

How much does it really cost to run a franchise business?

 cnbc.com/2016/05/11/the-hard-truth-about-franchise-business-profitability.html

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Thousands of entrepreneurs take the plunge and invest in franchises as a way to grab onto the American dream. The lure is having a proven brand concept and training and marketing support to improve the odds of start-up success. But for most, the No. 1 question every prospective franchisee asks is: "How much money can I make?"

As part of the just-launched "[America's Star Franchisees](#)" list, the 50 franchisees profiled across the country provided annual gross sales figures, many running into the millions of dollars. But as part of its work on the project with CNBC, [Franchise Business Review](#) also reviewed profit figures for the vast majority of "Star Franchises" and found that these franchises as a group average three times the net income of the average U.S. franchisee.

For some, the advantage was starting with a low-cost franchise and hitting the ball out of the park. Others were able to generate a high return on investment, even at a greater initial franchise investment. And remember, the franchisees on this list are rock stars, not the average.

Unfortunately, many new franchise owners start off with unrealistic financial expectations, and never achieve the level of financial success they had hoped for. It's important to understand that relying on one financial figure provides an incomplete picture of a franchise opportunity.

[Are you ready to start a franchise? Answer these 10 questions](#)

Keep the following three tips in mind if you are a prospective franchise business owner reviewing opportunities. (And please be sure to review the chart included below for average income in major franchise categories.)

1. Don't be fooled by big, top-line numbers, impressive as they may be.

As a business owner, your take home income will ultimately come out of your business's net profit or "bottom line." While the gross sales/gross revenue of any business (commonly referred to as "top line revenue") may seem impressive, it is critical to understand the profit margin of the business, the percentage of money left over after all business expenses are paid.

Profitability varies from business to business, and industry to industry. How well a business is managed by the owner will have a significant impact on how profitable it ultimately is. I've seen \$1 million dollar businesses that don't generate any profits – or worse, are losing money. I've also seen smaller businesses that generate only \$100,000 to \$200,000 in gross sales, yet turn a net profit of 50 percent.

The key is to not let big top line numbers blur your judgment. The bottom line of a business is much more important. Do your homework and figure out realistic sales and expenses of the franchise business you are considering. Talk with current franchisees about their experience. They will be your best resource for understanding a franchise business's true profit potential.

Average income by franchise category

Sector	Average Pre-Tax Income	Number of franchisee responses
Automotive	\$106,500	200

Sector	Average Pre-Tax Income	Number of franchisee responses
Business Services	\$89,784	2167
Child Services	\$95,276	1331
Cleaning & Maintenance	\$80,756	1670
Education	\$106,351	740
Financial & Tax Services	\$74,722	225
Food & Beverage	\$90,388	4847
Health & Beauty	\$91,366	721
Home Services	\$84,266	1898
Real Estate	\$96,109	861
Retail	\$60,405	561
Senior Services	\$106,205	1400
Fitness, Sports & Rec	\$57,019	1106
Services	\$79,329	901
Travel & Recreation	\$38,471	1571

(Source: Franchise Business Review, based on franchisee survey results compiled between June 2014 and December 2015.)

2. Your business bottom line is not necessarily your bottom line.

Many new franchise owners make the mistake of assuming that the profits of their business instantly become their personal income. Nothing could be farther from the truth. Before a business owner can "pay themselves," they'll have to pay federal, state, and local taxes on any business profits. Additionally, most franchise owners have to pay back loans or other debts that will be taken out of business profits.

Lastly, almost all businesses require additional capital expenditure investment to maintain equipment, buildings, and other business assets. All of these items will be paid from business profits, and reduce the personal income generated by the business.

[These are some of America's 50 top franchise success stories](#)



3. It's not just about personal income; the end goal should be much bigger.

The biggest difference between being an employee and being a business owner is the opportunity to build equity. As a franchise owner, your equity will grow as your business grows and becomes more profitable. If you plan to sell your franchise someday, it's important to have a solid understanding of what it may be worth. A good business broker can give you a ballpark estimate as well as the typical costs associated with selling a franchise.

A final note: Some franchise companies provide gross sales figures for their units in franchise disclosure documents that any prospective franchisee can review. We were able to see actual profitability as part of our research for this project. But as the methodology for this list and [the stories behind "America's Star Franchisees" make clear](#), it's never just about the money for the top performers.

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