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Creating a franchise business plan to evaluate investing in a franchise system by
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Franchise businesses have a key advantage over exiting companies. They are usually franchising an existing and known business model. The business plan is effectively a detailed breakdown of the elements in sync with in this business model. It also outlines the approach to further distribution of the business model within usually a geographic area.

Deciding to invest in a franchise is a major decision for any would-be entrepreneur. Franchising is an option that is considered by people in their 30's 40's and 50's as a means of escaping the corporate rat race. With most franchises costing between \$50,000 and \$150,000, this is usually the largest investment made by an individual (other than their home). As a major decision, a business plan should form the basis of your evaluation of the franchise system.

One of the most effective ways of evaluating any franchise is to create a business plan. By using the right business planning tools you will be able to determine key business model gaps within the franchise system, and better determine the suitability of the franchise for your own requirements. Ideally you should create a business plan for each franchise system you are evaluating.

Your business plan should explain what you hope to do and how much money you're going to need to do it, your plan should also include a profit forecast and cash flow model. A well structured business plan will not only help you to obtain additional debt or equity financing for your franchise.

A common complaint franchisees have in their relationship with franchisors is a lack of communication and issues in translating the franchise business model into their own business. By planning out the details before committing to the agreement, many of these issues can be discussed with the franchisor, prior to being committed. Ideally the franchisor will be able to provide you with some key ratios that may be useful in your business plan. For example foot traffic to customer, average customer sale value, etc. Be sure to ask very specific questions. Often the franchisor will be bound by liability in not disclosing these figures, but it is well worth asking for this information before you are locked in.

One of the most effective ways to assess alternate franchising models is by use of the NPV (Net Present Value Calculation). Ideally when preparing your business plan, use a tool or toolkit that offers built in NPV valuation. This will enable you to more effectively compare multiple franchise opportunities. For those of you not familiar with financials, the NPV calculation forecasts forward the net cash flow and discounts it back to today's dollars by use of a discount rate. Discount rates for NPV calculations vary significantly, however a rate of 20-30% would be sufficient in most cases for a franchise with a proven business model.

Whilst a present value calculation is useful, it is also important to project an exit value for the business. Both of these figures when used together will provide you with a very clear picture of the investment profile. A business planning tool such as the Business Planning HQ toolkit provides simplified financials that generate both of these valuations.

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