

# Jumpstarting Things

## by Purchasing an Existing Franchise

By Tom Taulli

A franchise can be a great way to start your entry into self-employment -- and strong income. Yet, there are still risks -- such as with site locations and hiring employees -- and lots of upfront costs. But there is another approach; that is, purchasing an existing franchise (which is known as a "resale"). What are some things to consider? Well, let's take a look:

**Track Record:** With some due diligence, you can determine whether a franchise is successful or not. Besides getting the financials, you can talk to customers as well as vendors.

**Turnaround:** What if the franchise is failing? Yes, this can be an opportunity to get a business on the cheap. But, of course, this can be risky. Do you have the expertise to make the changes to get the business on track? Keep in mind that turnarounds are often much tougher than you might expect.

**Valuation:** It's likely that the franchise owner will be running various personal expenses through the operation. Thus, as much as possible, try to exclude these items. The goal is to come up with the real profitability of the company. Next, you need a way to value these earnings (assuming you think they can continue) this is usually done by applying a multiple. For example, a Subway may fetch 4 times cash flows. Where do you get these multiples? Well, there are some books on the topic, such as *The Business Valuation Book* (with CD-ROM). You can also get the help from a business broker.

**Finding Franchises:** There are several websites where you can find franchises for sale. One good resource is BizBuySell, which has an extensive directory.

**Fees:** There may be a transfer fee (which could be hefty). So, early in the process, get the franchise agreement. And, of course, it's a good idea to have an attorney help out with things.

