

Your Free CAMELOT  
Newsletter-Report No.11  
a sample extract from our E-Book  
"Genuine Wealth Creation"

An introduction to  
**Franchise Operations -  
as a Service Supplier  
or as a Retailer?**

<http://www.WealthCreationConsulting.com>

**Franchise Operations  
- as a Service Supplier or as a Retailer**

Welcome back to Camelot where all your dreams can come true! Well they will if you work hard, do your research and learn as much as you can from people that have "been there, done that".

In the previous 10 Newsletters we have covered a wide range of topics but as we keep saying - these are only a small portion, a small selection, of the knowledge contained in our E-Book. Our publication covers, one way or another, virtually the entire spectrum of business ventures and the ways to generate your new wealth.

Here we explore whether or not becoming involved in Franchises may be the way that will help you grow rich! Enjoy .....

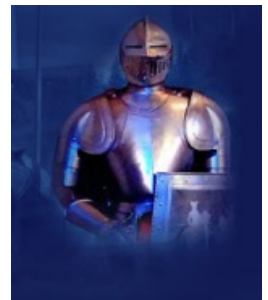
The past decades have seen an explosion in the growth of franchise operations around the globe. There is no need to demonstrate the success of this kind of enterprise as you only need to look at the major global leaders in the fast food franchise industry to see how much wealth and employment such endeavors can generate, especially over the longer term. Needless to say there are now franchises covering almost every field of human endeavor.

The point that we wish to make about this form of "Wealth Creation" is this – who is making the real wealth from these enterprises?

Is it the owner or developer of the Franchise, the Franchisor, or is it the individual Franchisees who operate the individual businesses and who, in the main, do all the really hard work with their long hours and who, in the main, have their own, personal, money at risk?

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We surely don't have to tell you that it is NOT, in the vast majority of cases, the individual franchisees who make endless wealth, especially when you compare the amount of capital – cash or borrowings – that they have to put into the business to start with plus the long hours that many of them have to work.

In our opinion there are very few Franchises that really give the kind of return that one should be able to expect if you were investing that same amount of money, and effort, into a successful 'start-up' business of your own.

Now this is not to say that you cannot make a reasonable return on your investment by buying into a franchised business but on average you can normally only expect, in our opinion, a 'return on your investment' (R.O.I.) as a 'low' percentage of the total money you have invested.

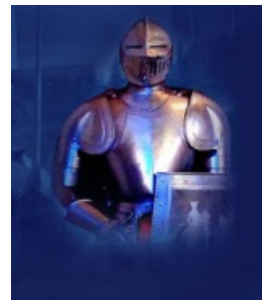
If you invested that same amount of capital and hours into a new 'start-up' business of your own you would normally expect to have your return in multiples of that investment, not in parts thereof. When you build your own 'start-up' business you are also building up a "Goodwill" value in your business - this being what you might, one day, sell your business for, provided of course that you build a profitable new business.

For example, you might invest as much as a million plus dollars to buy a decent sized 'fast food' franchise but what you can expect, by way of a return on that investment, might be as low as, say two hundred thousand dollars profit per annum – about a twenty per cent return. Now this may sound good compared to what you would get by just putting the cash into a bank (at say 5% interest) but don't forget that you are still going to be working long hours and there is always a risk regardless of the business you might be running.

You need to ask yourself - when you investigate the 'numbers' of a franchise that you may be looking to buy into – what is the best bank interest return I could get on this amount of cash plus what I could make in a good job. Do your numbers carefully and review them with this in mind.

The main reasons that franchise operators really do not make the 'normal' kind of return one would expect from a successful "green fields start-up" business investment are these below – please understand that these comments are made as a general statement and are not aimed at any particular franchisor as many are better than others;

1. You need to contribute, from YOUR sales turnover, to the cost of running the "head office" of the Franchisor. Big 'head offices' are not cheap to run – just look at any large multi-national company.
2. You need to contribute to the 'advertising budget' as dictated by that head office, whether you think that that money is well spent or not.
3. The Franchisor, *your* 'head office', must also make a reasonable (some might say 'large') profit and they can only do that from your efforts and your sales – they have, normally, no other form of real income. They normally reserve the right to vary their 'clawback' from you and they may well choose to increase your contributions to them even though your business' sales may be down from time to time – they don't normally care about your situation – they will normally look after their own profit forecasts first.
4. Despite the undertakings from the Franchisor before you sign up and commit your life to them (remember this can be very much like a marriage)



they can, if it suits their, not your, objectives, increase the number of other franchise operators in your area despite what they may have promised earlier. (If you doubt this could possibly ever happen then read 'the fine print' of your agreement and then get your lawyer to read it as well. If they do lie to you will you have the money to fight a huge company in the courts? We would seldom recommend you to.)

This kind of behavior is not uncommon – just look around at how many fast food outlets of any particular brand there are in your area now versus how many of that same brand were there 10 to 20 years ago. Always remember that the Franchisor makes its money by increasing its overall volume of sales and outlets, not in supporting your single location!

In our opinion if you invest that same money, and effort, into a successful 'green fields start-up' of your own then you should be able to expect, by the second or third year your investment returning 50 to 100 per cent, or more, return on your original investment on an annual basis plus a huge capital growth in the value (the "Goodwill") of that start-up business.

### **VALUATION OF A NORMAL BUSINESS.**

As a very general 'rule of thumb' the 'value' of a business – that is, what someone is willing to pay you for the business – is the amount of Net Profit, before Income Tax, you have made for each of the last 3 years, totalled, then divided by three, with the answer then multiplied by 3. (An example follows).

This methodology will vary between countries and it will also depend on whether the economy of a country, at that time, is in an upswing & optimistic mood, or in a downswing, pessimistic mood. Of course there are other, several in fact, methods of valuing a business and in this regard you must discuss this with an experienced Accountant in your own country.

Additionally this method is only a 'rule of thumb' as the sale of any business is very much a 'supply and demand, open market' situation. If you have several buyers interested you will get more money for your business than if there is only one potential buyer. Obviously when you are looking to buy or sell a business you should talk to your accountant for more advice. Don't make it a quick chat over the telephone – go and see him, or her, and discuss all of the issues, in detail, face to face, as other factors may come into play such as the value of the stock or the value of machinery used in the business etc.

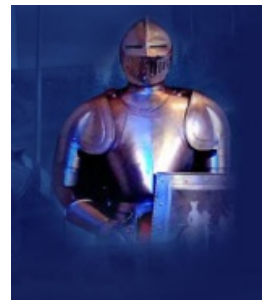
An example of how this Valuation method works;

Last year's Profit = \$ 250,000  
The year before = \$ 175,000  
The year before that = \$ 200,000  
TOTAL for 3 years = \$ 625,000

Divided by 3 = \$ 208,333 average annual Net Profit before Tax.

Therefore the "value" of the above business example is;

\$ 208,333 multiplied by 3  
**= \$ 625,000**



This valuation method should not, necessarily, be applied to any franchised business as the Franchisor will, normally, have some conditions in their agreements regarding the sale of any franchise operation. In many cases they will require, under their original agreement with you, that they must approve the party that you have found to sell your franchise business to – this may well affect your final selling price.

When you start any business or buy into any franchise you must consider – before you start – what your “exit strategy” will be. How do you get your money back, or how do you get your ‘capital gain’ from all of the great effort you put into that business?

Needless to say any ‘green fields start-up’ business must survive and be successful. We trust, using the information contained in our E-Book and using good judgment, that you may be blessed to have a real opportunity of achieving just that.

Obviously you need to decide, based on your own judgement, research, experience and circumstances – as well as what business opportunities are available - whether you should strike out on your own or become one of an army of franchise operators.

We cover the subject of ‘risk taking’ in our E-Book - are you uncomfortable with taking risks – can you handle it emotionally? Or do you need the comfort of knowing that you have made a safer investment by buying a franchise operation?

The basic principles of commerce are the same today as they have always been – the higher the risk the higher the return, the lower the risk the lesser the return. This is true in MOST cases but not in every case.

In the world of franchise businesses it is also normal that the lower the amount of money you invest into a franchise operation the lower your earning capacity will be. If you buy a lawn mowing franchise business for say \$20,000 you can normally only expect to make a living wage, if you work hard, after you have paid your operating costs as well as fees to the Franchisor. If you invest a million dollars then you’ll make more than a living wage but, of course, you would expect to.

Obviously a lot will depend on your own circumstances as to what you might invest in. But let’s look at that \$20,000 lawn mowing franchise. If you carefully invested the same amount, applying the principles of starting say, a small importing business as covered in our E-Book, or invested even less into a *good* Network Marketing business, you could build that money into more than a living wage. In fact, you can even build your small importing business into a very profitable business, as we have done on many occasions, and later sell it for a real ‘capital gain’.

Why do people buy a franchise to operate if they wish to become self-employed? The main reasons are simple – the desire for security and the lack of imagination or opportunity. Yes, generally your investment with a Franchisor is safer, provided it is the right franchise and you have done your own ‘Due Diligence’, carefully. (“Due Diligence” is when you conduct your own independent research into the claims of others to satisfy yourself as to their claims.)

Don’t forget that a lawyer that specializes in Franchises will also be able to help you with this “Due Diligence” process as they should already have an extensive ‘check-list’ that they can employ or they may already have some experience with the particular franchise brand that you may be looking at.



It is also a very good idea, in your “Due Diligence” to talk to other franchise owners working in the ‘brand’ that you are considering. If you do think that you want to go ahead you really should also talk to the other top franchise performers within that ‘brand’ and ask them how they do what they do – try to find out what makes them better than the rest. Do more than just follow the Franchisor’s manual - talk to their champions and learn what makes them tick and what makes them successful. You will be surprised how successful people are happy to share their ideas and help others – its human ego at its very best!

Also in your “Due Diligence” find out directly from other ‘brand’ franchise operators what they are *really* making, profit-wise. Don’t necessarily believe what the Franchisor claims - after all they are trying to sell you something. Find out what the top earners are making – then find out what the bottom ones are making – then average it – can YOU live and pay all your bills based on that average?

Another question that you need to feel personally comfortable with is this - are you in control of your own destiny when you operate as a franchisee? Most people feel the need to quit their job because they have had enough of working for a boss. We would ask you the question – is buying a franchise simply swapping one boss for another? Certainly it is not the same but *who is really in control of the important decisions* concerning your business, you or the franchisor?

If you do wish to buy into a franchise there is another important point that you must also remember that will really have a long term impact on your personal contentment. You need to carefully consider which class of franchise you should enter into being a selection from the following;

1. **Indoor or Outdoor work** – if you’ve been an office worker all your life it is highly unlikely that you will, in the long term, fully enjoy an outdoor job, such as a lawn mowing or a landscaping franchise.
2. **Food or Non-food** – if you have never worked in the food industry before it is also unlikely, once the novelty of the new enterprise has worn off, that you will find that you look forward to going to work everyday.
3. **Multiple employees or as a single person** – if you’ve never managed staff before or if you are not really a “people person” then buying into a franchise that requires you to manage a team of workers may not result in your success. Alternately if you’ve managed people in your ‘normal job’ or if you’re used to being surrounded by lots of co-workers and you buy into a franchise where you are totally working on your own day in, day out, you will also not enjoy going to work everyday.

If you do not enjoy going to work everyday and if you are not working in something that you love and enjoy, you will most likely ultimately fail and lose your hard earned investment capital. So please choose carefully! Do NOT rush into it!

Also ensure that you seek legal advice before signing any Franchise Contracts – read the ‘fine print’ carefully and ideally seek out a lawyer that has a great deal of experience in Franchise contracts.

Additionally, seek solid advice from your accountant as how to best structure the ownership of the Franchise as well as any borrowings you may undertake to fund its purchase. (We also cover issues of business ownership, companies, trusts & structures in our E-Book.) Remember that any money you spend up-front getting the right advice at the right time may be the best money you may ever spend!



We believe we have something you should also consider if you feel that “Franchising is your thing”!

## **Consider starting your own Franchise Network Operation – become the Franchisor!**

**This is where the REAL Wealth can be generated.** Let’s face it - to our knowledge - all of the major Franchise operations in existence today were started as a small business initially.

If you currently have a small to medium size successful business, or if you can develop one based on the principles that you may learn from our E-Book, why not work towards developing it into a franchise. This may not necessarily be a suburb by suburb fast food franchise – it could be a successful business model that may be duplicated into other countries.

Most often a business that works well in the USA can work well in the United Kingdom or Canada or Australia or Germany, or visa versa. Obviously each marketplace needs its own careful research especially on the already existing competition. Just try to think outside of the square!

Obviously if you are to consider such a venture – and this can be quite an undertaking which may well take years to complete – you need to have a business concept, a business model with well run systems and processes that are delivering a good profit. Ideally this venture should have a uniqueness of its own in the marketplace which sets it apart from the competition. It must also be something that can be ‘duplicated’ and run by someone that may not necessarily have your exact set of skills.

Lastly, of course, you must develop the business systems and the people that will be the support mechanisms for those that will buy franchises from you. Fortunately there are now firms that specialize in helping you set up the legal requirements and the systems so that you may become the Franchisor.

Following you will find a number of websites that may provide you with **additional information** on the **World of Franchising** but always remember for any business to succeed there still needs to be;

### **The Right Product (or service), at the Right Time, at the Right Price!**

– and, especially, if it is going to be a Retail business then – **at the Right Location!**

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#### **Good general information;**

<http://www.franchise-chat.com/>

<http://www.franchisecentral.com.au>

[Http://www.thefranchiseinstitute.com.au](http://www.thefranchiseinstitute.com.au)

#### **U.S.A.**

<http://www.aafd.org/>

<http://www.franchisee.org/>

<http://www.franchisegator.com/>

<http://www.franchiseworks.com/>

<http://www.franchiseadvantage.com/>

<http://www.WealthCreationConsulting.com>

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## AUSTRALIA

<http://www.franchise.org.au/>

<http://www.franchisecentral.com.au>

<http://www.thefranchiseinstitute.com.au>

<http://www.franchise.net.au>

## CANADA

[http://www.cfa.ca/CFA\\_HTM/Home.html](http://www.cfa.ca/CFA_HTM/Home.html)

## GERMANY

[http://www.dfv-franchise.de/index\\_e.htm](http://www.dfv-franchise.de/index_e.htm)

## IRELAND

<http://www.irishfranchiseassociation.com/>

<http://www.franchisedirect.co.uk/>

## ITALY

<http://www.assofranchising.it/english/indexeng.htm>

## NEW ZEALAND

<http://franchiseassociation.co.nz/>

## SOUTH AFRICA

<http://www.fasa.co.za/>

## UNITED KINGDOM

<http://www.british-franchise.org/>

<http://www.franchisedirect.co.uk/>

## INTERNATIONAL ASSOCIATIONS

<http://www.franchise.org/>

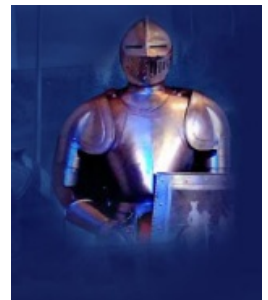
<http://www.eff-franchise.com/>

[http://www.worldfranchisecouncil.org/control/cpview?contentId=WFC\\_HOME](http://www.worldfranchisecouncil.org/control/cpview?contentId=WFC_HOME)

***We trust that you have enjoyed and benefited from this small insight into just one small section of our E-Book “Genuine Wealth Creation”. In fact, this small insight represents only one per cent (1%) of the content of this amazingly informative publication - it is a “central source”, virtually an encyclopaedia, of business knowledge in one easy to read & understand publication.***

***You can invest in our, globally applicable, E-Book “Genuine Wealth Creation” for a mere US\$ 24.95 & change your life & YOUR FUTURE TODAY!***

***Just go to <http://www.WealthCreationConsulting.com>***



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