requested a franchise business that satisfied the following criteria:

- Wouldn't require him to sell anything, as selling was "outside of his comfort zone" (here we go again...)
- Would allow him to withdraw a substantial salary within the first year – like the salary he was accustomed to
- Would allow him frequent 2-week or more "vacations" where he could take motorcycle trips
- Wouldn't require him having to "do anything with numbers" as this isn't his strength
- Would provide him with a product or service he could really feel passionate about
- Wouldn't require any risk on his part – as he was over 50 and wanting to "hold on" to his money

His consultant quickly explained to him that he wasn't seeking ownership, he was seeking a job!!!

Not surprisingly, the client was a bit taken back by his consultant's comment. "*No,*" he said, "*I really want to buy a franchise.*"

His consultant then said in return, "*You may think you want ownership, but the criteria you just put forward to me can only be fulfilled from a job – or maybe (if we get lucky) a semi-passive investment in a franchise business. Or, if you're REALLY lucky, you can buy an existing non-franchise business and put someone in place to manage it for you. But if this is truly your criteria, you DON'T want ownership.*"

His consultant went on to explain to this client that if he really thought he wanted to consider franchising, they would need first to spend some time together "re-adjusting his expectations" about ownership in general.

Let's "dissect" the client's criteria to better understand what his consultant was informing him:

- A business with no sales or marketing requirements
  - We have already covered this, above.
- Would allow him to withdraw a substantial salary within the first year – like the salary he was accustomed to
- Businesses aren't built overnight. Most business models (franchise or other) take 1 – 3 years to reach optimum profit levels, and an owner needs to plan accordingly. As a rule of thumb, sales-driven business models often "ramp-up" a little faster than marketing-driven businesses, simply because they offer the owner more personal control.
- Would allow him frequent 2-week or more "vacations" where he could take motorcycle trips
  - Most businesses, whether self-started or franchised businesses, tend to allow an owner more personal freedom – but only after the business is "up and running." For the first three years or so, the owner has to recognize they will have many responsibilities that need be met, and that such frequent departures from their responsibilities would be detrimental to their business.
- Wouldn't require him having to "do anything with accounting" as this wasn't his strength
  - With most franchises, an owner is provided very sophisticated accounting and finance software that helps them manage their business – and they train them how to use it to their business' advantage. (If you were to start up your own business, you could use Quick Books, or Quicken, or similar financial management software packages, but would have to train yourself how to use them.) But even with these software packages, you have to take the initiative to find a good small business accountant that will help you manage your business from a tax and financial perspective – so that you can meet your family's long-term goals. You can't "avoid" numbers – they are the "scorecard" for ANY business.
- Would provide him with a product or service he could really feel passionate about
  - There is nothing wrong with this request. If a person can find a business that meets this criteria, that's absolutely wonderful. It can provide "wind in your sails." But it's naïve to think that you can't run a business without "passion" – particularly if you're 50-plus and are facing few other employment options. Many people have learned in evaluating business ownership that once they learn more about the actual business model – and not just a description of the product or service – they can LEARN to love the business, as it is meeting so many of their other needs. Another way of saying this is that there are many well-known businesses or franchises with great products or services – that aren't necessarily good investments. So sometimes, depending upon your life circumstances, you might have to ask yourself "which is more important?" – making the money you need, or making your head feel right.
- Wouldn't require any risk on his part – as he was over 50 and wanting to "hold on" to his money
  - This, more than anything the client has stated, reflects a naiveté on his part. Nothing in this world is without some risk. Even some of the most successful businesses, like McDonald's, have certain locations that fail. If John attempts to buy an existing non-franchised business, he needs to acknowledge that most people sell these businesses because they are "experiencing problems" – not because they are "doing well." The risk in buying any existing business is being able to fully ascertain the scope of problems the previous owner may have had – be

they customer issues or product failures, or poor service. In franchising, the franchise company can provide a new owner with their proven operating system and sales or marketing program – but the owner has to "work the business." The bottom line is that most business failures – franchised or otherwise – occurs when an owner is simply unwillingly to "put in the time" to make it happen – or to follow the "system" provided them. Or they went into the business expecting immediate results, and failed to preserve sufficient operating capital or living expenses. So to expect "no risk" is nothing short of naïve.

- Risk can be managed – and turned into "calculated risk." For example, working only with franchise companies with strong owner validation and track records can reduce risk – but the individual buyer/owner still has to "come to the table" so to say – and do what is required for success. Most trained franchise consultants can help a potential owner put their fears about risk into perspective – so that they don't overwhelm their logic.

- So – the long and the short of all this is that this client either needed to "get real" about what ownership could allow him – or he wasn't going to be happy with ownership. After additional conversation, his consultant classified him as the latter: as what we call "ownership-averse."

If you are looking at franchise ownership as a solution to your employment problems, be sure to read this – and discuss ANY potential issues with your franchise consultant. Ownership isn't for everyone – and you want to feel right about your decision.

What's most important is to keep an open mind. Go into the process assuming there is something right for you – and we'll either adjust your perspective – or let you know if there ARE solutions appropriate for you in the world of franchise ownership.

If we can't help you, we'll be the first to tell you.

FINDING COMFORT IN PARADOX: A COMPARISON OF FRANCHISING TO THE CORPORATE BUSINESS WORLD

The sun or the moon? Which world is right for you?

At The YOU Network, we speak with thousands of people throughout the year. And 5 out of 10 of them initially come to us thinking that owning and operating a franchise is the equivalent of their running a "branch office" of a larger national company.

It's not that this assumption is so wrong. It's just that it's incomplete. Without further understanding, a person could make some severe mistakes in judgment.

So what's "incomplete" about it?

For starters, while the "branch office" analogy isn't THAT terribly off-base, you need to at least be aware that being a "branch office" does not imply "guaranteed success." In addition, every franchise company is not "large" or "national." Many successful franchises have 100 locations or less and have only yet experienced that success on a regional basis – and they may not have recognition in the market you are considering. In assuming that the franchise company is "larger" – many potential purchasers also assume that brand recognition is so great that all they have to do is open their doors for business – and people will come running in. Instead, EVERY franchise requires its owner to invest time in sales or marketing tactics, developed by the franchise company, in order to "ramp-up" and develop a customer base for their particular location. This would be true for any brand – well-known or not. In other words, even McDonald's™ has to build a customer following for a new location – there are no guarantees. In fact, it has been proven many times in franchising that two locations, with identical demographics, can achieve entirely different results – because of the human factor – THE OWNER --involved. The owner has to make the location work. All the franchise can do is provide the owner with the tools to encourage it happening.

All right. So you can't assume that your franchise is just "another branch." YOU, the owner, are important to ultimate success.

OK. THEN WHAT EXACTLY IS FRANCHISING?

Let's start with an excerpt from Franchising 2030, a new book from The YOU Network:

> *The "ideal" of the franchising business model has always been pretty simple. If, as a business owner, you have a really good business in operation, you can attempt to raise capital yourself to expand your business (never an easy task) -- OR, you can franchise your business (become a franchisor) and use other people's money (franchise buyers, or franchisees) to help you gain distribution. In return for using "other people's money," franchisors provide their franchisees extensive training, use of their trademark and products and services, and a host of other varying and ongoing support services -- for a designated period of time averaging 10 years -- that are all designed to provide these franchisees the best possible chance of succeeding. In addition to "starter fees," most franchisors also charge ongoing royalty payments -- usually in the form of a percentage of sales -- so as to allow entry costs to be kept at practical minimums and to help the franchisors continue to build and maintain an optimally competitive "system."*

Sounds simple enough. And those differences from the corporate world would be?...

	Corporate World	Franchising
How you learn about a company's performance	Company growth largely tied to sales of product(s) or service(s) – you can read the annual report and make assessment of financial performance (public company only.)	Growth of company ultimately tied to sales of franchises – not just to product or service sales. If royalty (support) payments are down, this would reflect weaker performance among some owners – but this is not the ultimate barometer of success. Franchise Disclosure Documents (FDD), and potential buyer's interviews with owners provide financial performance information
The culture, the way-of-working	LOTS of politics; many "people" pressures; make change happen as matter of course in order to compete	Minimal politics; collaborative environment between owners and franchise company; "follow the system rules" first – then make recommendations for change
How you grow the business	Most frequently: top-down, directed from corporate, using national and local media and sales	Bottom-up, directed from owners, using local media and local sales, with plan and support from company headquarters. Some companies may have national or regional advertising once distribution is sufficient to allow it
How you make changes to the company	An employee makes recommendations, obtains buy-in and support, and implements	An individual owner (franchisee) makes recommendations to company headquarters – if accepted, franchisor will announce implementation THROUGH network of owners
Compensation criteria	May or may not be geared to performance	Directly related to performance; earnings claims, if provided, are as stated in FDD, but no guarantees are made
Tax deductions	Employee tax deductions go through individual or joint filings	Many deductions available through business structure – be it LLC, C Corp or Sub-Chapter S Corp. Owners draw income from business which is then separately taxable
Hours of working	Fairly inflexible; minimum 8 hours – sometimes more required plus travel	Flexible, depending upon franchise requirements and personal choices made; little travel required

Look closely at this chart and you will see that certain experiences in franchising are nearly THE EXACT OPPOSITE of same experiences in the corporate world. This is why we say that understanding and adapting to franchising can be like "finding comfort in paradox." It may seem almost "backwards" to you at first, but once you have adjusted your perceptions, it may, in fact, be what you have been looking for all along.

So...are you a "sun" or a "moon?"

Franchising isn't for everyone. Probably the most telling characteristic is your ability to follow directions. If you have a VERY strong sense of yourself, and "don't follow rules" very well, then franchising just may not be for you. Franchising REQUIRES people who can "follow the system"--particularly when you first enter the system as an owner. After all, you paid for their advice, so you might as well take it.

You also need to understand that franchise companies have invested a LOT of money and time in their "ways of doing things" – and they don't take too kindly to a strong force that comes into their world and, right or wrong, immediately starts to tell them "they need to do things differently." Once you have your business established, (and you followed their system in doing so) it's quite possible to influence the franchise company with your ideas and thoughts – and they are likely to listen a whole lot better to you by then as well -- as well as welcome your inputs.

You might even consider this: A leader in franchising was once quoted as saying, "When you buy a franchise, you are buying 20 years of mistakes. So why make them all over again? Chances are, that "great new idea" you have has already been tried, and failed. So don't try to reinvent the wheel – you're defeating the purpose of what you bought!"

Many, many people succeed in franchising around the world every day, every year. The best way to find out if YOU might be one of them is to contact The YOU Network and speak to a consultant today.

PUTTING FEAR INTO PERSPECTIVE

Are your fears blinding you like a harsh light? Or immobilizing you, and keeping you from achieving real success in your work life?

Then let's start with a "reality check." Understand that it's normal and healthy to have fears. You don't EVER conquer or control your fears entirely. But you can learn to manage them – and put them in perspective – so that they don't get in your way.

Gary Brock (not his real name) recently retired after a successful career as a stock market trader. In our personal opinion, there are very few people that can speak about personal fears in the workplace better than Gary. Because he was "on the front line," making tough decisions every day throughout his career – and each decision he made was capable of creating self-doubt, a lack of confidence, physical discomfort, and, YES, even personal bankruptcy.

Yet Gary learned to manage his fears – or do what we call "put his fears into perspective." As a result, he worked as a trader VERY successfully for over 25 years, and you would never know looking at him that he had any shadows lurking in the corners of his mind.

What can we learn from Gary? For starters, let's define the many types of fears that are common to individuals that are considering an important decision in their lives -- particularly those fears that are common to those who are considering the purchase of a franchise.

#1: FEAR OF UTTER FAILURE, OF "LOSING OUR SHIRT"

We all would prefer to go to sleep at night, knowing that we will have a roof over our heads, that we have an innate ability to feed ourselves and our family – and that we just might possibly have the opportunity to retire and relax some day. When we're young, we're "invincible" -- and we have total confidence in our ability to succeed. Then, one day, we experience one single failure that knocks us for a loop. From that point on – we risk falling into "analysis paralysis" – a pattern of "over-analysis" of every new opportunity that comes our way. We repeatedly convince ourselves that this is the "responsible" thing to do – yet, when we think about it, we have been fairly risk-averse for a long time now...so what does this mean?

If this sounds like YOU, let's clarify exactly WHAT you are doing to yourself. Or better yet, let's allow Gary to explain:

> *"When I first started as a trader, I wanted to be like the big guys. They all appeared to have "nerves of steel." I studied and studied and studied every opportunity that came my way – waiting for just one of them to leap out at me and tell me it was the one that was going to make me rich. But then I never pulled the trigger. Instead, I kept 'pecking with the chickens' and waited for my 'big opportunity.'*
>
> *One day, when playing golf with one of the more senior guys in my office, he told me that I was 'thinking backwards.' He told me that I was focusing all my energy on my potential loss – as opposed to my potential gain. Instead, he suggested that I start focusing on my overall trading plan – starting with sound trades mixed with some risky trades – and changing the mix over time as I gained more experience and confidence. He helped me understand that even the best guys in the shop had failures – but they anticipated a certain percentage of failures, so that they weren't knocked off their feet when they occurred.*
>
> *I took his advice – and my world changed! I gained more and more confidence with my "eyes on the prize" and began realizing that "better execution" was going to give me better success than "big ideas." I learned a HUGE lesson – and luckily when I was still young enough to enjoy it!"*

When you are considering the purchase of a franchise, it's utterly normal to have a "fear of failure" – and you, too, can possibly fall into "analysis paralysis" as a result of this fear. You have a family, you have responsibilities, and you are bound and determined to make absolutely sure that nothing could "go wrong" with the franchise you are considering – so that you don't risk your hard-earned money – or your family's future. (After all, if your business fails – it can't be as a result of something YOU did wrong, correct?) So you work double-time, reading articles, interviewing owners, combing over the disclosure documents, again and again. And what have you accomplished when you are done? Only in gaining an excess of one kind of information – a history of other people's performances.

Instead, you should be focusing also on "dimensionalizing" YOUR potential ability to do what is required for success in the franchise system. What this means, is that it doesn't do you any good to let a fear of any sort linger and grow exponentially. You have to pin it down, attack it, add numbers to it, discuss it, question it ... toss it around, and decide if it is really a "fear."

Which is exactly what The YOU Network helps you do. In fact, we're even going to suggest that you put yourself into the shoes of an owner – and answer for yourself whether or not you think you can do the work required. And, while you're at this – answer what would potentially happen in your current job if you didn't!

"Dimensionalizing" your fears is all about getting more information and, as a result, added perspective. In order to do this, you are going to be asked to do the following in your franchise evaluation process:

Speak with owners – and find out what their challenges are. Find out what THEY did, work-wise, before they became franchise owners. *Can you relate? See any common threads?*

Find out what personal strengths THEY believe are required for success – or what weaknesses would be problematic. *Do you own these strengths and weaknesses?*

Speak with the best owners in the company. *Do you have common skills or achievements? Like you, were they "B" students in school?*

Speak with your family and mentors. *Are they going to be there to boost you and support your efforts?*

Discuss your questions and fears with your The YOU Network consultant – and gain insight from their unique tools and experience.

Then look in the mirror. If you have never had a total abject failure in your life before, what makes you think you are going to now, with this venture? Get it all out on the table!

The best franchise owners are ones that realize there are always going to be risks – but if they focus on "dimensionalizing" first, and, then, "best execution," they will minimize those risks – and possibly avoid them altogether!

One other important but often overlooked point: don't forget that purchasing a franchise is not unlike purchasing ANY other asset – as an asset, a franchise has resale value. Obviously, if you have built a franchise system up to a profitable level it will have more resale value than one that has not – but nevertheless, the odds of your literally "losing it all" are FAR lower than you think. Put numbers on your fears before you let them take control of your head.

#2: FEAR OF NOT BEING 100% RIGHT – AND LOSING OTHERS' RESPECT

Too many people let their ego get in the way of their success. They may not be wholly afraid of failure, per se, but they haven't learned to live with the fact that it's "okay" to not be right all of the time. That you can still achieve results when you're only right part of the time. And that most people respect you even MORE if they understand you are HUMAN.

Gary has a really good story about this one:

"I once had a fellow on my staff that equated his entire self-worth with being 'right all of the time.' Another way of saying this is that 'he cared more about being proven right in his analysis on each trade – than looking at the business of trading as a probability game in which he was going to be both right and wrong on his sum of trades.' As a result, the guy was 'wired tighter' than anyone I ever knew. Because not only did he view his job as risky to his pocketbook – but to his entire self-image! Wow. That's really putting a load on yourself!"

"Now, I'm not a psychologist – and this isn't the kind of thing you can just 'tell' someone to stop doing, so I, instead, had an old teambuilding exercise do it for me. First, I asked all of the members of my team to go home and ask their spouses 'what are the three things you love most about me?' They did this, and you know – not one of the spouses wrote down 'your perfectionism' as a 'most admired' trait."

"This exercise was just the 'ice-breaker' for the session we proceeded to conduct – and was designed to shake up our self-perceptions a bit. We continued to have the team members identify each of their co-workers greatest strengths – and weaknesses – and, not surprisingly, when it came time to discuss 'Mr. Right All of the Time,' everyone jumped all over him. They explained to him that he seemed to view his trader life as 'all or none' – sort of a 'Get Rich Quick or BLOW OUT Trying' philosophy to trading. And, from their perspective, they were all waiting for the BLOW OUT part to occur..."

"When we were all done, he pulled me aside and admitted that the session was 'eye-opening' for him – and asked if he could spend more time with me later to set an improvement course!"

"Again, I am not a psychologist. But when I see someone heading for a brick wall, it's my nature to want to stop them from hitting it. And this kind of behavior will do that unless corrected early on."

In franchising, this particular fear mostly rears itself in a new franchise owner's "lack of ability to follow the franchise system." They buy a franchise, and immediately start challenging their franchisor with what they perceive to be "better ways to do this or that' -- translation: 'do it MY way.' OR, even worse, they ignore their franchisor directions altogether and do what THEY think is right, regardless of what the franchisor tells them.

Being part of a franchise requires "parking your ego at the door" and following the system. That's the whole reason you bought the franchise to begin with (instead of starting your own business), so that you could minimize risk and learn from other's hard work and experience. Remember, your franchisor has already "made all of the mistakes" so that you don't have to repeat them. Once you are established in your business, there is plenty of opportunity to make positive changes in your franchise system.

If this "fear" has been in your way during your career, you need to either learn to overcome it – or, quite simply, avoid franchising. You will not be happy if you have to always be in total control of every decision made. Take a deep breath and let others show you the way for a change.

#3: BALANCING "FEAR OF MISSING OUT" WITH "FEAR OF RISK"

Most people judge "good franchises" as "whatever they hear is the hottest trend." As a result of this (mis)perception, one of the first things we often have to explain to them is that a franchise's sales popularity does not necessarily mean it is a "good franchise." It can mean the franchise has a really good sales team in place – or that the franchise is simply riding a hot, new trend – OR that the business really does, in fact, represent a good opportunity.

When you go to the internet, you see banner ads and browser references that say things like "hottest franchises" or "top 50 franchises." All these references mean is that this particular franchise is doing a really good job of selling franchises. It doesn't speak to how each franchise owner is doing, performance wise. And, keep in mind – when a franchise company is first starting out and grows from having 5 franchise locations to 10 franchise locations – that is a 100% growth rate! But they still only have 10 locations. Which REALLY means that, for all practical purposes, their performance is relatively unproven – and they are still pretty "risky" investments.

We speak to people every day that want to be introduced to whatever the "latest and greatest" franchise is – and that's okay, as long as they put their "fear of missing out" on the latest trend into perspective. For example:

Yes, "senior care" is projected to be a growth area – but this doesn't mean that all senior care franchises are solid investments.

Yes, "automotive" is a recent high growth area where many ex-high school gear heads think they want to spend their time – until they realize that some of these business models require better sales and management skills than mechanical skills.

What IS important is gauging your capacity for risk – if it is higher than most people's, consideration of newer unproven franchises – for which the long term payout could be quite high – might be "spot on" for you. If your capacity for risk is only moderate, then you will probably want to stick with the "tried and true."

Our friend, Gary, can certainly relate to the "fear of missing out." Remember the Internet investment craze? Gary remembered people calling his firm, saying "I don't care what it takes – I want to get in at any cost!" He has "ridden" many a market trend – and will ALWAYS say that caution needs to be used.

Your The YOU Network consultant will ask you many questions – and ask you to participate in certain behavioral profiling tests – to help you put these particular fears into perspective.

#4: FEAR OF "NO WAY OUT"

Most franchise companies have a 10-year contract with their owners. Some potential franchise buyers hear this, and "head for the hills!" The very concept of a ten-year relationship frightens them to death! Why, they haven't had a marriage that lasted that long, they, jokingly, say! Others are simply afraid they will become bored – and will want to move onto something else.

If you think you're among the commitment-averse, it is probably important to discuss an "exit strategy" with your The YOU Network consultant – before making (or avoiding) a franchise purchase. And when that discussion occurs, be sure to understand:

1. A franchise is an asset – like a house, or a car, or a Star Wars action figure collection. There will be times the asset has higher value, or resale potential, based upon market conditions. In the specific case of franchising, resale potential will be higher if the business is already showing a profit – and isn't still "ramping up." In other words, you can always try to SELL your franchise.

2. Many people purchase franchises – with full intent to sell the business after 4-6 years, and/or when they have reached what they believe to be their maximum profitability levels. They do this because they always want to be learning and doing something new – or they have personal reasons that require they "move on."

3. Many people like to start businesses – but don't like to manage them once they are "up and running." When this occurs, they usually hire a manager to step in for them. This may reduce their profits on the business, but it allows them to retain some profit – while freeing them to pursue other interests.

4. Some people lack the capital to buy the particular franchise they REALLY want – so they purchase what is known in the business as a "starter franchise." After building the business to a profit – they bring in a manager, or sell the business, so they can pursue their original goals.

#5: FEAR OF "I'VE NEVER RUN A BUSINESS BEFORE"

Quality franchises are developed to largely be "turn-key." What is meant by this is they are developed and packaged, if you may, in order to provide you everything you would need to get started in business. But you have to put in the sweat. It doesn't "do it for you."

So – unlike regular business ownership, you could say that franchising has already taken care of a significant number of the requirements, and most certainly the "headaches," of starting up a business.

What You Get – When You Purchase A Quality Franchise:

1. A Proven Operating System – complete with manuals

2. Focused and Comprehensive Initial Training – to start you off properly

3. Ongoing Operations Training and Support – so that you grow with your business

4. Marketing and Sales Training – so getting customers isn't "rocket science"

5. A Proven Marketing Plan – not one that you have to test and test and test, until you get it right

6. Ongoing R & D (research and development) – so that your franchise grows and adapts with the times and changing customer needs

7. 24/7 Customer Service Support – so that you are NEVER alone in your business

8. Defined, Targeted Territories – using sophisticated demographic data

9. Technical and Administrative Support – including management software, IT advice, web support, and franchise-specific legal, accounting and tax counsel

10. A Brand Name and Image – that grows and grows and grows in value

In addition, with many franchise companies you may also receive, as appropriate:

11. Site Support from leading real estate companies, including location, negotiation and lease education and counsel

12. Hiring and Employee Profiling support, so that you can get the best staff

13. National Contract support, where leads are passed along to you if a national company under contract has presence in your territory

14. Significant Cost Savings from bulk equipment buys

15. Licensing, Bonding and Insurance support and savings

16. HR Software support and counsel

So you can see, with a franchise you are "in business for yourself, but not by yourself."

Gary tells us that, in his business, this particular fear manifests itself in the origin of "day trading." Customers that can't see beyond a 24-hour window of opportunity think they will thrive in this arena – but are also never able to take advantage of the long-term equity plays. "Each to his own," he says, "as long as they know WHY they do what they do."

We agree with Gary.

READING A BUSINESS' FINANCIALS

How can you tell what is a "fair" valuation of an existing business? Are you letting a good operation slip through your fingers out of "fear of the unknown?"

When should you enlist an outside party to help you?

A pro forma financial statement provides potential or current investors with an idea of the future financial fitness of a company. The problem with a pro forma is that it's only as good as its estimator. And if little category data is available, as is the case with franchised businesses, the estimation can be suspect.

So let's start with stating that few franchise businesses have a CPA prepare a pro forma financial statement when they are preparing a company for sale. As a potential investor, you might more likely be looking at a *regular financial statement* – which has all of the same basic elements as a pro forma financial statement, but includes fewer estimates for the future of the business, such as educated guesses about your future cash flow, current assets, fixed assets or liabilities – or even market size. Or you might only have access to a business' Profit & Loss Statement. And keep in mind -- *there is nothing wrong with a seller providing you less than a full-blown pro forma*; these other financial documents can be just as insightful to you. You just have to learn how to read whatever set of financials is available to you.

ELEMENTS OF TRADITIONAL FINANCIAL STATEMENTS

Balance Sheet. The business' current and fixed assets, liabilities and shareholders' equity. Shareholder's equity is estimated by subtracting the liabilities from the assets.

Income Statement. Includes new income, sales or purchase of assets and issuance of stock, and such items as bond or dividend payouts.

Profit and Loss Statement. Include all sales revenues, the cost of goods sold, losses taken, taxes paid or owed, and depreciation of company resources and operating expenses.

The Balance Sheet and Income Statement are "what they are." They reflect a "snapshot in time" about a business, and provide only a static bit of insight to you on a business' net worth. For this task, most people use the Profit and Loss Statement.

USING A P & L TO MANAGE AND/OR VALUE A BUSINESS

To try to get a sense of the worth of a small franchise business, a cursory understanding of a Profit & Loss statement (P&L) – *not a severe exercise in number-crunching* -- is critical. A P & L will generally provide a peek into the company's short-term as well as its long-term viability. It essentially measures how well the business is utilizing company assets, personnel procedures, marketing and facilities in its effectiveness of serving customers -- while keeping a keen eye on profit maximization.

When you study 2 -3 years of P & L reports for a specific business, you can determine various rates of return on the business investments, (such as marketing or sales or equipment) and then detect both positive and negative trends – and take corrective actions. As a result, a good manager can optimize business performance.

And you simply want to understand the basics: the business' income (and its sources), what is driving this income (marketing or sales) and the trends/costs associated with these actions, and other general shifts in the marketplace that could impact performance – particularly labor costs and or market potential. ALL else is potentially helpful, but, more often, superfluous.

Why do we say this? The reason is because of two factors: one, this is a franchise operation that has had the franchisor's "eyes" overlooking its reported income up to

this point, so as to capture royalties from the said owner. If the owner were misreporting, it would more likely be in reporting LESS income than MORE, so you have little to be concerned about here; and two, this is a small business. Small business performance can be changed by a good manager rather quickly – so it's not as if you're having to move the *Titanic*. The key is to learn to look at general trends, and then ask WHY something is performing as it is. And then ask yourself if you think you can build upon or change that performance. Just don't expect the "numbers" to be all that will tell you what you need to learn. Common sense should prevail.

For example, let's look at Business A. Business A has $850,000 in income reported for last year – which has remained fairly constant for the past 3 years. OK. That seems pretty good to you. But what do you know (from the owner) about the sources of that income? Is it mostly from new customers? Repeat customers? What is the average transaction value? Let's say that you learn that the majority of income is from new accounts. There is nothing wrong with this occurrence if your marketing expenses are fairly controllable and constant, but if your marketing expenses have been going up for each of these 3 years, *this means the gross margin for this business is slowly eroding*. And it might not yet have shown up to the degree that you can immediately notice it. Either you have to figure out a way to get more business from existing accounts – or find more cost effective marketing methods – *or you are looking at a declining business*. And all of this insight came from asking "WHY??"

So what does this little exercise leave you with regard to business valuation? What it means is that if you don't personally have an easy answer to the questions or challenges your trend analyses offer you, *the business is likely worth less than it might appear on the surface.*

Yet, you should know *that there is no magic formula for business valuations*. A business is worth what you, the buyer, **think it is worth** – despite accounting methodologies. An accountant can take you through various approaches: an asset-based valuation, an income-based valuation, and/or a market-based valuation. All three will produce different "numbers" – ***and the business is still worth what the owner is willing to accept for it.*** It just doesn't make sense to get caught in "analysis paralysis" with a small business – it is what it is, and you can crunch numbers until you're blue, and it's not going to tell you that much more than you knew when you started. Cover the basics (mentioned above) and then use your common sense. It's the smarter way to go.

So, what this means is that you need to pick a figure that you're willing to pay, and offer it to the business owner. Your "worst case" is that you can be turned down – or a counter offer might be made that will bring both parties closer together. And if the owner has an inflated sense of value, they will lose out. *It's that simple.*

Other Line items in the P & L (besides the basics) of potential relevance for your review include:

GROSS MARGIN

A gross margin is calculated by subtracting the company's *cost of goods sold from sales and by dividing its result by sales*. Cost of goods sold is best measured as a percentage and *proper care should be exercised to ensure that the period's P & L has properly allocated all direct sales cost to cost of goods sold.* (Typically most all of these costs will vary proportionally to the amount of product/services sold and delivered. A proper and consistently applied "cut-off" of accounting data is critical to this evaluation as otherwise the data/margins are unduly skewed to start.)

Another area of costs with which you need to be aware of trends are marketing (and sales) expenses – not just trends in *total* expenditures, but trends in *types* of expenses. Much of marketing today is shifting from traditional media venues to internet media venues, which are frequently more cost efficient to operators. Find out whether the marketing plan needs "refreshing" and whether the costs are realistic or inflated. Similarly, be sure to see several years of performance so that marketing costs reflect normal activity and not recession-based attempts to offset one-time customer erosion. In other words, if the margin is down versus prior years, it could only be reflecting short-term marketing needs versus actual business model or business valuation issues.

PRETAX MARGIN

Knowing what a business nets in dollars (and as a percent of sales) are an essential part of understanding the business. A business pre-tax margin is determined by subtracting from sales, all cost of goods sold, personnel, sales and operating expenses. Knowledge of this margin is essential as it is a leading indicator of business future assets; liabilities and equity as well as the respective income taxes you would be required to pay as an owner.

IF YOU READ ONE THING IN THIS DOCUMENT, PLEASE READ AND UNDERSTAND THIS:

Herein lies one of the greatest difficulties in reading a small business owner's P & L. Many small business owners will do all they can to lower their pretax margin – ***so as to avoid tax liability.*** When you are evaluating a business' margin, be aware of every expense the owners have allowed and ask yourself if they are expensing:

- A company car and all associated expenses?
- A wife (or other relative's) "salary?"
- Rented office space AND home office space?
- Pension programs and/or medical expenses for company officers?
- Undue entertainment/marketing expenses?
- Or any similar expenses that could potentially be reflecting that they have been "living" through their business and expensing more than normal?

It's not up to you to decide which deductions are legal and which are suspect – but if most other owners in a franchise system are producing 20% or better pretax margins – and this owner is producing only 9%, don't assume it is simply due to performance issues. It might be that the owner is "playing the tax game" – and you may not agree with some of his/her choices. Again, ASK WHY numbers are what they are. An owner that wants to sell their business will provide you with facts.

NET MARGIN/NET INCOME AFTER TAXES

A company's net margin reflects the company's earnings. It is what is earned after paying all of a business' expenses, depreciation, interest and taxes to both the IRS and the respective states in which a business operates.

To clearly understand this figure, you have to have an understanding of how the business has been taxed. To that end, it is wise, again, to ASK WHY:

- Does the business keep its internal books on an accrual basis and file the tax returns on a cash basis? Are the appending timing differences carefully delineated, documented and understood? For example, business owners might inadvertently neglect to recall that receivables billed and reported in an earlier period when financials are prepared on an accrual basis will have to be reported on a subsequent year's tax return when the cash-based tax return is prepared.
- What does your accountant say might "change" in terms of tax liabilities – based upon your considered business structure and/or approach for financing your business? For example if you use 401K rollover monies to finance your business, and therefore structure your business as a C Corp, what impact will this have on your taxes for the business?

When you are getting close to deciding to buy a franchise, it always makes sense to hire an accountant who can help you understand HOW you will be taxed. Tax laws vary by state and by business structure – so it makes sense to discuss these areas with an accountant before you buy. Then you can build these estimates into your preliminary business plan, so that you have no "surprises" going forward.

Your business structures are also going to be inherently linked to the type of business you buy and the financing choices you have. Use your accountant to help you plan your tax liabilities and your structure – *not as a sounding board on whether or not to purchase the business.* Unless the accountant has first-hand experience with franchising, or the business model you are reviewing, they will lack the experience or facts to provide you with relevant insights.

And whatever you do, ***don't make the mistake of asking a "friend" in the financial world to value a resale franchise business for you.*** Again, unless they are involved first-hand in franchising – or this particular company you are evaluating – they will lack the appropriate facts to assist you. And because they are your "friend" they will likely read your request as asking them to help you diffuse ANY risk. So, in the absence of facts, all they can do is tell you to "not do it." It's the equivalent of asking a parent whether you should accept a tough new job opportunity. The majority of the time, they will answer you in a way that will spare you from risk or pain – rather than what might help you build and grow your career.

In other words, *be very careful not to enlist a third party to make your decisions for you.* Accountants will help you understand your tax liabilities, attorneys will help you understand the FDD and the franchise agreement, franchise consultants will guide you to business models that utilize your strengths – and you have to make your own decisions with regard to business ownership. It's the only way you will succeed.

And finally, don't confuse the *valuation process* with a *validation process.* Valuation is what you do to decide what a particular franchise location might be worth – while validation is the process you undertake to "read" the entire business model/investment opportunity and is only gained from speaking with multiple franchise owners. More often than not, a third party will mistakenly think you are seeking *validation* – and will not be aware of the process you have already been engaged in that is better designed to help you evaluate the overall franchise opportunity.

WHY YOU WANT TO OWN YOUR OWN FRANCHISE BUSINESS

The obvious advantages to ownership of any business are the personal freedom you gain -- and the potential for long-term equity. But why do you want to own a franchise – versus some other choice?

WHY YOU WANT TO OWN YOUR OWN FRANCHISE BUSINESS

From our experience, just about every single person on this earth, at some time in their lives, experiences a desire to own their own business. Some people address this urge very early on in life – and open lemonade stands or become internet whiz kids! Some skip a formal education and become entrepreneurs. Some receive a formal education – and still become entrepreneurs. Some buy existing businesses. And many, many others become franchise owners.

Regardless of the route an individual might take to become a business owner, these owners, say when interviewed, that they believe they work harder, earn more money, and live happier than if they had been employed. Why do you suppose they believe this?

Probably because it is true.

Owning a business can be hard work – no doubt about it. And you probably know that anything worth getting in life tends to require some work! If you don't want to work relatively hard, say at least 40-60 hours a week, for at least the first several years of owning your business, you probably shouldn't consider full-time ownership. Because with any business, you have to build your client base – and this effort doesn't occur without a little blood, sweat and tears. It's a path that can take two steps forward and one step back – or better yet, let's say you gain 10 clients and then lose one. And you have to repeat this pattern, over and over, again and again – until, whoa! – after a few years you have a steady base of clients and referrals and business! That is, assuming you deliver to your clients what you say you're going to deliver.

But do business owners really earn more money? Yes, they do. Business owners are leaders by nature...leaders in their community, in government and policy, in their immediate and extended families. And they know how to lead others toward results. Usually, they tend to be multi-faceted individuals – with interests in a lot of areas. They want to make a difference in their lives, to ensure they saw through their own potential – and didn't take "the easy route." And they want to be compensated for this. And they make sure they are. With that kind of drive, focus and ability, they tend to be in the top 10% of money-makers in our country.

And happy? Too often you hear career advisors saying something like, "do what you love and you will succeed." There is some truth to this old adage, but it also plays to a person's idealism and isn't terribly practical. We would prefer to say "you make your own happiness in this life"-- because this statement tends to come closer to the prevailing attitudes of the winners we see every day in business. Fact is, any decision you make in life is going to contain risks and rewards – and the sooner you learn this, the happier you are. Even jobs contain risks. So happiness is relative. For some – freedom to make one's own decisions brings happiness. For others, it comes from an ability to make ALL decisions. For others, the appeal is in gaining control over one's destiny and time – even more so than the money they might make. And so on. In other words, most business owners recognize that once they make a decision – they make the decision work for them, not against them. If they aren't happy with their choice, they move on and try again – and learn from their mistakes. So "happiness" becomes something they create, not some illusion that they sit back and hope will come their way.

So – if ownership, in general, certainly has its benefits – what then does franchising bring to the party?
Here's our list...

WHAT YOU GET – WHEN YOU PURCHASE A QUALITY FRANCHISE

1. **A Proven Operating System –** complete with manuals
2. **Focused and Comprehensive Initial Training –** to start you off properly
3. **Ongoing Operations Training and Support –** so that you grow with your business
4. **Marketing and Sales Training –** so getting customers isn't "rocket science"
5. **A Proven Marketing Plan –** not one that you have to test and test and test, until you get it right
6. **Ongoing R & D (research and development) –** so that your franchise grows and adapts with the times and changing customer needs
7. **24/7 Customer Service Support –** so that you are NEVER alone in your business
8. **Defined, Targeted Territories –** using sophisticated demographic data
9. **Technical and Administrative Support –** including management software, IT advice, web support, and franchise-specific legal, accounting and tax counsel
10. **A Brand Name and Image –** that grows and grows and grows in value

In addition, with many franchise companies you may also receive, as appropriate:

11. **Site Support** from leading real estate companies, including location, negotiation and lease education and counsel
12. **Hiring and Employee Profiling** support, so that you can get the best staff
13. **National Contract** support, where leads are passed along to you if a national company under contract has presence in your territory
14. **Significant Cost Savings** from bulk equipment buys
15. **Licensing, Bonding and Insurance** support and savings
16. **HR Software** support and counsel

When most people see this kind of comprehensive list, their first reaction is, "wow!, I had no idea you get that much." The perception most people have, going into their investigation of franchising, is that you would get the franchise company name over the door, and access to their product or service – and beyond that – you're pretty much on your own.

Nothing could be further from the truth. That is, with the quality franchise companies – the kind The YOU Network strives to include in their portfolio of companies.

Quality franchises are developed to largely be "turn-key." What is meant by this is they are developed and packaged, if you may, in order to provide you everything you would need to get started in business. But you have to put in the sweat. It doesn't "do it for you."

So – unlike regular business ownership, you could say that franchising has already taken care of a significant number of the requirements, and most certainly the "headaches," of starting up a business. But there are also advantages in owning a franchise versus corporate jobs – and, if you are like most others, these are the advantages you probably haven't begun to think about:

- **Lifestyle flexibility –** In a job, you can only work so many hours a week on a steady basis, without becoming physically and mentally exhausted. As an owner, you can delegate to others staff members, and gain some flexibility. Furthermore, you may work the hours you want to work, when you want to work them – not as dictated by a company. If you want to work only early evening hours and weekends and have traditional office hours free, then you can seek a franchise that can satisfy this – or vice versa. And, depending upon the business, you may even be able to work from home, rather than a rented commercial or office space.

- **No more bureaucratic politics –** Franchise companies thrive on collaboration among owners. As each owner has a protected territory, there exist virtually no in-fighting or political barriers that keep people from sharing ideas and results – for the betterment of the whole organization.

- **No capped income –** In a job, your salary "is what it is." Your income is in the hands of your supervisor, who can never pay you what you think you are worth to them. Partial or straight commission jobs may allow you higher income than a straight salary, but you lose a certain degree of predictability. As an owner, you can delegate to other staff members, increase your marketing or sales, and meet or exceed your financial objectives – as needed.

- **Favorable tax structure –** One of the great things about America is that its tax structure offers a lot of advantages for small businesses that are not available to employees. A small business accountant can explain what deductions are available to your business – thus reducing your tax exposure and also increasing your long-term equity potential. Similarly, as an officer of your company, should you choose to incorporate, there are various deductions available to you through your company that can also save you money on personal taxes. Again, these are conversations you should have with your tax accountant.

- **Equity potential –** Most employees wake up at age 40 and realize that if they are not already part of the elite 1% in their company – they aren't going to advance much further. And, therefore, their opportunity to build equity through employment is non-existent. Their choice, for achieving that illusive equity they need for retirement: they either start their own business -- or find lucrative outside investments that will help them achieve long-term equity goals. Franchising has a proven track record that is far superior to that of individual business ownership – and thus offers an owner a much better chance of achieving that equity goal.

HOW DO YOU CHOOSE – STARTING ON YOUR OWN, OR BUYING A FRANCHISE?

If the concept of business ownership is brand-new to you, you probably want to consider franchising first. The support, training, and ongoing boost you receive from a growing brand certainly puts "wind in your sails" as you learn what it's like to own your own business.

Some people are often afraid that they can't "be their own person" when they own a franchise – that the franchise is always going to be "telling them what to do." For most people, even very strong-willed individuals, this is simply not the case. What does occur on occasion – is that new owners come into a franchise and immediately begin trying to "reinvent the wheel" instead of following the marketing plan and operating system laid out for them by their franchisor. In this instance, the franchisor will likely tell them they are being foolish, and perhaps also ask why they bought a franchise to begin with, if all they wanted to do was "their own thing?" If you have never been able to take direction from others, than perhaps you shouldn't consider franchising – but statistics show you would certainly be in the minority in doing so.

Working with The YOU Network, you don't have to make a commitment to buy a franchise – only a commitment to learn about franchising. Then, as an adult, you can make the choice that's correct for your particular situation.

Let us help you get started.

AM I BUILDING THE EQUITY I NEED?

We all face the time in life where building personal equity for our future and our family becomes all-important. What are some ways you can build equity?

AM I BUILDING THE EQUITY I NEED?

You have worked within corporations throughout your career, you've invested in mutual funds and money market funds and annuities (through your company profit sharing) and maybe you also have stocks or your own IRA on the side -- and yet, just recently, you realized: you may not always be employed with this same company, (or any other company, for that matter.) There are lots of changes occurring in your industry, and you're not sure how you will survive those changes. Recently, you have come to the conclusion that without these contributions to your company profit sharing, you may not meet your long-term retirement goals. In fact, some of you may have already realized that you cannot reach your retirement goals EVEN if you remain employed to retirement age!

What! How can this be?

Well, let's see. If you're like most people, you've been fighting an uphill battle from Day One of your adult career. When you first got out of college, perhaps you had student loans to retire. So you scrimped and saved and retired those debts. Then you started saving toward owning a home. You got married and finally invested in a home. It took a while to get the home filled with furniture and looking like something you had dreamed of owning. Then – kids. (And while, of course, you love them, they are expensive to support, aren't they?) Then...college. More expense or more debt.

Whew! If it weren't for that IRA or 401K, or profit sharing, at work, you probably wouldn't have had a chance to even stash away a nickel. Now, with the kids' college accounted for – (and you probably also had to borrow from those IRA's/401K's to pay for those educations) you *finally* have time to focus on rebuilding those 401K or IRA nest eggs, and you need for them to *really* start growing, as time-is-a-tickin'. But, wait a minute – at exactly the wrong time for your planning purposes, the investment world seems to have gone awry – and the average ROI on Wall Street investments seems to have gone into the gutter! And your job is in jeopardy? What could possibly next occur to impede your retirement plans?

It's time to change your focus – and stop expecting corporate America and Wall Street to solve your investment needs. Start thinking about other ways to build EQUITY.

What do we mean by "equity?" In general, you can think of equity as ownership value in any asset after all debts associated with that asset are paid off. Your home equity is the difference between the market value and your mortgage balance. Your auto equity is the difference between the market value of your cars and the balance on your auto loan. Your equity in a stock is the market value less what you paid for it. And so on. All "equity" is dependent upon the market value of the asset you own, regardless of whether or not it is debt-free. So if the "market crashes," you are subject to loss of equity until that asset gains in market value again.

Which makes building equity in your business a bit more interesting than standard options subject to market volatility.

Equity in your business is the profit you might have taken away from operating that business each year (after all debts have been paid off) PLUS the money you would make should you choose to sell the business someday.

If you are dependent upon your business for income, you begin to build personal equity from the amount your business earns after you have taken your owner's draw.

In other words, let's say if you invest $150,000 in a business, and after 3 years of operation, you have made enough money to retire any debt you paid on the business. By then you are netting $130,000 a year from the business (after $40K owner's draw, those withdrawals you may take for your personal living expenses.) For argument's sake, let's say this level continues until the beginning of your 9th year, and then you decide you

might want to sell the business. You realize a reasonable asking price for your business would be 2-3X net earnings, which means you could legitimately sell your business for $260,000 - $390,000, depending upon market demand. When the sale would be complete, you would have then -- in addition to the $800,000 net profit (see chart below) you gained from the business after reaching 100% ROI on your initial investment -- cleared another $110,000-240,000 in equity (your selling price less original price for the business.) But as you already paid off your investment, your accumulated wealth, in 8 years, is $1,060,000-1,190,000 in wealth – off an original investment of $150,000. And this doesn't include any gains you would have made from further investing your annual business earnings.

So, you can see why we like to think of equity as your personal "wealth creation."

	Net Earnings After Owner's Draw[1]
Year One	-0-
Year Two	$60,000
Year Three	$90,000
Year Four	$130,000
Year Five	$130,000
Year Six	$130,000
Year Seven	$130,000
Year Eight	$130,000
Total	$800,000

[1]Hypothetical example; not to be interpreted as feasible earnings on any and all investments of $150,000. Reflects pre-tax earnings only.

Do you know of any 401K or Wall Street investment that would allow you that kind of return today?

The point we are trying to make is that you may build wealth by combining the net annual returns you made from a business with the eventual resale value of that business. Plus, as a business owner, you realize significant tax savings for owning your own business (a good accountant once said that once you are a business owner, you only need 70 cents for every dollar you used to make as an employee, to maintain the same lifestyle.) We like to say that you are "living through your business" to a certain extent. You will witness that many expenses you that you used to have as an employee are feasible deductions from your business, so those earnings per year take on an even "stronger light."

AND, you should know that you don't have to SELL your business to realize equity. Many people choose to renew their franchise agreement as they near retirement and stay active in their business – OR they put a general manager, or even one of their adult children, in charge -- which allows them to continue to receive income from their business, enjoy the tax benefits, and not have to tap into their retirement assets.

There are also some business investments that allow you to keep your full-time job, and "manage a manager" on the side...a more conservative means of building even greater equity. You may also investigate additional tax shelters and defined benefit programs available to corporate owners that can layer additional wealth to the scenario we described above. Any good accountant can provide you with this education, or ask your The YOU Network consultant to paint a "broad stroke" picture for you.

Here's yet one more way to put your equity options into perspective:

We have many, many clients who tell us they want to "stick with their jobs" – while even knowing that their future is fraught with high potential that they won't have their jobs until retirement. We would ask them to do a simple exercise: one which compares how much they may earn toward retirement if they continue to work a job – to how much they might build toward retirement if they bought and operated a franchise company.

Obviously, we cannot know how your money is invested within your company's 401 K or profit sharing plan, but we do know that you probably have restrictions in terms of the amount you can invest in these programs. Most of these investment programs "max out" at 8.5-10% of your salary, meaning you would need to be making over a million dollars in salary to invest that same $130,000 a year that we reflected in the business ownership example. In fact, even if your net earnings were half that of the example we showed, you would still need to be making a huge salary ($650,000) to match that "half." When, in fact, the average amount U.S. employees are able to contribute to their 401K's, or employee profit sharing programs last year (2018) was $6850 -- a far cry from the business example that allowed you to invest upward to $130,000 per year.

Now granted, if you are one sharp investment cookie, and you save and invest on your own – way beyond the amount your corporate program allows you, you could potentially "match" our example. But most of our clients will say that are not that savvy when it comes to investments and are uncomfortable with the volatility of typical investments.

Which leads you to "investing in yourself" instead. Taking that knowledge and experience you gained in the corporate world and translating it into franchise ownership. Instead of throwing the dice toward "pure" entrepreneurship, you invest in a franchise that has a proven operations plan, and a proven marketing plan.

One final comment.

We hear from many that they don't even know what is a reasonable amount needed for retirement. Many backed into a figure based upon the old "4% rule" – which is running into some roadblocks:

This so called 4% rule was devised in the 1990's by California financial planner William Bengen and later refined by other retirement-planning academics. Mr. Bengen analyzed historical returns of stocks and bonds and found that portfolios with 60% of their holdings in large-company stocks and 40% in intermediate-term U.S. bonds could sustain withdrawal rates starting at 4.15%, and adjusted each year for inflation, for every 30-year span going back to 1926-55.

Well, it was beautiful while it lasted. In recent years, the 4% rule has been thrown into doubt, thanks to an unexpected hazard: the risk of a prolonged market rout the first two, or even three, years of your retirement. In other words, timing is everything. If your nest egg loses 25% of its value just as you start using it, the 4% may no longer hold, and the danger of running out of money increases.[2]

We are not financial experts. You need to have in-depth discussions with your accountant and financial planners to put a figure on what you need for retirement. For many, franchise ownership provides unique wealth creation possibilities that help them reach their retirement goals.

Furthermore, for thousands of individuals, franchising has provided the environment and culture they have been seeking, without their knowing it, for years – PLUS an ability to build equity and personal freedom. The YOU Network process is simply designed to help candidates determine if they are one of those individuals.

To learn more, contact us at www.theyounetwork.com or have a discussion with your personal The YOU Network consultant.

[2] "Say Good Bye to the 4% Rule," The Wall Street Journal, March 1, 2013.