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Who's the boss?

Buying into a successful franchise can be rewarding, but there's a price to pay

By Evan Pondel

Dan Rendino eats a steamy hot dog every day to ensure his Wienerschnitzel store is churning out quality links. That's how business goes at the franchise, one of a decades-old chain made famous by its iconic A-frame facade. And the Schnitz has been good to Rendino, who owns two stores with a third on the way in Fontana.

"I was born and raised on the fact that there's nothing wrong with hotdogs for dinner," said



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Rendino, also noting that his Chicago roots certainly factored into his decision to own a hot-dog franchise.

For those who want to own a business without reinventing the wheel, opening a franchise has long been a realistic option. Hundreds of thousands of them line streets and strip malls throughout Southern California. But just like any other industry, franchises are not immune to what ails California businesses: rising workers' comp rates and soaring real estate prices. And that means selecting the right business and location is essential to succeeding as a franchisee in the state.

Franchised businesses in California account for \$187.4 billion in annual economic output (a measurement that is the same as sales for most sectors of the economy), according to a study released last year by PricewaterhouseCoopers. At the same time, California has more franchised establishments than any other state, with a total of 80,340 businesses. Texas places second with 59,291 franchised businesses.

But sheer numbers don't equal success for new franchisees. "You need to be in a pretty secure financial situation and have access to capital," said Elaine Hagan, executive director of the Harold Price Center for Entrepreneurial Studies at UCLA Anderson School. "Each corporation is different, and you want to have a cushion if things don't go as well as you expect."

Simply starting a franchise can cost hundreds of thousands of dollars. Galardi Group Franchise & Leasing, a Newport Beach company that sells Wienerschnitzel franchises, estimates that total investment will range from \$141,000 to \$1,056,800. That begins with an initial franchise fee of \$32,000 for a 20-year term.

To avoid the high cost of real estate, leases are becoming a popular alternative for franchisees. "We have to be increasingly more creative because of challenges with the cost of real estate," said Frank Coyle, director of franchise sales for Galardi Group. "In some cases, we're splitting sites with other people."

Joe Bergin, 48, knows what that's like. His UPS Store on Pine Avenue in Long Beach shares a building with Wells Fargo. But that actually works to his advantage, because many of the building's occupants rely on his services.

"I can't just sit back here by my rosy self and manage people; I have to do the work myself," said Bergin, who immigrated to the United States from the United Kingdom three years ago.

Back in the U.K., Bergin was a squadron leader in the Royal Air Force. Owning a UPS Store was far from a reality. But Bergin wanted to live closer to his family in California. So he immigrated to the United States with his wife and kids, took out the necessary loans and bought a UPS Store for \$105,000.

"I didn't know the difference between a nickel or a dime back then -- I just wanted a business that would work with the turn of a key," said Bergin, who eventually purchased another store in Westminster. "I still remember telling my father-in-law I was going to leave England and open a business. He said it would never work."

Though Bergin's discipline as a military man paid off in the business world, he admits it wasn't easy. "You need to do your research and meet with franchisees like me," he said.

The challenge is finding a franchise that suits your needs. There are more than 70 industries to choose from, some more lucrative than others.

Fast-food chains have long been one of the top revenue generators for franchisees. In 2001, fast-food restaurants, dubbed "quick-service restaurants" in PricewaterhouseCoopers' study, accounted for almost three million jobs with more than \$106 million in economic output.

Business service franchises outperformed quick-service restaurants in terms of economic output, but only accounted for half as many jobs. Despite the numbers, those familiar with franchises say finding a business that will keep the owner's interest is far more important.

"A lot of people are turning to franchises instead of retiring these days," said Dick Rennick, chairman of the International Franchise Association, a Washington, D.C.-based trade organization. "If you like the outdoors, find an outdoors franchise. Look for things that would fit with what you want to do the rest of your life."

That's what Bob Todd did several decades ago. As the founder of the RE/MAX All Cities franchise, Todd, 68, purchased his first location in the 1980s. Today, he and his chief executive officer daughter own more than a dozen RE/MAX locations throughout Southern California.

"It's been a learning curve for us," said Todd, who turned ownership and control over to his daughter last month. "You have to read your franchise agreements carefully."

Every month, Todd pays franchisor RE/MAX nearly \$300 per agent to operate his business. "The company is good to us and has been very supportive, but they just don't sell you a franchise," he said.

Bergin pays UPS 8.5 percent of his gross sales every month, while Rendino pays Wienerschnitzel about 6 percent of his gross sales, which also covers the cost of advertising. Both franchisees said the fees are justified considering the companies offer support.

But not all companies provide the coddling some prospective franchisees expect. And it's imperative that companies are thoroughly investigated before investing in a franchise.

"Talk to as many franchisees as possible," said Maria Anton, executive director of Entrepreneur Magazine, who pointed out that there are far more regulations governing franchises today than there were in the 1980s. Specifically, 14 states (including California) and the federal government mandate franchise disclosure laws. The Uniform Franchise Offering Circular is yet another disclosure document that satisfies the requirements of the Federal Trade Commission.

And, while Anton acknowledges there are several hundred franchises that offer tantalizing returns, "reputable names should come first."

Reprinted courtesy of the International Franchise Association

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