

DOCUMENT #30

The Blueprint System™ - Advanced Strategy Series

Franchise Conversion Guide

Buy independents for 3x, convert to franchise, sell for 5-6x

The Franchise Arbitrage Opportunity

- Independent businesses sell for 2.5-3.5x EBITDA
- Franchise locations sell for 4-6x EBITDA
- Conversion cost: \$50-150k typically
- Time to convert: 6-12 months
- **Instant 40-70% value increase**

Best Industries for Conversion

Industry	Top Franchises	Conversion Cost	Value Uplift
Home Services	Mr. Rooter, Aire Serv	\$75-125k	60-80%
Cleaning	Jan-Pro, Servpro	\$50-100k	50-70%

Senior Care	Home Instead, Comfort Keepers	\$100-150k	70-100%
Painting	CertaPro, Five Star	\$60-90k	40-60%
Restoration	ServiceMaster, Paul Davis	\$75-125k	60-90%
Fitness	Anytime, Orange Theory	\$150-300k	80-120%

The Conversion Decision Matrix

When Conversion Makes Sense

Business Characteristics:

- ✓ Revenue \$1-5M (franchise sweet spot)
- ✓ Single location operation
- ✓ Territory available for franchise
- ✓ Brand isn't strong locally
- ✓ Systems need improvement

Financial Requirements:

- ✓ Can afford franchise fees
- ✓ 12+ months cash runway
- ✓ EBITDA margins >10%
- ✓ Clean books and records

Franchise Economics Breakdown

Real Conversion Example

Independent Plumbing Business: – Revenue: \$2.5M – EBITDA: \$400k (16% margin) – Purchase price: \$1.2M (3x) Franchise Conversion Costs: – Initial franchise fee: \$65,000 – Training and setup: \$25,000 – Rebranding/trucks: \$40,000 – Marketing launch: \$20,000 – Working capital: \$50,000 Total conversion: \$200,000 Post-Conversion Results: – Revenue: \$3.2M (+28%) – EBITDA: \$576k (18% margin) – Ongoing royalties: 6% (\$192k) – Net EBITDA: \$384k – Value at 5x: \$1.92M **Profit: \$520k (43% ROI in 18 months)**

Franchise Selection Strategy

Evaluating Franchise Options

Factor	Weight	What to Look For
Brand Recognition	25%	National advertising, 500+ locations
Support Systems	20%	Training, marketing, operations
Territory Rights	20%	Protected area, growth potential
Fee Structure	15%	Total fees <8% of revenue
Franchisee Success	10%	Item 19 validation, profitability
Exit Flexibility	10%	Transfer rights, buyer approval

The Conversion Process

12-Month Conversion Timeline

Months 1-2: Due Diligence

- Review 5-10 franchise options
- Speak with 20+ existing franchisees
- Analyze territory availability
- Model financial projections
- Negotiate terms with franchisor

Months 3-4: Commitment

- Sign franchise agreement
- Pay initial fees
- Attend Discovery Day
- Begin training programs
- Order branded materials

Months 5-8: Transition

- Rebrand vehicles and facility
- Implement franchise systems
- Train all employees
- Launch marketing campaigns
- Transition customer communications

Months 9-12: Optimization

- Fine-tune operations
- Hit performance benchmarks
- Leverage franchise resources
- Document value creation

Hidden Costs & Considerations

What Franchisors Don't Tell You

Ongoing Fees Beyond Royalties:

- Marketing fund: 2-3% of revenue
- Technology fees: \$200-500/month
- Required vendors: 10-20% markup
- Annual conference: \$5-10k
- Mandatory upgrades: Every 5-7 years

Operational Restrictions:

- Can't offer services outside menu
- Pricing guidelines enforced
- Vendor requirements costly
- Territory limitations on growth

Negotiating with Franchisors

Conversion Incentives to Request

For Established Businesses:

- Reduced initial franchise fee (30-50% off)
- Waived royalties for 6-12 months
- Grand opening marketing support
- Accelerated training timeline
- Equipment financing assistance

Negotiation Leverage Points:

- "I'm bringing \$2M in revenue day one"
- "I have 200 commercial accounts"

- "My team is already trained"
- "I'm considering 3 other franchises"
- "I plan to buy 5 more locations"

Case Study: HVAC Conversion Success

From Mom & Pop to Aire Serv

Before Conversion:

- Bob's Heating & Air
- Revenue: \$1.8M
- EBITDA: \$270k (15%)
- 18 employees, 8 trucks
- Purchased for: \$675k (2.5x)

Conversion Process:

- Franchise fee negotiated to \$45k (usually \$65k)
- 6 months royalty waiver
- \$80k total conversion investment
- Kept "Bob" as GM with equity incentive

Results After 18 Months:

- Revenue: \$2.9M (+61%)
- EBITDA: \$464k (16% margin)
- After royalties: \$370k net
- Sold for: \$1.85M (5x multiple)
- **Total return: \$1.1M on \$755k invested (146%)**

Alternative Conversion Strategies

Beyond Traditional Franchising

Option 1: Licensing Deals

- Use brand name only
- Lower fees (2-4%)
- More operational freedom
- Less support provided

Option 2: Co-Branding

- Keep original name + franchise
- "Bob's Heating, an Aire Serv Company"
- Maintains local reputation
- Gets franchise benefits

Option 3: Master Franchise

- Buy area development rights
- Convert multiple locations
- Sell franchises to others
- Become mini-franchisor

Exit Strategy Post-Conversion

Maximizing Sale Value

Buyer Types Ranked by Price:

1. **Multi-unit franchisees:** Pay 5-6x for additions
2. **Private equity roll-ups:** Pay 4.5-5.5x at scale
3. **New franchisees:** Pay 4-5x with SBA financing

4. **Employees/managers:** Pay 3.5-4.5x with earnout

Value Drivers to Emphasize:

- Franchise validation achieved
- Systems fully implemented
- Territory growth potential
- Strong unit economics
- Transfer blessing from franchisor

Franchise Conversion Checklist

Before You Convert

Financial Analysis:

- ☐ Model 5-year P&L with franchise fees
- ☐ Calculate break-even timeline
- ☐ Verify territory demographics
- ☐ Confirm exit multiple assumptions

Due Diligence:

- ☐ Call 20+ current franchisees
- ☐ Review last 3 FDDs
- ☐ Verify Item 19 earnings claims
- ☐ Check franchisor litigation history
- ☐ Analyze franchisee turnover rate

Negotiation Prep:

- ☐ Document your business strengths
- ☐ Get competing franchise offers
- ☐ Hire franchise attorney
- ☐ Prepare for Discovery Day

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