



How Much Money Can I Make?

Let's say you are considering the purchase of a franchise. During the investigation process, you ask the franchisor how much money you can make. His answer is that he can't tell you. Is he lying?

Not exactly. The early history of franchise sales in the United States contained many instances of abuse when unjustified or misleading earnings claims were used to sell franchises. In 1979 the Congress passed legislation authorizing the F.T.C. to regulate the franchise industry to try to stop any such bad practices.

The current F.T.C. rules do not forbid a franchise company from supplying information about the earnings that can be achieved in their business. They do, however, have stringent rules on how this information can be given to a prospective franchisee.

This is one of the real quandaries of investigating most franchises. You're not about to invest until you know how much you can earn; the franchisor probably has the best data to answer this question accurately, but they usually won't tell you a thing.

Basically, any franchise that wants to provide this information must put it in writing in their Franchise Disclosure Document. It is essential for the franchisor to make sure that the data provided is as accurate and non-misleading as possible and they need to clearly label any assumptions or qualifications on the data provided.

Assuming they meet these two requirements, they are free to provide whatever earnings information they want to a prospective franchisee in terms of sales, expenses, cash flow and income. Since it's this easy, it begs the question of why more franchisors don't do it.

The answer is twofold. First, producing an earnings claim does involve effort and expense for the franchisor. Second, the results (given that they have to be accurate and non-misleading) may not be attractive enough to assist in the recruiting of new franchisees. If that's the case, having the F.T.C. to hide behind gives a ready excuse to keep this accurate data from prospective franchisees.

If a franchise does not provide an earnings claim in their FDD, the best source of information to find out how much money you can make is the existing franchisees of the system. Call them and ask. Make sure that you select enough franchisees at random to get a clear idea of the averages and ranges for earnings in the system.

Once you have an idea of the ranges of earnings for a franchise, your next question will be what is a reasonable level of earnings for a franchise business. I think most experts would answer this question relative to the amount of the total investment required by the franchise. Though this is often not the case in franchising, you would probably expect the income to increase as the investment required by the franchise increases.

A good rule of thumb is that you can earn 10% to 15% on your money over time in a totally passive investment. Since most franchises require that you invest your time as well as your money, you should expect a return significantly higher than this level in order to justify the investment. This higher return will also offset the higher risk involved in this type of investment. You should look for earnings of at least 30% of your total investment on an annual basis to consider any franchise as having a reasonable return. You should expect to reach this level, at the latest, by the third year of operation of the business.



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