



Murphy Business & Financial Corporation

"The Nation's Premier Brokerage Firm"

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Steps to Owning a Franchise

There are 3 kinds of people: The ones that learn by reading, the few who learn by observation, and the rest of them who have to touch the fire to see for themselves if it's really hot! Follow "the steps" and don't get burned.

Questions to Ask Yourself While Searching For the Business of Your Dreams



The first step in finding the right franchise for you is to look within yourself and not within franchising. There are several thousand franchises available and if you try to evaluate these companies before you evaluate your own wants, needs, and capabilities...your search for the business of your dreams, will more than likely become a nightmare. Before you take a leap into the deep end of franchising, ask yourself these questions.

- **Why do I want to own my own business?**

To replace my job, make money for myself instead of a corporation, to go home, control my own destiny, quality of life, health reasons, security for retirement, etc.

- **What am I looking for?**

More money, more time, balance of life, retirement, full-time, part-time, management, family participation.

- **How much am I willing to invest?**

- **Can I build equity?**

- **Will this make me happy?**

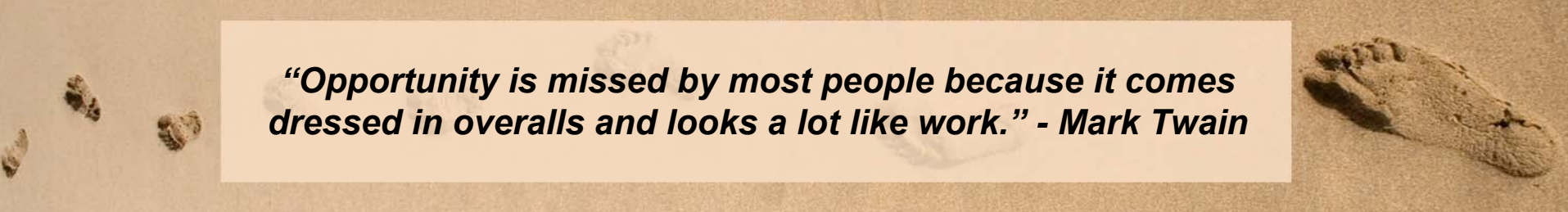


Buying a Business is Scary and You Are Going To Be Nervous

Buying a business is going to be one of the biggest decisions of your life, get ready, you are going to be nervous! That's OK, being nervous is your built in reminder to leave no stone unturned. Ask every question, validate every answer and if you don't get your questions answered...DON'T BUY THAT FRANCHISE!

Talk with as many franchisees as possible. Talk with the successful franchisees and find out what they do that makes them successful...and then ask yourself. Can I do that? Am I willing to do that? Do I want to work that hard? Don't forget to talk with the unsuccessful franchisees and learn from them and find out what they would do differently to be more successful.

You are going to be nervous, but just remember the three "MUSTS" of buying a franchise. 1. It must be good for you and your family. 2. You must be able to make the money you need to make. 3. It must make you happy.



“Opportunity is missed by most people because it comes dressed in overalls and looks a lot like work.” - Mark Twain

Franchise Categories

Advertising/Promotions • Business Services • Child Development • Automotive • Computer Services/Tech • Financial Services • Food/Full Service • Food/Quick Service • Food/Retail Sales • Health Care/Nutrition • Home Improvement • Hotels • Maintenance • Master Franchises/Regional Development • Personal Care • Pet Services • Recreation • Retail • Services

There are close to 5,000 franchises in over 75 industries. Although we most often think of food when we think franchising, restaurants only make up 26% of the franchise industry. With so many franchises it is easy to lose your way and get caught up in the glitz of a “ground floor opportunity.” Look for the franchise with the proven success formula and not the one with the most press clippings. Franchises come in all shapes and sizes...REMEMBER: The amount of money you pay for your franchise does not determine how much you can make!

Retail – Front door and a cash register: High Cost, High Visibility, Management Opportunity, High Labor, Low Selling, Location, Location, Location Examples: Hair Salons, Fast Food, Dry Cleaners

Specialty Services – Front door business: Medium Cost, Medium/Low Labor Some Visibility, Some Selling, Not as dependant on Location Examples: Business Services (Murphy Business), Learning Centers, Fitness Centers, Sign Business

Service - Low Cost, Low Sales, High/Medium Labor, Low/No Visibility, Home Office/Commercial Examples: Residential Cleaning, Handyman Services, Delivery Services, Mobile Services

Service/Sales – Low/Medium Cost, Low Visibility, High/Medium Sales, Hands On, Home Office/Commercial Examples: Disaster Restoration Services, Building Maintenance, Pest Control, Lawn Services

Master Franchise/Regional Development – High Cost, Medium/High Sales, Sales Management, Residual Earnings Examples: Under 20% of all franchise opportunities

“Get your facts first, and then you can distort them as much as you please.” - Mark Twain

Questions to Ask the Franchisor

You can't ask too many questions, think them out in advance, write them down and make sure that you ask the questions that are most important to you...and don't forget to take good notes! Here are a few to get you started:

It's always best to start at the beginning...How did you start your business? How long have you been in business? How long have you been franchising? Why did you franchise your business? How many franchises do you have? What is your competitive advantage? Who are your competitors? How do you match up with them? What does it cost? What do we get for that? Do you have any other fees? How much money can I make (they can't answer that question unless they have a printed earning claim in their FDD) but ask it any way, it will keep them on their toes.

How's their support...How do you support your franchisees? How long is your training? Tell me about your on-going support programs. What kind of field support can I expect? What systems do you have that will help me run my franchise?

How's the company doing...What is your failure rate? How many lawsuits do you have? How profitable is the company? What are your royalties? How do you earn them? Do you plan to sell the company? Do you have a time frame for that? Do you plan to take it public? What do you love most about your business? What questions have I missed?



“There are only 3 ways to get something done. First - You can do it yourself. Second - You can hire someone to do it for you. Third - You can forbid your children to do it!” - Things My Dad Taught Me

Questions to Ask the Franchisees

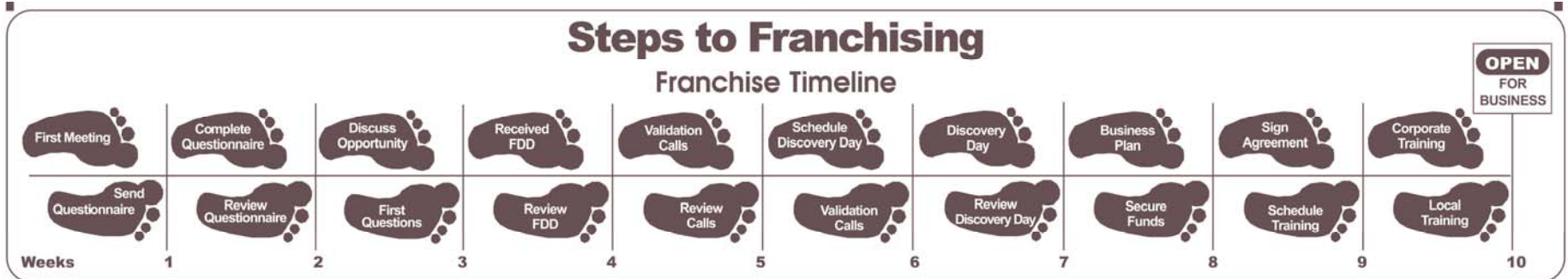
Now is the time to ask the real questions. Remember, this is exactly how they bought their franchise...by asking the franchisees questions! Be kind and courteous, you are a stranger asking them questions about their business. They are talking to you out of the kindness of their hearts and they get nothing in return for you taking up their time. Write down their name, city, phone number, and take notes.

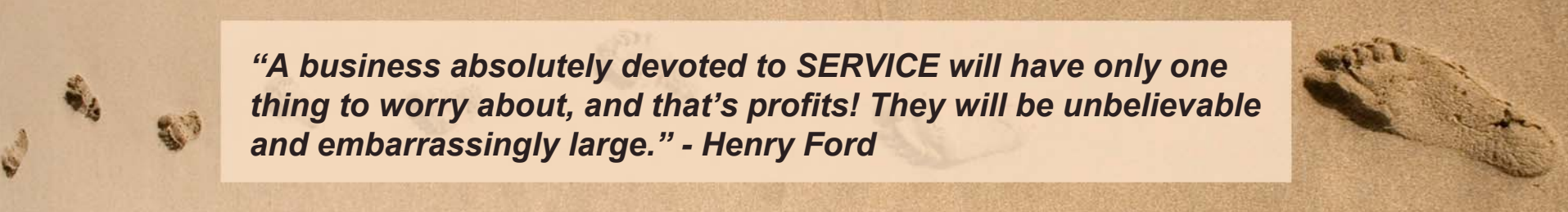
Start with the easy questions first...Tell me about the franchisor? Are they easy to work with? How long have you been in business? How is your business doing? Have you broken even yet? Do you work full time? Are there any other family members in the business with you?

Ask about corporate support...How's your location? Who picked the site? How was the training? How is the on-going support? How is the marketing and advertising?

Ask a few hard questions...Are you aware of any franchisees that are not happy? Do you know why? If you had to do it over again, would you? Are you planning on having more units? How hard is it to find, train and retain employees?

Ask about the money...How much can I make my first year? Second? Third? What do you like best and least about this business? Would you share with me some of your monthly costs of doing business? What questions have I missed?



A quote by Henry Ford is displayed in a light-colored rectangular box on a textured, brownish background. The background features several footprints, with a large, prominent one on the right side. The quote is in a bold, italicized serif font.

“A business absolutely devoted to SERVICE will have only one thing to worry about, and that’s profits! They will be unbelievable and embarrassingly large.” - Henry Ford

Steps to Financing

When applying for a business loan to start up a new business or to purchase an existing one, a lender will expect that you as the loan applicant have done your homework. You will likely have only one chance to convince a lender that you are worthy of their confidence in you as a potential business owner and loan recipient. A well written Business Plan and request for funding (loan proposal), supported by month-by-month financial projections for at least the first year are the preferred presentation for lenders. And, since lenders also must evaluate the “5 C’s of credit” before making a decision about a loan, your best defense against a turndown is a good offense that includes addressing the following issues in your Business Plan and loan proposal.

The “5 C’s” that lenders consider are:

- **Cash Flow** (Capacity to repay the loan) – How do you propose to pay the loan back? What are your exit strategies, short & long term? What back up plan do you have “just in case”?
- **Character** (Management ability, commitment to business success, sense of obligation to repay, personal credit history) – Why are you and your business a good credit risk?
- **Collateral** (Alternate repayment option) – Besides your down payment, what else are you willing to put “at risk” should the business fail and you cannot repay the loan? More is better.
- **Conditions** (General, economic, geographic, industry) – Offer insight into your knowledge of your industry. This impresses lenders. Be accurate because lenders do their own research.
- **Capitalization** (Is the business properly capitalized?) – Lenders like to see that your business and you personally will have enough cash on hand to cover 3-6 months worth of expenses after the business is purchased. Using your last dollar to qualify for a loan won’t cut it.

“You can have everything in life you want if you help enough other people get what they want.” - Zig Ziglar

Steps to Financing continued

Below is a checklist of basic documents that you can also expect to be required to submit for a full documentation business loan request, including a loan request for an “SBA” (U.S. Small Business Administration) loan. Each business loan request is unique. Its checklist will be also.

Business Loan Checklist

- 1. Loan Proposal / Business Plan** – (See comments above).
- 2. Key Documents supporting your request** - Copies of purchase contracts, quotes and/or invoices of new items to be purchased, any appraisals or other pertinent information (example, copy of existing or proposed lease).
- 3. Company Information** – Name, tax ID#, ownership composition and contact information for the borrowing entity (if known), a cash flow projection and/or earnings projections for the next 1-3 years, and a copy of the proposed Franchise Agreement and current Federal Disclosure Document (FDD).
- 4. Personal Information** – (for EACH proposed owner of your business)
- Personal Financial Statement of assets and liabilities, including those of spouses if married. May be required to provide up to 3 years of personal federal tax returns, a resume and or a personal credit report.
- 5. Collateral Information** - Description of assets to be offered as collateral plus copies of any appraisals, if available.



Understanding the FDD

Item 1 Franchisor and any Parents, Predecessors and Affiliates

- Description of Business, Market and Competition, Industry- Specific Regulations

Item 2 Business Experience of Principal Officers and Regional Owners

Item 3 & 4 Explain Litigation/Bankruptcy history, if any

Item 5, 6, & 7 Fees

- Description of each Fee and Purpose
- Initial Franchise Fee and other fees to include, licensing fee, quick start marketing, recruitment, screening and brokerage expenses, training costs, creating, registering, licensing and policing intellectual property.
- Construction Management fees are fees for construction services.
- Royalty/Service fees for services over the term of the Agreement for support, new product development, R&D, Building infrastructure, cost of saving measures.

- Technology – POS, Web based Management and Contact Management Systems.
- Estimated Initial Investment

Item 8 Quality Control – Restrictions on Sources of Products and Services

- Purchase Restrictions and Specification Standards, Approve Suppliers and Insurance Requirements

Item 9 Franchisee's Obligations

- Opening Time Requirement, Permits, Construction, Complete Training, Adopt Quality Control and Obtain all Licenses

Item 10 Financing if provided

Item 11 Franchisor's Assistance, Advertising, Computer Systems and Training

- Pre and Post Opening Obligations of Franchisor
- Explain Scope of Business, using Table of Contents of Training Manual to include explanation of training provided.
- Demonstrate access to trade secrets – "Competitive Edge"

- Establish Bookkeeping and accounting polices
- Advertising and Marketing, QSMP, Ad Councils
- Computer Systems, Upgrades and Training
- Explain how Changes to System are Implemented

Item 12 Territory

Item 13 & 14 Trademarks, Patents, Copyrights and Proprietary Information

Item 15 Obligation to Participate in Actual Operation of the Franchise Business

Item 16 Restrictions on what the Franchisee may Sell

Item 17 & 18 Renewal, Termination, Transfer, Dispute Resolution and Public Figures

Item 19 & 20 Earnings Claims and List of Outlets

Item 21, 22 & 23 Financial Statements, Contracts and Receipts

Why Use a Murphy Consultant?

Would you visit your automobile mechanic or your family doctor if you wanted to buy a home? Obviously you wouldn't, because neither have the experience and tools to take care of your particular needs! Involving a Murphy Franchise Consultant in your search for the "perfect franchise," is much like going to great realtor to buy a home. Since they are highly educated and trained with a wide range of business and franchise experience only your Murphy Franchise Consultant can assist you the most efficiently in your search for the "perfect franchise."

Step 1 Your Murphy Franchise Consultant will need to know some of your basic business preferences. These may include how much time you are willing to invest in your franchise, how much money you have available, and the level of Franchisor support and involvement you will require.

Step 2 Your Murphy Franchise Consultant will meet with you to create a business model for your "perfect franchise." This is essential during the research stage because it sets the bar.

Step 3 Your Murphy Franchise Consultant will suggest specific franchises that meet your business model.

Step 4 Your Murphy Franchise Consultant is a professional in your community; they have established many lending contacts to assist you and will make sure you have the appropriate financing to suit your needs.

Step 5 Your Murphy Franchise Consultant is trained in the franchise due diligence process, so they will be there to assist you if you have any questions. Armed with your business model and following the Murphy steps, you are able to ask all the questions you need to make an informed decision.

Step 6 Your Murphy Franchise Consultant will work with you through the franchise closing process to insure that each of the steps are completed as you purchase your "perfect franchise."