

Save on Your Franchise Startup

When starting your franchise, there are times when you should pay for convenience and efficiency, and times when you shouldn't.

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Most franchise owners will tell you that they could have easily saved quite a bit of money from the costs incurred opening their first units. This begs the question: If this is such a universal truth, then why didn't the franchise companies show them how to save this money as part of their training? The answer is that they probably did.

The biggest money waster in terms of startup costs, by far, is impatience on the part of the franchisee. Most new franchisees are thrilled and excited to get going, as they should be, and they can't wait until their new franchise opens for business. If there are two ways to do something, and the faster one costs more money, most new franchisees opt for speed. Those kinds of choices can really add up to a lot of money and in many cases the time gained doesn't really produce any long-term value to offset the increased costs.

The secret to reaching the best result in terms of startup costs is balance. If you picture the cost vs. speed quandary as a continuum, you don't want to be at either extreme. Trying so hard to save money that you never open the business isn't going to be any better for you than spending too much to open a little sooner than you otherwise would.

There are five common expense categories where most startup cost savings are found. Some of these are quite easy to take advantage of while others require some extra work or expertise. The old adage that "time is money" applies to virtually every category since you're usually trading some of your time to get the financial savings. The key areas to focus on include:

- **Franchise company fees:** Though most good franchise companies don't negotiate their fees, occasionally you'll find one that does. If this is the case, make sure you save as much in this area as possible. Contact existing franchisees to determine what kind of deal they received so you have a ballpark idea of what's possible. If you're not comfortable negotiating yourself, use an attorney or someone who is to drive the best bargain you can.
- **Turnkey packages:** Many franchise companies offer a turnkey package where nearly all you need to start is available in a package from one source. This source could be the franchisor itself or a third party vendor. In either case, the package is often chosen because it's so convenient. Keep in mind that convenience is what is being sold in these packages--not the best value or lowest price. It's quite common to learn after the fact that the components of a turnkey package could have been acquired by the franchisee for a significantly lower overall cost. The tradeoff, of course, is that the franchisee has to invest the time and effort to source and purchase each component to get the savings.
- **Lease terms:** This can be a huge category in terms of potential savings and it's an area where you want expert advice and assistance if you're not experienced yourself. This expertise is found in a good commercial realtor but you'll also want an experienced real estate attorney familiar with the local market. All leases are negotiable to some extent, but most leases don't initially offer a number of concessions that may be obtained through negotiation. Use both your realtor and your attorney to determine what's standard in the current marketplace in terms of items like the square foot rental rate, the Common Area Maintenance (CAM) charges, free rent periods, construction allowances and other economic terms. Then you have a baseline to use in determining if you're in fact getting a really good deal instead of just an average one. A good negotiator can sometimes get a landlord to include tens of thousands of dollars in build-out costs into the lease that can be direct savings to you.
- **Construction costs:** Most franchises have a physical location and that site needs to be prepared according to the specifications of the franchise. There are a few simple things that can produce significant savings in this area. First of all, get multiple bids for the work that needs to be done. You won't believe the variances you'll see in the bids from one contractor to another. Second, give a little thought to what you might be willing to do yourself. As an example, if you're renting a 1,200-square-foot bay in a strip center and the construction bid says it is going to cost you \$2,600 to paint the walls a simple off white color, you may want to consider painting it yourself.
- **Equipment, signage and fixtures:** This is a substantial expense category for most franchises and there are two big secrets to saving money here. The first is, again, get multiple bids on everything. It takes a little more work but you'll see price variances of as much as 100 percent on things as simple as a standard sign for your business. The same is true of the cabinets and other fixtures. In terms of your equipment, you may be able to

realize big savings from buying used. Some franchises don't allow the choice but most will allow you to source and purchase used equipment as long as it meets guidelines. If you're opening a business with a commercial kitchen as an example, you can potentially save a ton of money. Used equipment is readily available for many businesses and your franchisor should know of good sources in this area.

As a final thought on this topic, remember that it's easy to determine which areas will produce the most savings for you in whichever franchise you select. All you need to do is ask the existing franchisees. Again, this will take some of your time but it will be an investment that can pay you big dividends in savings on your startup costs if you're willing to learn from their experience.

Jeff Elgin is the "Buying a Franchise" coach at Entrepreneur.com and has 25 years of experience in franchising, both as a franchisee and a senior franchise company executive. He's currently the CEO of FranChoice Inc., a company that provides free consulting to consumers looking for a franchise that best matches their needs.

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