

Master Franchising: The Ultimate Distribution Channel

Opening Multiple Doors to Success

“Build a better mousetrap and the world will beat a path to your door.”

Ralph Waldo Emerson (1803 – 1882)

As much as Mr. Emerson’s comment is a tribute to the free enterprise system, it’s not likely it was any truer in his time than it is today. Anyone building a better mousetrap in the 1800s would have had a difficult time letting the world know *where* their door was. Ralph died in 1882, long before there was mass media, sophisticated advertising, a world wide web, or a true appreciation of marketing.



While those tools exist today and provide a modern inventor with numerous avenues to promote his product or service, few products or services can survive with only one “door”. And that’s why successful companies have developed broad and sophisticated distribution channels to provide multiple paths for their customers to find them. After all, a faucet manufacturer could never be successful purely on its own. That’s why faucets from Delta, Moen and other such manufacturers can be found behind the doors of The Home Depot, Loews, True Value Hardware and a multitude of other distributors. Manufacturers rely on vast networks of such business partners to market and sell their products.

Is it any wonder that franchises work in the same way? Franchises are, in essence, sophisticated distribution systems, and that’s why they look for successful franchisees -- large and small, -- to become distributors. And the size of the franchise is often inversely proportional to the size of the distribution channels they seek. Large, well-established franchises may have evolved to a point where they no longer need large franchisees to help them grow quickly. Alternately, smaller and newer franchises more likely welcome relationships with large distributors who can assist in developing a regional presence and name recognition faster than the franchises can do it on their own. Such large distributors are called “Master Franchisers” and present a unique and potentially lucrative opportunity for business-savvy entrepreneurs.

LEVELS OF FRANCHISING

Master Franchising is best understood when compared with the other levels.

Single-unit franchising is the first level and is where most entrepreneurs (new to franchising) begin. At this stage, a franchisee opens a single location. If a retail operation, the territory is predefined and protected, or if it's a home-based franchise, the territory may consist of a few specific zip codes. At this level, the franchisee usually remains very involved in the day-to-day operations, and even if he puts a general manager in place, the franchisee will likely remain as hands-on a possible to ensure the business's success.

Multi-unit franchising involves opening more than one unit, usually at a reduced cost per unit. This not only provides an initial lower costs, but likely will provide additional downstream savings since there will be increased economy of scale for goods/services serving multiple units. With multi-unit franchising, locations can be opened anywhere with usually no requirement that territories be adjacent to one another. At this level, a franchisee typically puts middle management in place earlier or even immediately to oversee the success of the larger enterprise.



Area Development is similar to multi-unit franchising, but usually involves more units covering a larger territory or geography. This could be as small as a portion of a large metropolitan area or as large as a whole state. With area development, the number of units to be open (and the time frame for opening them) is also predefined. Like multi-unit franchising, an area developer achieves significant savings per unit. Unlike multi-unit, area development usually involves contiguous real estate with the exclusive rights to develop units along a predefined schedule. An area developer will generally focus on overall operations and expansion while relying on middle management almost immediately.

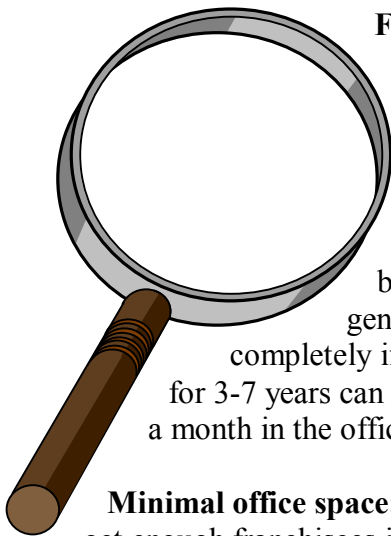
Which brings us to **Master Franchising**, the highest level. With master franchising, you get all the benefits mentioned above without the expense of having to develop the concept from scratch. You get control of the successful franchise system in a specific geographic area, a proven track record that works, the brand name and even a partner in the form of a corporate office and other master franchises to give you valuable support, & latest innovations and business expertise when you need it.

Master franchising is similar to area development, but with one important difference. Where an area developer owns all of his units, a master franchiser actually adds *other* franchisees within his geography. You are still a franchisee, but you are also a partner with the franchise, acting as a major distribution channel for the franchise business opportunity itself. This typically creates multiple revenue streams. With master franchising, you can generate income through your own units if you wish, with a significantly reduced royalty and franchise fee. In addition you can generate sales through:

- ◆ **Franchise Fees:** When you add a franchisee, you receive a franchise fee. Most franchise fees are between \$20,000 to \$30,000 and in a typical master franchise program you get to keep most of the fee!
- ◆ **Ongoing royalties:** This is the ultimate income source. Once you help set up a franchise, you receive royalty income for the rest of the life of that franchise. Imagine receiving 2% to 5% of your franchisees' volume every month for many years.
- ◆ **Products or additional services:** Often products or additional services needed by the franchisees are sold in the master franchisee's outlet at an excellent income.
- ◆ **Real Estate:** If real estate is involved with the franchisee's location, often the master can become involved in development of sites and receive other types of real estate related income.



Master Franchising also offers significant non-financial benefits. Master franchisers own and enjoy a high quality-of-life business. Here are some additional key characteristics of a typical master franchise:



Fewer customers: Your customers are your franchisees. You help support a small number of franchisees who typically own several franchise units each.

Fewer employees: Typically you will operate a master franchise by yourself and then expand to have an administrative assistant, a trainer or other support person and a franchise sales person. As you grow bigger, you add more of these positions into your staff and perhaps a general manager to run the whole operation and can back away almost completely if desired. We have found that many master franchisees after working for 3-7 years can retire and live off a extremely good income and spend one or two days a month in the office.

Minimal office space: Many master franchises can be started out of a home office. Once you get enough franchisees in place you can expand into outside office.

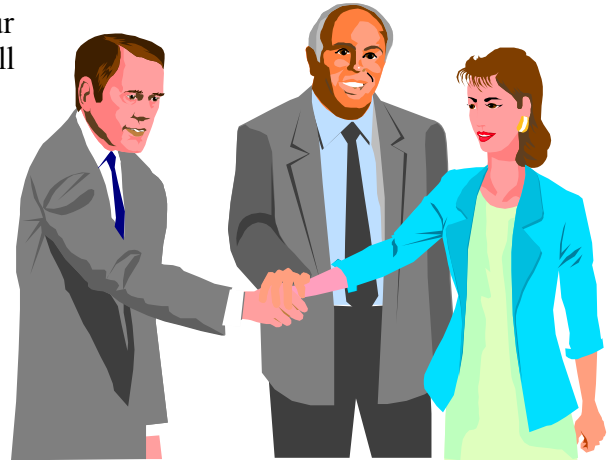
Accelerated Equity: You build equity in the business at a much faster rate than a normal business: Once you add a few franchises or open your own units, you increase the value of your business significantly. Not only do you have an existing business with cash flow, but you have additional franchise opportunities to sell which gives the master franchise a higher value typically between four to nine times earnings instead of the typical 1.8 to 2.8 times earnings of normal businesses.

Low Overhead: Usually you don't have to jump into business with a large office, staff and overhead expenses. You can expand it as you go.

Your Own Units: You have the option of setting up your own franchises at reduced rates: As you open your own outlets you create another asset of value. You now have your master franchise with a specific value and also your own franchise with its value. As the value of your franchise increases, it increases the value of your master franchise. They are separate assets you can sell when you wish.

Exclusive Territory: Only you and your designated franchisees will be allowed to develop franchises in your territory.

Latest Technologies: Being part of a larger franchise system allows the best ideas to flow into the corporate office and then into the field. You will have your own research and development built right in.



No Experience: You don't need experience in the specific industry: You will receive industry specific training and support from the corporate office. It can be started part-time and then you can move to full time as required by the business you bring on.

In conclusion, we think Ralph Waldo Emerson would have *loved* master franchising. It's not just a better mousetrap. It's an opportunity that creates *multiple* doors! Through all of which you can gain financial and quality-of-business benefits. Master franchises typically enjoy a 92% success rate. And while it's true that, overall, franchising offers success with the least amount of risk, master franchising may be the best kept secret in business today. Is Master Franchising right for you? Contact us today to investigate the possibilities.

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AT Franchise Consultants provides no-cost assistance to entrepreneurs nationwide, helping them identify franchise business opportunities that match their interests, backgrounds and financial means. We offer hundreds of business opportunities in a multitude of categories.

We are an affiliate of the world's largest franchise consulting network with more than 25 years experience helping entrepreneurs like you find and own their own businesses.

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