

Investing Your Windfall

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Question: I have recently come into a lot of money and have decided to invest in a franchise. I have about \$20,000 to invest. How do I find a franchise that meets my investment range.

While \$20,000 is a lot of money, unfortunately most franchise systems, even those that you can operate from your home require a great deal more. That doesn't mean that making a franchise investment is out of the picture for you, but it may require you to be creative in exploring your franchise and at least realistic in the opportunities that may be available.

Being Realistic

There are two things you will need to understand as you begin to look at franchises that require less than \$20,000.

The first is that you need to be realistic on how much you can earn.

There are few opportunities in this world where your investment will be \$20,000 and your take home pay will be \$100,000. What ever franchise you select, make certain you understand, by talking to other franchisees in the system, how much you can realistically earn from your investment. Be certain that if the franchise is going to be your sole source of income that you can live on it.

The second is that regardless of your take home pay; you need to understand if the investment makes sense.

Let's suppose that you can keep your regular job and still operate your new franchise. Let's also suppose that your new \$20,000 franchise does well and you earn \$10,000 in the first year from your investment. Not many investments in this post dot com world are likely to earn a 50% return on investment but don't jump to any conclusions just yet.

If this were a passive investment, like investing in stocks, a 50% return on your investment would be off the charts. But, most franchises are not passive investments; they require long hours and hard work. You need to compare your return on investment from the franchise realistically with what you could earn if you invested your money in a secure but passive investment and took the same amount of time and got a second job.

Saving the money you earn from your investment together with the income you earn from the second job might be something to consider. Not only may the overall return on your investment – both time and money – be higher, if it is, in a short period of time you may have enough money saved to look at a larger field of franchise opportunities.

Ok – regardless of the number, you don't want to wait. You want to own a franchise now and start reaching for your pot of gold. Where do you look?

Finding the Perfect Low Investment Franchise

The good news is that there are franchises available for \$20,000 or less. The better news is that there are many.

The Directories

Since you began your search at Entrepreneur.com stay here for a bit and start your research. Entrepreneur.com has one of the best search engines for small businesses. Click on Franchise Zone and then to 2001 Franchise 500 Rankings. The fourth column provides you with the range of investment for each franchise listed. Be patient. There are over 1,000 franchises listed and you should go through the list and find franchises in your investment range. Now you have a starting point.

In addition to Entrepreneur.com there are several other franchise search engines including Bison.com, Franchise.com, BlackEnterprise.com and the International Franchise Association's Franchise.org. While Entrepreneur.com may have the largest listing on line, the other directories may have opportunities not listed on this site. For a complete list of directories, contact the International Franchise Association and obtain a copy of the Franchise Media Guide that was developed by the IFA and Olson & Associates. The guide lists four pages of Internet directories where franchise opportunities can be found.

Trade Shows

While trade shows used to be one of the premier sources for information on franchise opportunities the World Wide Web is a faster and more complete source of information. But, there is a one thing trade shows can do which the Internet can't. Trade shows allow you to walk around, meet and talk with a number of franchisors at the same time. The biggest trade show is held by MFV in collaborations with the International Franchise Association and is called the International Franchise Expo. You can get information on the next Expo by calling either MV at 888.872.2677 or the IFA at 202.628.8000. Other trade shows are listed in the IFA's Media Guide.

Searching the Web

As you begin to build your list of franchises that fit your investment range, look for information about the company on the web. Most franchisors today have extensive web sites that will not only provide you with information on their opportunity, but allow you to begin the process of contacting the franchisor and getting additional information directly from the franchisor.

Getting Creative

Many successful franchisees began their path to franchise ownership by working for another franchisee. This path will take some time and lots of phone calls but it opens up another level of opportunity for you.

Contact franchisors that interest you and explain to them that you want to invest in their franchise but simply do not have sufficient money to go it alone. Ask for their advice. Some franchisors may know of opportunities where franchisees in their system are looking individuals who are willing to make a small investment. This may give you an opportunity to work at a location and at the same time have a piece of a larger opportunity. In some situations your “sweat equity” will allow you to earn your way to owning your own franchise.

Many of the franchise systems that are focusing some of their opportunities at the emerging markets (inner city and urban areas) are working with local Community Development Corporations who are actively seeking responsible individuals with some capital. If you fit the profile required by the CDC, it is a wonderful way to get into business ownership. You can find local Community Development Corporations on the Internet or contact the International Franchise Association’s Minorities in Franchising Committee.

Understanding how much you really have

You may only have \$20,000 in cash to invest but think a bit broader. If you have other assets you may be able to leverage your cash and other investments. Most franchisors today are very sophisticated in helping new franchisees find the loans required to make a franchise investment. Many have established relationships with leasing companies that can lease to you some of the furniture, fixture, equipment and signage you will require. Some loans even provide you with the working capital you will require. \$20,000 may not be enough to buy a franchise outright, but by intelligently leveraging your assets, you may find that you can broaden your opportunities.

Don’t forget your family and friends

Your family and friends know you and know how hard you like to work. Your work ethic may be the perfect investment for them. Put together a business plan

for your future franchise and let your family and friends have the opportunity of investing with you. With the success of franchising and the weakness in the stock market today, your franchise opportunity may be exactly what their investment portfolio is looking for.

Final Advice

- Don't be put off by the obstacles that having only \$20,000 to invest will require you to overcome. \$20,000 is still a lot of money.
- If the opportunity you want is outside your current reach, be patient, save your money and use the \$20,000 as a nest egg for your future investment.
- Use some of the techniques we have mentioned above to see if there are opportunities for you that may not be known without some additional research.
- Don't settle for less simply because you are in a rush.

Take your time and work through every angle available. Starting a business is always exciting but it often takes hard work and patience. We wish you the best of success in whatever endeavor you choose.