

## Understanding Net Worth, Liquidity, and Total Investment

There is no point in looking at franchises that have financial requirements that far exceed your financial position. In other words, when considering a franchise, it is important to focus on those that match your financial position and comfort level. Don't assume you can do it for less than what a franchisor outlines in their Franchise Disclosure Document Item 7 Estimated Total Investment. After all, one of the most common reasons for new business failure is lack of capital.

In order to know whether you meet the financial requirements of a franchisor, it is important to understand some commonly used terms in the industry—**Net Worth, Liquidity and Total Investment**.

- **Net Worth** is your total assets minus your total liabilities. Good franchise brands do not waste time with candidates that do not meet their **minimum net worth requirements**.
- **Liquidity** is your cash position plus other assets that can easily be converted to cash (i.e. stocks, bonds, extra car, retirement funds).
- **Total investment** is the amount of money needed to get a franchise up and running. Total investment is a range that includes all money spent from day 1 through 3-12 months of active business operations. And yes, the total investment should include several months of working capital to get you to cash flow breakeven. *Each franchisor provides a detailed total investment table in their Franchise Disclosure Document Item 7.*

ASSETS		LIABILITIES	
Cash (checking & saving)	\$ 50,000	Credit Card Debt	\$ -
Stocks, Bonds, CDs	\$ 200,000		
Retirement Plans (IRAs, 401Ks)	\$ 180,000	Primary House Debt	\$ 300,000
Primary House Value	\$ 600,000	Other Real Estate Debt	\$ 75,000
Other Real Estate Value	\$ 150,000	Debt Related to Auto(s)	\$ 20,000
Value of Auto(s)	\$ 45,000	Other Liabilities/ Debts	\$ 2,000
Other Assets	\$ 20,000		
<b>TOTAL ASSETS</b>	<b>\$1,245,000</b>	<b>TOTAL LIABILITIES</b>	<b>\$ 397,000</b>
		<b>NET WORTH</b>	<b>\$ 848,000</b>

In most cases, 60% of the total investment can be financed and the other 40%—what you need to come up with—is referred to as liquidity. Net worth requirements tend to be 150%-200% of the total investment. Following are some basic examples:

*Example 1: Total Investment \$150,000, Liquidity \$60,000, Net Worth \$225,000*

*Example 2: Total Investment \$250,000, Liquidity \$100,000, Net Worth \$400,000*

The best franchise opportunities, Grade A brands, require liquidity **starting** at \$60K+ and a net worth of \$200K+. Be careful with franchisor's that require less, they tend to underestimate the total investment requirements in order to attract new franchisees.

Although the total investment of getting into a franchise may seem high, it also costs money to start your own business. One of the advantages of choosing a franchise is that franchisors provide you with an accurate picture of what it will cost to start the franchise and your ongoing expenses. This is valuable information to have when you start a business.

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*No hype, no fees, no BS... just accurate & valuable information.*

