



## Franchise Score Card

This Franchise Score Card examines **10 Important Items** to assessing a franchise. Those items are:

---

### 1. Number of Franchises Sold in the Last 12 Months

This shows the growth of the franchise system. We like franchises that are in the growth mode. We also like to see additional units being purchased by existing franchisees. This may indicate franchisee satisfaction within the system. The growth of a system must be balanced, of course, against things like number of franchised locations actually opened. Franchise growth without openings may be a sign that the system is growing too quickly.

### 2. Number of Franchises in the System

Every franchise needs to start with one franchise sold. If a franchise has a number of operating units, however, it may show that the franchisor has the capacity to support those units and their franchisee owners. Further, it provides additional franchisees through which a prospective franchisee may conduct his/her due diligence.

### 3. Validation – Franchisee Satisfaction

We want to hear from the people who are currently operating a unit franchise under the franchise brand. Prospective franchisees can ask important questions about their experiences with the system. **Frannexus** works with a group called the “*Franchise Research Institute*” to conduct an independent study of the franchise system. This company surveys franchisees within franchise systems. The Franchise Research Institute asks a series of questions relating to the support, opportunity, satisfaction, franchise staff attitude, and more. Having a score of 70% or higher when it comes to satisfaction, experience, and opportunity is a favorable score.

**There are 2 options for verifying the score:**

- a. [Franchise Research Institute Report](#) with a passing score.
- b. Twenty franchisee validations from our team using a 19-question survey

*Page 6 shows a sampling of the questions asked.*

A prospective franchisee should never, of course, solely rely on any person or entity to conduct that prospective franchisee’s due diligence. The prospective franchisee should always conduct his/her own due diligence.



#### **4. SBA Loan Default Report**

The Small Business Administration produces a report on the failure rates of loans given over a 7-year period. The report comes out two years behind the current year. For example, if the current year is 2013, the most recent report will be for 2011. As with other factors, the SBA loan default report only shows part of the story. Very large and successful franchisors (e.g., McDonald's) have been known to have high loan failure rates.

#### **5. FDD: Bankruptcies / Judgments / Financial actions from a bank in the last 10 years**

We look for franchises that have a good financial background and have no pending liabilities that could affect their ability to support the franchisees in the system. Officers of the franchise must report personal bankruptcies. If the officers of the franchise have a poor personal financial picture, it could reflect negatively on how they manage the finances of the franchise. If there is a bankruptcy, the buyer will need to decide if the information has an impact on the ability of the franchisor to operate and support the franchisee.

#### **6. Years in Operation**

There are no hard-and-fast rules with regard to a franchise's years in operation. However, longevity of an underlying business that has franchised may show that the franchisor has beaten the odds of many businesses in the marketplace. Gene Marks, author of *The Small Business Desk Reference*, says a small business' average lifespan is about eight-and-a-half years. When a business has succeeded past that point, it may indicate a business model that is established and stable.

#### **7. Years in Franchise**

Length in franchising may be an indication of a franchise system's strength. A franchisor that has had franchisees renew their franchise agreement is an indicator of franchisee satisfaction. With that said, every franchisor must start somewhere, and length in franchising is not a sole indicator upon which to rely.

#### **8. Termination and Unit Closures of Other Reasons in the Past 2 Years**

Franchisees that have left the system can provide valuable information. High attrition in the system may be indicative of a system problem. A system where 20% or more of the franchisees have left or have been terminated may be unacceptable.

#### **9. Franchisor Support Personnel**

A franchisor must have the people to support its franchisees. Much can be learned from support questions posed to existing franchisees. If a franchisor has less than one full-time support personnel for every 50 franchisees, the franchisor may be under-staffed.



## 10. Financial Trends Positive

We look for franchises that have an upward trajectory of gross and net income over the last two years. While this is not the total picture of the franchise's financial health, it does provide us information on growth of the franchise system.

The franchise system's financials are audited and, therefore, attested to as being accurate. **FranNexus** has used its own accounting firm to review those audited financials from time to time. This helps **FranNexus** identify potential warning signs.





## Franchise Brand Strength Score Card

	<b>Qualification Criteria</b>	<b>Grade</b>	<b>Grader</b>
<b>1.a</b>	Number of Franchises Sold in 2013		Looking for 6 or more
<b>1.b</b>	Number of Franchises Sold in 2012		Looking for 6 or more
<b>1.c</b>	How many multi-unit operators do you have?		1/3 or higher is best
<b>2</b>	Number of Franchise Units in the System		Looking for 100 or higher
<b>3</b>	Validation of Franchisee Satisfaction with System		Must be a 70% or higher rating
<b>4.a</b>	SBA Loan Default Report Number		Must be below 30%
<b>4.b</b>	SBA Loan Charge off as Bad Debt Number		Must be below 10%
<b>5</b>	Number of Bankruptcies, Judgments, Financial Actions from a Bank in the last 10 Years		Provide supporting details for any. (None is preferred.)
<b>6</b>	Years in Operation		At least 10
<b>7</b>	Years in Franchising		At least 10
<b>8</b>	Number of Terminations and Closures in Past 2 Years		Must have less than 20% attrition
<b>9</b>	Ratio of Support Staff per Franchisees		Minimum 1 per every 50 franchisees, more is better
<b>10</b>	Financial Trend Over Last 2 Years (State Loss or Gain in Gross and Net Income)		Looking for positive financial trajectory

## Example: Fantastic Sams

	Qualification Criteria	Grade		Grader
<b>1.a</b>	Number of Franchises Sold in 2013	Total given at end of year but has already sold over 6 units	√	Looking for 6 or more
<b>1.b</b>	Number of Franchises Sold in 2012	47 - 2012 46 - 2011	√	Looking for 6 or more
<b>1.c</b>	How many multi-unit operators do you have?	Half of all operators are multi-unit	√	1/3 or higher is best
<b>2</b>	Number of Franchise Units in the System	1205	√	Looking for 100 or higher
<b>3</b>	Validation of Franchisee Satisfaction with System	Conducting Evaluation To Be Determined		Must be a 70% or higher rating
<b>4.a</b>	SBA Loan Default Report Number	24.15% with 207 loans	√	Must be below 30%
<b>4.b</b>	SBA Loan Charge off as Bad Debt Number	6.33%	√	Must be below 10%
<b>5</b>	Number of Bankruptcies, Judgments, Financial Actions from a Bank in the last 10 Years	0	√	Provide supporting details for any. (None is preferred)
<b>6</b>	Years in Operation	Original operations started in 1974. Purchased by new company in 2003.	√	At least 10
<b>7</b>	Years in Franchising	Originally in 1978.	√	At least 10
<b>8</b>	Number of Terminations and Closures in Past 2 Years	60 in 2011 39 in 2012 = 18% attrition	√	Must have less than 20% attrition
<b>9</b>	Ratio of Support Staff per Franchisees	Average of 1 staff per 18 franchised units	√	Minimum 1 per every 50 franchised units, more is better
<b>10</b>	Financial Trend Over Last 2 Years (State Loss or Gain in Gross Income and Net Income)	2012 Gross - \$4,818,585 Net - \$153,945	√	Looking for positive financial trajectory. (Include income statement and our account opinion letter)



FRANCHISE RESEARCH  
INSTITUTE

CONFIDENTIAL FRANCHISE OWNER REVIEWS

FranSurvey 2.1

Q1				
In general, how would you rate the overall quality of your franchisor?				
Excellent	Very Good	Good	Average	Poor
i	i	i	i	i

Q2A				
Knowing what you know now, and if you had it to do over again, would you:				
Definitely buy this franchise	Very likely buy this franchise	Probably buy this franchise	Probably not buy this franchise	Definitely not buy this franchise
i	i	i	i	i

Q3A				
Would you recommend this franchise to a prospective franchisee?				
Definitely would recommend	Very likely would recommend	Probably would recommend	Probably would not	Definitely would not recommend
i	i	i	i	i

Q4						
Assigning an "A" through "F" grade, how would you rate your franchisor in the following areas:						
	A	B	C	D	F	Don't Know NA
The initial training supplied by the franchisor	i	i	i	i	i	i
The initial opening support provided by the franchisor	i	i	i	i	i	i
The ongoing training and support supplied by the franchisor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The helpfulness of the franchisor's field representatives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The helpfulness and communication between fellow franchisees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q5					
Do you agree or disagree with the following statements?					
	Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know NA
My franchisor responds in a timely way to my questions and minor problems.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



<b>My franchisor understands that if I am successful, they will be successful.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>My franchisor and I are committed to a positive, long-term relationship.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>My franchisor encourages high standards of quality performance throughout the organization.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>My franchisor is a competent, skillful organization which I can rely on for help.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>I am able to communicate directly and effectively with senior management.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>My franchisor is effective in resolving disagreements with franchisees.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<b>Q6</b>					
<b>Do you agree or disagree with the following statements?</b>					
	Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know NA
<b>My franchisor-sponsored advertising, promotional and marketing programs help improve my sales and profits.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>My franchisor effectively uses social media to help me promote my business.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>My franchisor effectively uses technology to help me manage and improve my business.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>My franchisor maintains a helpful and useful public website.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>My franchisor maintains a helpful and useful internal website.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>My franchisor's research and development (innovation) efforts help us to be competitive in the marketplace.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>The vendor programs facilitated by my franchisor are valuable to my business.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>My franchisor cares about franchisee profitability and success.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



## Thank You!

As you search for the right business to buy, it's important to us that you have what you need: the right tools to assess a business, credible information, and a team that cares about you, not just in buying the business but also succeeding in it.

We know that you have many options for advice and support as you go through this process. We hope that with this tool you can see the difference between what our organization offers compared to others. This is one of many wonderful tools we can provide you.

Our team has over 25 years in franchising experience and we are happy to share that experience with you because an educated buyer is a happy buyer.

We look forward to partnering with you to find the right business.

Sincerely,

Seth Lederman