

Other Validation Topics

- **Real Estate Availability.** Yes, the franchise brand may have availability in a market, but the cost associated with retail locations in your city may be too high for you to make a good return-on-investment (ROI). Over the last 3-4 years, landlords have gained the upper hand in many cities across the US. This means there are too many potential tenants driving up the terms of "good locations". One sign of potential trouble is when a franchisor has too many franchise units in development.
If you are investing in a franchise that requires a good retail location, then make sure you understand how the franchisor is helping you get a location with reasonable terms. Also, ask franchise owners with locations that have opened in the last 6 months, how long it took for them to get their unit open?
- **Impact of Millennials.** The Millennials are increasingly more important to the profitability of franchise brands. Franchisors need well-developed plans to capitalize on this age group. For example, franchisors must drive a sophisticated digital marketing plan.
Ask franchisor and franchise owners how important Millennials are to the success of the brand? What are they doing to attract and retain Millennials?
- **Delivery Disrupters.** The market is flush with delivery disrupters such as UberEATS and Amazon that will affect even more brick and mortar brands, especially food related. UberEATS is sucking 20% of revenue away from restaurants, making delivery a breakeven for many brands. This may potentially force brands to substantially revamp their operations.
Ask franchisor and franchise owners questions to understand better delivery disrupters.
- **Exit.** If you work hard and scale a brand over the next 5 years, what type of exit scenarios exist? Will it be easy to sell? What type of multiples (e.g., 4 times EBITDA) are franchise owners getting? Who are the typical buyers--other franchisees?
Ask the franchisor about any recent franchise sales.
- **Stock Price Versus Franchise Ownership ROI.** Some of the largest franchise brands have publicly traded stocks. Do not assume that stock price trends directly relate to franchise ownership ROI. There are many larger brands where the stock price for the franchisor has gone up over the last 3-4 years, yet franchise owners complain of lower and lower returns. Remember, almost all franchisors charge a royalty on revenue not operating profit.
Make sure you are asking franchise owners about financial trends and whether their operating profit is going up or down.
- **New Brands.** Most new brands are undercapitalized in dollars and talent. When you are one of the first to invest in a newer franchise brand, then you are taking high venture capital risk without the appropriate upside.
Look for indicators that a brand is at a tipping point: 5+ years in business, 20+ units operating, good unit economics, money on the franchisor balance sheet, executives with national franchise management experience, strong team both internally and via 3rd parties to support growth.

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