FROM THE FRANCHISING 101 PODCAST

HOW TO BUILD A FRANCHISE PRO FORMA

The money follows the fit. That doesn't mean you ignore the money. Here's how to do the math the right way, and the questions that actually get you real answers.

There is nothing in an FDD that tells you which franchise is best for you. Nor is there anything in the FDD that tells you **how much it will cost** or **how much you can make.**

01 QUESTIONS THAT FEEL SMART, BUT AREN'T

- ***"What's your net profit?"***
  Owners often push their bottom line down on purpose, for tax reasons. It hides more than it shows.
- ***"What's your top-line revenue?"***
  Top line is vanity. A $2M business that costs $2.2M to run just lost $200K.
- ***"When and how much did you start paying yourself?"***
  Every owner pays themselves differently, if at all. That's their choice, not a benchmark for you.
- ***"When did you break even?"***
  The tricky one. Owner comp is baked in, so two owners with the same revenue can give wildly different answers.

02 WHAT THE FDD WON'T TELL YOU

ITEM 7

Costs and fees, but not all of them

- **Never bank on the low end.** You're setting yourself up for failure.
- Even the high end can mislead. Know exactly what's included in "3 months operating capital." Every franchise counts it differently.
- 3 months of capital does *not* mean break-even in 3 months. Some can. Some won't come close.

ITEM 19

Revenue, as the franchisor chooses to show it

- The franchisor decides which owners are included. Some only count the ones "following the system," who happen to be the top performers.
- It's top-line revenue. It doesn't show how the business actually makes money.

? **Will the franchisor give you a pro forma?** It's a gray area. Some share a spreadsheet of line items or formulas, but other franchisors will not. Either way, the goal should be to use these tips to **build your own.**

03 THE PRO FORMA, IN THREE STEPS

1

What does it cost to run every month, minus owner comp?

Start here, like a household budget. Leave owner pay out.

Count what's fixed: **staff, stuff** (lease, vehicles, equipment), **marketing** and **non-percentage fees.**

Remember, these are things every owner **HAS** to spend money on. They don't **HAVE** to compensate themselves.

2

How do you actually make money?

Skip the top line. Find out what each customer is worth **per month**: average project, average ticket or monthly membership value.

> **Given a yearly number? Divide by 12.**

3

How many customers to cover the bills?

Divide step 1 by step 2. That's the number that gets you to **goal #1**: the point where you stop putting your money in and the business pays for itself.

EXAMPLE: HOW TO FIGURE OUT YOUR BREAK-EVEN POINT. NUMBERS ARE FOR ILLUSTRATION ONLY.

$20,000 MONTHLY COST ÷ **$200** PER CUSTOMER / MO = **100** CUSTOMERS

Don't ask, *"When did you break even?"* Ask, **"When did you get to 100 customers?"**

Owner A: month 5. Owner B: month 6. That's real intel on your timeline, no P&L required.

REAL-WORLD LESSON

The "barely profitable" business that wasn't

A client looked at a home-service resale doing about $3M a year. The owner said net profit was around $50K. Then we asked about owner comp.

Reported net profit	~$50K
Owner comp: family salaries, vehicles, phones	~$850K
What the business really threw off	**~$1M / YR**

It cuts the other way too: 40% "profit" can just mean a spouse's paycheck covers the bills. **Take owner comp out of every number.**

TALKING TO OWNERS

Questions that get real answers

1. **"Here's my monthly cost list. Am I missing any line items?"**
2. **"Is any number way off?"** (One client budgeted $50/month for marketing. Missing two zeros.)
3. **"How do you make money?"** Average project, ticket or membership value.
4. **"When did you reach [your break-even customer count]?"**

THE LINE ITEM THAT ISN'T DOLLARS

01 **Day in the life.** What are you actually doing every day as the owner?

02 **Who you talk to.** Staff, customers, the community. What are those conversations like?

03 **The franchisor.** Leadership, culture, training, support. Are you in the right room?

If 1, 2 and 3 are in alignment and the math checks out, you're ready for **Meet the Team Day.**