



Franchising with a Financial Game Plan

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People buy franchises for a number of reasons. Perhaps they aren't challenged enough in their current job, they recently lost their job or they're sick of the corporate game. I hear these reasons from my clients frequently, but what I hear most often is a desire to have the kind of lifestyle that can only be created by making more money than they will ever make in the corporate world.

The stumbling block is, of course, that it costs money to buy a franchise. Naturally, as with any investment, you want to do some research that gives you confidence it will help you reach your goals.

Here are some tips to help you invest wisely.

Make sure you are investing within your financial limits. That does not mean investing 100% of your net worth. It means figuring out how much you can afford to invest. You need to take into account the initial investment and the estimated amount of operating capital you will need until the business sustains itself. You also need to add the amount of money you will need to cover your living expenses until the business can support you.

Most people should not invest more than 50% of their net worth. By keeping your investment at a level you can afford, you minimize the risk of being overextended.

Figure out how much money you will need.



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Hope is not a strategy for success. Do your homework. Talk to franchisees. Find out how much they make, and understand their answers. Do they pay for their Smart Car through the business? How about their spouse's Mercedes? Wining and dining customers? Home phone bills? What else? This is difficult for many prospective franchisees to figure out. For detailed franchise information on this subject, review Chapter 12 of my book.

Once you know what you can invest and what you are likely to make, you need to determine if the franchise you are considering will give you the potential to achieve your financial objectives.

Know the cost of growth.

First determine if the franchise you are investigating is scalable – not all franchises are. If the franchise is scalable, you'll need to determine the cost of growth. Growth might mean additional store fronts, more equipment, more employees, etc. You need to be able to estimate how much that will cost. Plug these numbers into your 3-, 5- or 10-year business plan. This will help you determine your long-term potential in the franchise, and will help you determine if you are willing to reinvest some of what you make.

Decide how you will handle the money you make.

When your business makes money, there are three things you can do with the money.

1. Pay down your debt - thereby increasing your future cash flow;
2. Invest in business growth – thereby increasing your future gross income
3. Take the money home – thereby maintaining or increasing lifestyle.

Your preliminary decision on how you will handle the profits should tie into your long-term goals. If you choose to grow the business, you can't buy a new home or a new boat. If you



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decide to purchase a new boat, you cannot invest as much in the future growth of the business. This is a zero sum game and you need to know your priorities.

When you own any business it is critical to understand the financial aspect of it. This is foreign territory for many potential franchisees, but with some studying and a good strategy, you will be on the right track to reaching the goals you set for yourself.

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The Educated Franchisee is dedicated to franchise education through the sharing of franchise information. Our objective is –
“To create educated franchise buyers that have clearly defined objectives and are able to recognize the right, or wrong, franchise when they see it. An educated franchise buyer will move into the franchisee role with their expectations properly set and will have a heightened potential for success within the franchise system creating a win/win for all involved.

To get more franchise information about how to stack the deck in your favor –
Visit our website at www.educatedfranchisee.com or
Purchase our franchise book – [The Educated Franchisee](#) by Rick Bisio, Franchise Consultant or
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