EXPERT ADVICE

Tired of Paying Disproportionate Royalties to Corporate America?

By David E. Omholt, CFE

Have you ever considered how much you are paying/have paid in 'royalties' to your employer? It is likely very lop-sided and likely not in your favor. It is not the traditional way to think about the employer-employee relationship, but if you really stop and think about it... employees are funding the dreams and retirement plans of owners who one day decided to take a risk. They just don't call it a 'royalty', but essentially it is. The opportunity cost of not branching out can be daunting.

Really, do the math. Add up the value you bring to your employer – the sum total of the economic impact you directly or indirectly affect – and honestly ask yourself if it is commensurate with what you are paid. I doubt it. At a minimum, it will pale in comparison to the franchisor-franchisee relationship where the average royalty is between 6%-10% of a franchisee's gross revenues. Put a different way, franchisors are letting franchisees keep the "lion's share" – circa 90% -- of the money collected. The same just cannot be said for employment.

So, what other ways can one justify the risk?

What I tell people is to put a price tag on their time. What is your time 'worth'? Perhaps your baseline is what Corporate America has been paying you? In other words, if you make $100,000 annually (for round numbers sake), your time would be valued at about $8,333 per month or just under $50 per hour. Now, compare that to an average franchise fee which is around $30,000. Essentially, that means you would need to create the entire infrastructure of the franchisor – the Operations, Marketing , Financial, Technology, Legal, etc, etc, systems – in less than 4 months ($30,000 / $8,333 = 3.6 months)! I don't care how smart, ambitious, and capable one is, it is nearly impossible to replicate all the franchisor has built in such a short period. This is also not to mention the brand equity and other goodwill/soft asset elements that could also be contained therein. All told, it could take years and years! Interestingly, many franchisors readily admit that their franchise fees are not a profit center – and for some, they actually LOSE money on the front-end of the relationship (see deferred gratification principle below). So, it is dubious that someone on their own as a complete independent can get to market better-faster-cheaper than without the help of an experienced entity like the franchisor.

David Omholt is the Chief Executive Officer of eAuth.com, a franchise brokerage firm representing prospective buyers. He is a Certified Franchise Executive (CFE) and frequent speaker on talk shows, industry conferences and college campuses on the subject of Franchising. In his career, Mr. Omholt has been both a Licensor, as well as a Licensee and offers a real-world, balanced view of Franchising. Omholt can be reached at 866.246.2884 or domholt@eAuth.com

The same exercise can be done for all on-going fees that get paid to the franchisor. Ultimately, you must be convinced that what you get in return dwarf what you give them.

So it almost sounds like a 'no-brainer' when you put it into that context, huh? Yes and No. You may have justified the economic risk but you now must justify the personal risk. Each of us have thumbprints and are unique in our own right. And the same is true when it comes to our entrepreneurial make-up.

Can your eDNA bridge the eGap?

To be clear, my message is not for everyone to go out and start a business or buy a franchise. But why not, you might ask, if my enticing economic claims are true? It is simply because not everyone is 'hard-wired' with an adequate amount of eDNA (entrepreneurial Deoxyribonucleic Acid).

Now, eDNA is not an actual genetic code marker or chromosomal structure. It is simply referring to someone's entrepreneurial proclivities or 'bent'. When measured by certain personality profiling/assessment tools (e.g., eQuiz, Birkman, McQuaid to name a few), however, it can become a great leading indicator or predictive value as to whether or not a person should consider self employment/business ownership in the first place.

There are many important principles to consider before opening a franchise.

And, irrespective of whether one was born an entrepreneur or not, it still does not mean that their prior or current work environment has honed the right entrepreneurial skills. Kind of a nature versus nurture argument. The socioeconomic futurist, Carolyn Corbin, Founder of the Center for the 21st Century, wrote in her books Conquering Corporate Codependence and Great Leaders See the Future First, that, "only an estimated 10% of today's workforce is equipped to handle the new workplace being created over the next few years." And moreover, "…working in this environment requires a completely different set of skills than workers have today." Bottom line, Corporate America does not breed people to think entrepreneurially enough and that is really what is going to take to remain viable and competitive. So there is an 'eGap' of sorts that exists and that where franchising can be the bridge to the corporately-disenfranchised.

So far still so good? Good. But, a few more important principles must be stared in the face before driving across the franchise bridge.

The Ultimate Prize

For those who are inspired to shake loose from the bondages of Corporate America, you must understand, accept, and practice the principle of deferred gratification; that is, the willingness to put off the satisfaction of present desires in order for a greater gain in the future. Unfortunately though, we live in the drive-through/instant gratification society where we have come to expect immediate payback and instant success. That is just not reality in the world of small business. You have to keep your eyes on the long-term prize and be willing to forego certain things in the near-term (just as a franchisor does with their franchise fees).

While the sophomoric and uninitiated have a bias for quick cash flow and early break-even, the more savvy types understand the ultimate 'prize' is the equity you are building in your business. And that is not built in a year or two – it takes 'persistent patience' before you can cash-in and see your efforts yield the payout you had hoped. You need to have some financial staying power and even some emotional stamina.

Remember another principle: risk is like air…you need it. According to the risk-return tradeoff, invested money can render higher profits only if it is subject to the possibility of being lost. Taking on some risk is simply the price of achieving returns; therefore, if you want to make money, you can't cut out all risk. The goal instead should be to find an appropriate balance - one that generates some profit, but still allows you to sleep at night. And, I am convinced this is yet another advantage that franchising gives an investor over doing a pure start-up or other such risky independent business.

If you want to make money, you can't cut out all risk.

Is it time to Fire the Boss?

So, as they say, "You can follow your dreams, or, always find yourself working for someone that did!" And, take it from someone who 'fired the boss' about 10 years ago…the greatest risk is the one not taken. I can't imagine life having not taken some of the risks and chances I have. I am thankful for risk, strong eDNA, and a family that has supported me along the way in my entrepreneurial pursuits. It has made all the difference and allowed me to stop the insanity of paying those outrageous and imbalanced royalties to employers.