Episode 6
Franchises, with Sonny Singh

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Sanjiv Singh: [00:00:00] I would recommend going with an established franchisor, um, I would recommend going with a brand which is known. It always helps to have a spouse who has a steady paycheck when you start a business. You do decide to go in with a partner, be very comfortable with them and just be sure that they pull their weight.

Rushab Kamdar: [00:00:21] Welcome to The Business 360 Podcast where we will take a 360 degree view of all things business in under 30 minutes. I'm Rushab Kamdar, a serial entrepreneur, and some of the best business strategies I've ever come up with have been in my dreams. Is that weird?

What's going on, Business Heroes? Welcome to episode six. In this episode, we're going to help entrepreneurs who are trying to decide whether they should start a business from scratch or buy into a franchise. So let's get to it.

What does Dunkin Donuts, McDonald's, Holiday Inn, The UPS Store, and Retro Fitness all have in common? And no, it's not that they all have the letter O in their names. It's that they all are franchises. You will find that many well-known brands franchise their business. Franchising is essentially a form of expansion without the high risk. A parent company, called the franchisor, licenses their brand, products and operations to a franchisee in exchange for a licensing fee and royalties on the sales.

The franchisor provides the franchisee guidance and support on operations and marketing. And this is why franchises are so appealing to new entrepreneurs because essentially franchising means working for yourself but not by yourself. Have you ever heard that franchises have a 80% to 90% success rate? It's a stat that gets thrown around a lot. But the funny thing is, it's from almost 30 years ago. The reality is that the franchise success rate depends on a number of factors. Some franchises have a 90% failure rate because of the industry that they are in, the high cost of operating that specific business, or just bad franchise management from the franchisor.

Now in this show, we simplify things. If you want to get into a franchise, let's take note of the following five points. Number one, understand the details of your initial investment. This means how much money do I need from the get-go. Every franchise requires you to pay a franchise fee, which can average around $40,000. But from there it's a crap shoot. The amount of money you will need will depend on the business industry and brand. You may be required to buy or lease equipment, office space, vehicles, signs, and marketing collateral. Some franchises require a storefront built out to match their brand like a taco bell.

So now let's throw in real estate, licensing, and permitting costs into the mix. For example, the total investment for a McDonald's can be between $1.2 to $2 million. But on the flip side, other franchises can be significantly lower. So just make sure you know what the initial investment will be when you're entering into a franchise.

The second point to know is royalty fees. Franchise has taken royalty fees on your gross sales and these fees can range between 3% to 8%. On top of that, franchises also take additional fees for marketing fund. Now these fees can be equivalent to the royalty fees that you would pay on gross sales. And also you should keep in mind that these marketing royalty fees are not to pay for marketing your specific franchise and location, but usually for the franchisor to market their entire brand. To market your specific franchise location, the franchisor will require you to spend a certain percentage of your gross sales on local advertising.

And what you're starting to see, hopefully is a pattern emerging from royalty fees, to brand marketing fees, to local ad spend. Franchisees are required to spend a minimum amounts from their gross sales and these fees start to add up. So be mindful of all fees associated with any franchise you're looking into.

The third point you should know is your net worth. Many franchisors required the franchisee to have a certain net worth and liquid capital in the bank. For example, Pizza Hut requires you to have a net worth of $1 million and $360,000 in liquid assets. Now don't worry. Other franchises will have lower requirements, but franchisors set these types of financial requirements to mitigate operating difficulties from the beginning. In other words, they don't want you to start off in a hole, try to dig your way out because you ran out or don't have any money.

The fourth point to know is to fully understand the franchise disclosure document. The franchise disclosure document is typically called the FDD and the FDD highlights, rules, policies, revenue projections, costs, and expenses a franchisee should expect. The FTD can be large, typically a couple of hundred pages, so make sure you give it a good read.

The fifth and final point to know about franchises is to be sure about the brand you're signing up with. Larger, more well-known, and reputable brands, are a much safer bet because their FDD will have more accurate revenue projections, and operational costs. If you go with a new franchise, your initial investment costs could be lower, but you're also taking a risk because the figures provided to you in the FDD could be way off. And this is because the franchisor doesn't currently have many locations to pull financial and operational data from. So the numbers you're given are essentially estimations and you wouldn't want to get into a franchise only to find out that your monthly cost to operate the business is more than you budgeted for. There are 780,000 franchise establishments in the United States alone, and they employ over 8 million people. The franchise industry is an $800 billion industry.

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Most aspiring entrepreneurs that are looking to buy a franchise, they just want peace of mind. And just like any business, franchise or not, there will be failures and it will cost time and money. Now to avoid any pitfalls, be sure to perform your due diligence by speaking with current franchisees or reading the FDD carefully and choose an established brand and industry to avoid headaches early on

Today on The Business 360 Podcast, we are welcoming someone who has gone through the entire franchise lifecycle. My guest is Sanjiv Singh, but everyone calls him Sonny. Sonny is currently the CFO at SafetyFirst Systems, a driver safety and training company based in New Jersey. As I mentioned before, Sonny owned and operated a franchise for 101 Mobility. 101 Mobility is a company that offers a wide selection of commercial and home accessibility products for the elderly and disabled.

Sonny, I'd like to welcome you to The Business 360 Podcast.

Sanjiv Singh: [00:07:08] Thanks for having me, Rushab.

Rushab Kamdar: [00:07:10] Anytime. Really glad, because this is actually a hot topic. A lot of entrepreneurs who want to get into the world of business do tend to look at franchises. So, before we have a discussion of the franchise industry in general, I wanted you to tell us a little bit more about 101 Mobility and maybe the market that it serves.

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Sanjiv Singh: [00:07:30] Sure, I would love to. So 101 Mobility was, um, company that was formed back in 2007 and it started off, we were the 15th franchisee to join the model. And essentially it was for accessibility equipment for senior citizens and people with disabilities. So, um, stair lifts, ramps, vertical platform lifts. Um, The reason why it was important for me is because, um, the demographic itself, I mean, at that time, I'm, I'm sure it's changed by now, but at that time, uh, I think, uh, 10,000 people were turning to the age of 65 every month. Um, so there was a huge group of people who had a need for these products. And, uh, for me personally, this was a good opportunity to do something that would assist people.

Rushab Kamdar: [00:08:25] When you went for 101 Mobility, what was the avenue that got you into this franchise? Like how did you discover it to know that, "Hey, this franchise is available and this is the one I wanna choose."

Sanjiv Singh: [00:08:35] Essentially, um, what I did is when the idea came in my mind in starting a business of some kind, someone mentioned to me about the idea of getting into a franchise. First step that I took is I got in touch with a franchise coach. Um, the franchise coach sat down with me, went over my finances, uh, went over how much capital I had. And, uh, most importantly, uh, went into what I wanted to do. You know, and I had a six figure job. I was, uh, you know, I just, fresh out of, uh, getting an executive MBA in finance. I, I wanted to try something, um, that would interest me. And so I got in touch with the franchise course. He came up with a list of about 10 franchises, which she thought would be a good fit for me.

Uh, and I, I made my list down to four and coincidentally out of the four, three of them, um, were something that were helping people. So I believe, 101 Mobility, the reason I picked that was primarily because of the demographic, and again, it just was close to my heart. I had, um, two years before that, I lost my father and, uh, 13 years before that, I lost my mother. So I always, uh, you know, I always wanted to be in a position that I could help people, especially the elderly.

Rushab Kamdar: [00:09:57] What did you see about the senior citizen demographic that made you realize that this is a viable market?

Sanjiv Singh: [00:10:05] Right. So, um, the baby boomers were all turning, at that time, they were all turning 65. And like I said, statistic, I mean, it was like, yeah, some ridiculous number, like 10,000 a month. Um, so they were, they were the people who were on the top of the baby boomer generation. But the people who kind of fell at the bottom of the baby boomer generation wanted to get these for their parents and they had the money to spend. Um, so it was the demographic, was the company itself that appealed to me.

Rushab Kamdar: [00:10:36] You said you had a franchise coach that introduced you to this franchise. Depending on the franchise, but many of them tend to give some type of support and resources. Were you provided from this, first of all, from this coach, a list of these franchises and the support that they provide to you?

Sanjiv Singh: [00:10:56] So as it turns out, Rushab, um, everybody, when, from a franchisor's perspective, when they start going out there and they say, "Oh, we want to franchise our business.", they do come up with what they think is comprehensive documents. You know, whether it's an information about, uh, Google pay-per-click, which a lot of them help you, uh, advertise via, or whether it's a, uh, just a marketing document or a training document. So what they handed us was a pretty big folder with different tabs, uh, which were, uh, I had a lot of training in there. But as it turns out, and again, hindsight is 2020, but a lot of that was kind of fluff. So, you know, my recommendation for anybody listening to this is that, hey, if you are going to go with the franchise, then go with one that's established and go with one that, um, really, in the beginning, because you get a lot of handholding in the beginning. You need one, that's really going to hold you by the finger and move you upwards.

Rushab Kamdar: [00:11:54] So let's take it now to when you're actually operating the franchise. All businesses have their own challenges and hurdles. What are some of the most common challenges that you faced while you were running this specific business?

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Sanjiv Singh: [00:12:08] I had underestimated the initial capital that I was gonna need. Um, you know, they give you this again, you have DD, the financial, franchise disclosure document that you mentioned. Um, it tells you a lot of things. Hey, you're going to need X number of dollars for the franchise. The way ours was structured, it was structured by territory. So we would get one territory for, I believe, about 90,000 at that time. And then the next territory was due after six months for 35,000 and you would build it up, and we were supposed to build it up to five different, five territories within New Jersey.

What they don't tell you is all the other expenditures that go when you start a business. And the most notable one being, you don't really know how much working capital you're gonna need. Because me and my partner, we both came from six-figure jobs, so we knew that, um, we weren't going to immediately start making that much money, but, and we kind of put aside about six months worth of capital. Um, but by the time we could even get to that level, it took us like a year and a half.

Rushab Kamdar: [00:13:12] So what was the, uh, franchise fee for 101 Mobility and, and at the same time, what was the total investment, including the franchise fee?

Sanjiv Singh: [00:13:19] So, uh, Rushab, if I remember correctly, I think the initial fee was like 90,000 and then the additional territories were 35,000 each.

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Rushab Kamdar: [00:13:29] The number one reason a business fails, the number one, whether you're a franchise or not is a lack of working capital. That's a, it's a good transition to the question I'd like to leave our audience with, um, is what advice do you have for any entrepreneur interested in becoming a franchise owner?

Sanjiv Singh: [00:13:47] I would recommend going with an established franchisor. Um, I would recommend going with a brand which is known. Um, like you mentioned during your introduction, you know, McDonald's Burger King, they're all franchises, but not everyone can get in there because the cost of the capital was too high in the beginning, the initial investment that you have to put out. It always helps to have a spouse who has a steady paycheck when you start a business. You do decide to go in with a partner, uh, be, be very comfortable with them, and you just be sure that whoever it is, uh, they, they pull their weight.

Rushab Kamdar: [00:14:22] Sonny, I really want to thank you for being on The Business 360 Podcast and shedding light on, um, an industry that can be very lucrative, but, um, requires definitely some form of attention, care, research, due diligence and concern before going down that road.

Sanjiv Singh: [00:14:41] Thank you for having me, Rushab.

Rushab Kamdar: [00:14:46] Thank you for joining us on The Business 360 Podcast. To learn more about our guests, go to thinkbusiness360.com. In life, I follow two things that keep me grounded. Number one, if you only listen to someone's successes and not their failures, you've only heard half the story and number two, compete with yourself and help everyone else. You stay classy, Business Heroes.