The Power of Knowing How Much You Can Make Owning a Franchise.

Are franchise owners making money?

Aspiring entrepreneurs across America ask one question more than any other: “How much money can I make if I buy your franchise?”

Why not, right? After all, most people interested in buying a franchise are in the midst of a career change and the biggest concern they have is having the ability to make enough money to replace the salary they were getting working for someone else.

“Our earnings expectations were too high. We thought 6 months of working capital and funds set aside to pay our personal bills was enough. Turns out, we needed a bigger budget.”

It also seems as though it would be an easy question to answer. Many franchise companies have been in business for a very long time. Many have hundreds of franchise units operating in virtually every demographic. Shouldn’t they know how much the typical franchise owner can make?

Unfortunately, franchise companies are hesitant to make any sort of projection when it comes to earnings. Part of the reason for this is that we live in a litigious society where people are often ready to pounce on earnings representations that don’t hold true.

But there’s more to it than that.

Let’s face it, not all franchisees are alike when it comes to management skills, hiring skills, balancing a budget, and customer service, and not all have the same work ethic. In fact, you could put two Subway franchises side by side with two different franchisees and you would get different results when it comes to franchise profits.

Everything in that situation is the same except the operational skills of the franchise owner. In real life, though, there are more differences, from the building your franchise is in to the demographics of the community and the staff members working on a given day.

The Franchise Disclosure Document

Some franchisors, when asked the “How Much Money Can I Make” question, direct candidates to their Franchise Disclosure Document (FDD). Essentially, this is a very thorough prospectus they’re required to provide to interested parties.

A small percentage of franchise businesses make financial performance representations in Item 19 of the Franchise Disclosure Document. These are representations regarding earnings capability.

So, in your early communications with franchise businesses, ask them whether they make an Item 19: Financial Performance Representation in their Franchise Disclosure Document. Even though the Item 19 only offers a snapshot of the average revenue a franchisee can make, you will still learn a great deal as it relates to potential franchise profits.

Remember, this is the average revenue. “Average” doesn’t mean “the typical amount” – it just means the mathematical average.

10+0+5+2+8= an average of 5

You’ll need to adjust the numbers provided by the franchise system to reflect the financial realities of your area. Franchise costs in Chicago or Los Angeles are going to be vastly different than the cost of opening a franchise in Oklahoma City, Oklahoma. Income in Phoenix or Atlanta will be different from income in Jasper, Arkansas. Use your own knowledge — and check U.S. Census data if you need more — to get a sense of whether the average could be low or high for you.

For the record, according to a broad survey performed by Franchise Business Review, the average franchisee across the board earns a profit of $66,000 per unit annually. How close your own experience is to this
number will depend on multiples of factors including your specific franchise, geographic location, accounting methods, and much, much more.

A franchisor may also refer you to “A Consumer’s Guide to Buying a Franchise,” which can help you understand how to use this disclosure document. The document is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue NW, Washington, D.C. 20580. You can also visit the FTC’s home page at www.ftc.gov for additional information.

The best source of information about franchisee earnings is the franchisees, and the best way to get an accurate answer is to ask current franchisees all the right questions. The Franchise Disclosure Document will offer an Appendix listing “Current Franchisees as of the date of the FDD.”

Franchisees will be listed by name, address, city, state, zip and telephone number.

“Franchisees are busy running their business but they relate to your needs as an aspiring franchise owner. I found that a subtle approach to getting to what you want to know worked best. Ask more direct financial questions to franchisees far outside of your territory. They’ll be more willing to answer questions about money.”

Start calling franchisees in and around your community or in your city or state. Further, call franchisees in other states with a similar demographic. If you live in a city with a population of under 200,000 people, call franchisees in cities of similar size.

Before getting to the “How Much Can I Make?” question develop a rapport with the franchisee. For many people, a question about income will elicit an automatic “That’s private” reaction that may keep the franchisee from being frank with you. Ease into your due diligence and build your relationship slowly. Ask leading questions, like these:

- Are you earning as much as you expected?
- Are you happy with your income so far?
- How soon were you able to replace the income from your last salaried job?
- Has the amount of profit you’re making met your expectations?
- How long did it take you to break even?

Eventually, you can get more precise with your earnings questions.

One of the most important steps in a franchise search is spending as much time around franchisees as possible. If possible, visit one or two locations and see if you can shadow them for a day. Learning as much as you can about a franchise operation before you go into Discovery Day will arm you with questions and help you further understand if the franchise is the right choice for you. You may also gain some insights into how the franchisees are managing their franchises and even get a sense of the revenue opportunities.

Item 19’s will give you a good idea of what you can make. Buyer beware! Don’t take the average numbers to the bank. Consider the factors discussed above to adjust expectations.

The franchise disclosure documents will often show a typical manager’s compensation but assume the franchise owner is the manager. So, take that into consideration when developing your own pro forma statement.

Lastly, do your due diligence with grace and get the information you need from current franchisees. Your patience in this regard may be the first and best step you can make to being a success in franchising.