

What is a Master Franchise?

Sometimes called regional or area franchises, a master franchise is a special type of franchise agreement that gives an entrepreneur the exclusive rights to sell or open a given number of franchises in a large geographical area.

Stated another way, it is the owning of the rights to develop a franchise system within a territory. The territory can be a metropolitan area, an entire state, several states or a whole country.

It is common for master franchises to encompass an area containing millions of people. In these territories, the entrepreneur who obtains the master franchise rights controls where all franchise locations will be and how many will be built; however the master franchise agreement may specify the number and a timetable for development.

This system may be one of the least known business ownership opportunities available today. The master franchise model allows the entrepreneur to develop a large business operation within a relatively short period of time with a concept that has already been developed by the franchisor. Entrepreneurs with the necessary capital and management talent can experience significant growth and value appreciation.

The investment in this type of franchise may be large, but the rewards can far exceed those of other franchise opportunities.

This is usually a low-overhead business requiring few if any employees in the beginning. With hard work and the right franchise, the territory can be methodically built into a business worth millions of dollars.

Increased Revenue Potential

As a master franchisee, the methods of generating income are expanded versus a traditional franchise. With a traditional franchise, the business owner is generally only offering the product or service directly to the end-use customer such as in a retail outlet. With a master franchise, the entrepreneur enjoys several very important advantages:

- When a master franchisee sells a franchise to a buyer in the territory, he/she receives a portion of that franchise fee. Some agreements allow the master to retain up to half of the net franchisee fee.
- The master has the option of opening their own additional franchise locations at a significantly reduced franchise fee.
- The master earns on-going monthly royalties from the services performed or products sold in the territory. Once the master has set up the franchisee, he/she receives royalty income for the rest of the life of that franchise, usually 2% to 4% of the franchisee's volume every month.
- If real estate is involved with the franchisee's location, often the master can become involved in development of sites and receive other types of real estate related income. This type of income is optional for the master franchisee.

The master's main responsibility will be to act as a business consultant to his/her franchisees and help them succeed in their own business.

These are key characteristics of the typical master franchise:

- Very few customers: The master's customers are the franchisees. The master helps support a small number of franchisees who may own several franchise units each.
- Very few employees: Typically a master franchisee will work without employees in the beginning and add staff as the business grows.

- Very little office space: Many master franchises can get started out of a home office and expand to an outside office as needed.
- Master franchisees can build equity in the business at a much faster rate than a normal business. Once a few franchises are sold or opened, the value of the business increases significantly. Not only does the master have an existing business with cash flow, but additional franchise opportunities to sell, which gives the entrepreneur a higher business valuation. Instead of the typical 2 to 3 times multiple of earnings for most business appraisals, a master franchise territory could average a valuation of between 4 to 5 times earnings.
- A master franchise entrepreneur doesn't need prior experience in the specific industry. Extensive industry specific training and support from the corporate office is included in the initial investment.

Skills Needed as a Master Franchisee

- Management or sales experience. Real life experience owning or running a business is helpful. Sales and marketing experience can also be valuable.
- Good people skills. The master will be dealing with franchisees and will need to treat them like customers, which they are.
- The ability and desire to follow a proven system. The right franchise system is fully developed for success. Don't invest in a master franchise unless you believe you can follow the company's system.
- Financially qualified. Franchise fees for a master franchise will typically range from \$150,000 to \$500,000 to invest in an exclusive area. In addition, an entrepreneur will need operating capital. Typical operating capital requirements will range from \$25,000 to \$200,000 depending on several variables.

Not all franchisors offer master franchise agreements. And some that did in the past are now sold out.