

152 TRG Transcript

Mike Stohler

What if you could be doing something smarter with your money that creates income. Now, if you're wanting to get ahead financially, and enjoy greater freedom of choice, if you want a comfortable retirement, and you know you'll have more choices, if you can do more with your money. Now, if you've wondered who else is creating ways to make their money work for them, and you want actionable ideas, with honest pros and cons, and no fluff.

Welcome to the Richard geek podcast, where you here helping people find creative ways to build wealth and financial freedom. I'm Mike Stohler. And in this podcast, you'll hear from others who are already doing these things, and learn how you can too.

Hello everybody welcome back to another episode of the Richer geek Podcast. Today we have Bob Bernotas. Bob is a franchise expert. He's president of franchise with bob.com It's a great name if your name is Bob, and you deal with franchises. He's one of the nation's top franchise consultants. He's passionate about helping people achieve greatest level of satisfaction. He's got years of experience guiding clients toward top performing franchise brands. He has personalized guidance and support throughout the entire process which is important whether you're looking for exit strategies from corporate life or semi passive opportunity. Bob's here to help you find your perfect match and create a brighter future Bob How you doing?

Bob Bernotas

Good Michael, yourself?

Mike Stohler

Yeah, not doing too bad. And you know, just trying to stay cool. So talk about you know, franchises or over the board first, you know a little bit about your history. What do you do, where you come from how you got into franchises, then we'll dig into what you do. Oh,

Bob Bernotas

my goodness, I'm not going to delve too deep, deeply into that. But let's see, I grew up in a farm. So I am a Pennsylvania farm boy, I learned my work ethic from that at the at the hand of my dad, but got into franchising pretty early beg borrow installed to get into my first one, it was a West Coast video franchise, if you remember the video industry, they

actually preceded blockbuster. And first one I opened was on waning Shelton avenues in Philadelphia. And just by sheer luck, I think I got the right location and that I opened in December of 1986. And that franchise was the top unit in the chain in January of 1987. So that allowed me to move forward and acquire some more West Coast video franchises. I think you know what happened to that industry. I fortunately sold that kind of a good time. So I was able to get out without without too much damage. But it was a nice ride. while it lasted I got involved in an independent business that I started, which didn't go as well as my franchise businesses. But then I got involved in another franchise concept called Hollywood tans and had a bunch of those in the Maryland market sold those to acquire a controlling interest of a larger chain that was based in in Sioux City, Iowa, moved to corporate headquarters to Omaha, Nebraska, because I wasn't about to live next to a pig processing processing plant in Sioux City, Iowa. But anyway, long story short, we ended up selling our company to Allah and that was a tanning tanning salon chain called tan Well, we ended up selling it to suntan city. And I moved on. And then more recently, I've been consulting for a bunch of years as well. And I acquired another franchise more recently more of a service oriented brand.

Mike Stohler

So let's talk about franchises in general. You know, we talked about some of the pros and some of the cons but why franchises you know, a lot of our listeners do passive investment or general partnership in real estate. And your focus is saying, you know, why invest in real estate because franchises outperform them? Tell us a little bit about that and why?

Bob Bernotas

Well look, you know, with real estate, depending upon the type you get into and depending upon if you're going to manage it yourself. I mean, you're at a different level with hotels, you're running a serious business with real estate, but most people and a lot of the clients that I work with, they have real estate and it could be you know, some single family homes, duplexes, multiplexes, whatever. And often they are either managing it themselves, and they're spending a lot of time doing it or they're hiring a management company to handle that to handle that for them. What I've also found with my real estate investor clients is that most are not making money. They don't have positive cash flow, because of the debt that they're carrying on it, but they're riding the equity train. And if you if they got on that train prior to COVID, and they rode the two and a half years during COVID, they're in a pretty good, pretty good place. But that's an anomaly. That's not always happening. What I like about franchising, why I counseled many of my clients that you know, it might be a better fit for them is that you can build equity so much more quickly in a franchise business. So I'll touch on that in a second. But in addition to that,

your your cash flow, I mean, if you get into right franchise to cash flow is infinitely better than what you're going to see from an ROI perspective than then with with real estate. The if you get it, but but you're, you're often trading some of your time, for a much, much better cash flow. With with semi passive franchise investing, meaning franchise companies, certain ones have set up models. And that's the trend in franchising more recently, if you go back 20 years ago, you just did not see that many of these franchises like that. The interesting trend, I'm watching franchise investors that would typically get into restaurants, difficult business, or boutique fitness, or some type of brick and mortar retail type concept, put a manager in place and manage the manager, I'm seeing a shift now from Franchise investors from that type of model into more service oriented businesses. The reason being more and more of these franchise companies have saw the light. And they have developed the tools or the platform necessary to support franchisees at a higher level. So they can get into something, maybe spend 10 1215 hours a week, getting it up and running. For the most part 99% of franchises that you launch. Even if you started on a full time basis, they will become part time and then eventually limited part time. But the semi absentee or semi passive type franchises, they developed the tools, so you can start that way. So you can build it, you can you don't have to necessarily walk away from a high income job. And that's that was really the focus of these franchise companies, they wanted to attract a higher level of investor that might be earning several \$100,000 a year, they're not going to walk away from their job, but they want to start building an exit ramp because they're also working 6070 hours a week, can't see their kids and they know they can't maintain that pace forever, if that makes sense.

Mike Stohler

Yeah, it does. You know, I, at some point, my wife was looking at franchises. And she was like, well, and she saw that the different levels there was like the super cuts, where you could just go in and buy this place, and you put the stylus in and kind of manage it. But then there was some where they actually insisted No, you have to be an owner operator. And you have to be in there. And she was like, what, why would they ever do that? That's not what franchises is about? How do you go about making sure that it is the right fit for your type of personality? Or, you know, cuz some people say, Well, this is my passion, I'm going to do a scuba diving franchise and do well. Right? Sometimes, a lot of times passions Don't, don't pan out.

Bob Bernotas

Yeah, and that's a fantastic point. I would say more often than not that that's the case. I love it when a client and I was asked a question up front of a new client that I start working with, you know, I try to I try to drill down on what's most important to them what they

want to accomplish, what their goals are in this. So I always ask the question, there's two distinctly different type of people one type of person for lack of a better term, I call them ideologues. These are people who are interested in a certain type of business, because they have a passion for it. Maybe people love their dogs. So they want to be in some pet related business. It doesn't matter to them. If they make much money doing it. As long as they can do that activity, it's going to make them happy. On the other end of the spectrum, I have what I call my show me the money people. Often franchise investors, they own other franchises, they're savvy about franchising. They're looking for ROI earnings, they don't care what the widget is, as long as it's something that's ethical provides a valued service to the community. And nine times out of 10, you're looking for something that's semi semi passive. And I always ask the client, where which which one on the spectrum Do you fall closer to? I prefer to work with the one the latter one that is looking for ROI earnings. And it's not focused on the widget because if you get into something and you probably know the book, the E Myth and it talks about this, if you get into something that you might be passionate about, you may learn to hate your passion if it becomes a grind, right? And so I I'm always cognizant of that, when talking to a candidate, if making money is important to you, let's perhaps just try to keep an open mind, put your passion on the back burner, and let's look at things first and foremost, that you're gonna be able to make a living with.

Mike Stohler

How hard is it for you too, because sometimes these franchise, the people that come to you, if they're not looking, or their passion, but one of the things is, I want to sell cupcakes, you know, for instance, and there's some franchises out there, and they want to put it in the high rent district. And I'm thinking like, how many 1000s of cupcakes do you have to sell, just to break even is that something that you guide them through, like, Look, you can't put go into a \$40 square foot place, and sell cupcakes or, you know, may not work out that way.

Bob Bernotas

Exactly. And often, it's not just 40, it's 60, it's at its \$100, a square feet, brick and mortar retail, for some concepts, it works for other concepts, it becomes a grind, because of the overhead that you are that you're carrying. Again, there's over 4000 Different franchise concepts out there. Honestly, I wouldn't go near two thirds of them, they scare me. But there's some really good concepts that people can get into if they know where to look. Now, having listened to a couple of your podcasts, you said something that was very insightful. Don't try to do this on your own when he talked about when you talked about real estate, and I would counsel anybody the same thing, it is too easy to make a mistake.

And I will tell you, if I didn't just get him lucky on my first franchise, I could have made a major mistake. I on the second franchise that I chose wasn't probably the best I if I had somebody to work with like myself that had the experience in the industry just really didn't exist back then I probably would have been a heck of a lot better off. And it's a shame because so many people get into franchising, not knowing what they're really getting into and ended up getting burned with it. But if you get into the right franchise concept, there's some phenomenal opportunities out there.

Mike Stohler

So let's talk about what your sweet zone is. You know, in your notes that are some excellent opportunities that you're seeing. You get get into for under \$200,000 in there pretty lucrative. What type of franchises are those?

Bob Bernotas

Yep, so the category that is reasonably priced, and there's great opportunities in the category is anything having to do with what's called the home service category. Now, that's a catch all category. There's things in there that are b2b. And often many of the things that are b2c also cross over into b2b. But just as an example, I have placed over the course of the last year and a half a lot of my clients into something that you want to talk about boring, it's a gutter concept, they install gutters on homes, buildings, what have you. But the average franchisee, and I can't talk about numbers on this. But if you're, they knock it out of the park. And in the investment on this concept is in that 150 to 200k range. What I like about these types of concepts is that if, for instance, if you looked at like an orange theory, or you looked at a crumble cookie, which these are two real popular franchises, right, you're going to spend somewhere between 750 to a million dollars to open one, if you open a second one 750 to a million dollars if you open a third one 750 to a million dollars, whereby I like things that are scalable, at a lower cost that you're really for instance like that, that gutter concept that I mentioned, and again, not that I'm gonna show any someone a gutter concept, but they may like it. But that gutter concept it might be 150k to open one territory up and running with that concept. The second territory with that concept is \$40,000. So you're buying a second franchise, you're just buying more dirt, a third franchise is \$30,000. So now you tripled the size of your territory, in effect tripling what your financial upside can be. And you have by scaling that way horizontally scaling, you just created something that can outperform an orange theory that you would have spent much more money for. But then there's also with this with this category of franchising and opportunity to scale vertically. Now what I mean by that is some One can decide that let's say you're two years into operating your gutter business and you decide, You know what I want to watch another business, I develop this customer base that knows

and trusts my first brand, I want to introduce another concept to them. You can add a second franchise, let's say, for lack of a better one, a fencing concept and just superimpose it, you buy the same territory with the fencing franchise superimposed on the same landmass, introduce that concept to the customer base that already knows trust your first concept, you're gaining economies of scale, your cost of customer acquisition is going down, you're just running a more efficient business now you can start to scale into multiple concepts over time. That's where I'm seeing the real movement with franchise investors. savvy people been in franchising used to be just brick and mortar retail now, seismic shift coming over to categories like that.

Mike Stohler

And I think that's an important concept, especially if you don't have to just spend so much upfront in you know, let's discuss a little bit about when she was looking at my wife was looking at franchises, I was just amazed of the franchise costs, you know, just the nickel and diming every month, and then marketing in the national sales and marketing and then tech support and just it just went on and on and on and on. On the nickel and diming. How can you, you know, talk a little bit about that. And in how you overcome that or like, you know, go ahead,

Bob Bernotas

it's that great point. And that is often a stumbling block with a lot of my clients. But it really depends upon the franchise, because some companies, they they overcharge fees, there's just too much in it. But the ones that do it right, those types of fees are pastors, they're not making money on those things. Okay, they're doing if you had to go out and acquire those services to do the same things that these franchise companies are providing to you, you would typically pay much more as an example. A lot of companies now have set up national call centers. So let's say for instance, with that gutter concept, again, just an example. You plug into their prescribed marketing and advertising, they already have down to a science they know works, the phone starts to ring the email start to come in rather than you having staff that answers the phone, you can't do it with one person, you need redundancy, you need the cover all the hours people get sick people leave. So you need multiple people to do that. So what this company does is they have a national call center. So all those calls and emails go directly to the call center, the call center monotype turns that into a an appointment for your salesperson, they're on the same software platform that you have, they see the schedule your salesperson or your salespeople, they schedule for them, your salesperson goes out wins the job, and schedules the labor. So that's one example. Another example would be there's a one of the companies that I work with, they have seven brands in their portfolio, or service

related brands, but they they literally bought their own recruiting company. So they charge a fee of \$2,000 upfront and 1995 up front. And I actually had a recruiter who who came into that system became a franchisee with them. And she said that would have cost me 20 \$25,000 to hire the people through an agency that they just brought to me for \$2,000. So you gain economies of scale, the better companies those types of things are just purely pass throughs they're not they're not making money on it, the better franchise companies make money in really in one area and that's their, that's their royalty fee that they charge. Most companies are actually losing money up front, the ones that are doing it right because of what it takes to launch a new franchise a new franchisee because the resources and the investment they need to make into the franchisee as time goes on a year or two years down the line. They're putting very little effort into them at that point.

Mike Stohler

Yeah, and that makes sense. It's it's the investment upfront for these people. And they want you to succeed because of the cost of of training.

Bob Bernotas

Correct and they have a vested interest in your success. I mean, they're they're earning their their money based on the volume that you do. So if they're, you know, considering a couple different franchisees in for the same market, which often happens with the ones that are selling quickly. They're going to choose to franchisee or a prospective franchisee that they feel can generate \$3 million from this territory as opposed to the one that they feel would generate maybe \$1 million from this territory. And that's where I can help candidates that I work with. I've been in the industry forever. These franchise companies know me they want to keep me Happy to, and they want me to keep continue to bring people to them. So often my candidates will get first preference over if I run into a competitive situation for a territory my candidate usually went out.

Mike Stohler

So let's talk about your website and everybody it is franchise with bob.com. We've been talking about some franchises, we've been talking about some pros and cons, let's talk about what you do. If one of our listeners says, hey, I want to talk with Bob, let's talk about your program. And what happens when someone reaches out to you?

Bob Bernotas

Okay, well, anybody can go to my website franchise with bob.com. And just they can schedule a call with me, the first call that I typically spend with with a candidate is getting to know you call 20 to 30 minutes. And that's exactly what it is getting to know you call, I'm trying to assess your situation to see if it makes sense for us to work together. First of all, my service is free to any candidate that I work with, I'm actually if you qualify, and we work together, my service is free. I'm compensated by franchise companies for bringing qualified candidates to them. If you can imagine, most of these companies or a lot of them, they advertise online on portals, they pay to be on portals, 95% of the people coming to them through their portals end up not being qualified. So the better companies typically work with someone like me, because anybody I put in front of them, they will be fully qualified for their, for their concept. And so if you're a candidate that I work with, and we take you through the process, and they approve you for a franchise, and you go forward with the franchise, then they will compensate me at the at the end of that that process. So to answer your question, if I engage with someone, if it makes sense for us to work together, we'll probably spend 8 10 12, maybe 14 weeks together, okay, and I take you through a structured process, the first step is a confidential questionnaire, it's going to take you maybe 20 30 minutes to complete, but that gives me the initial information I need on a candidate to start doing my job properly, we would schedule a consultation, which would spend about an hour on a zoom call together. And I will review the confidential questionnaire to gather lots of questions for you. I'm basically building a profile of who you are. So once that call is completed, I digest all the information that I collected, I put together usually a two or three page profile, I use that to start matching people with with concepts that I think will be a good fit, I may start out with my several dozen different concepts that I think will be a good fit, and I do my territory checks in the area, I actually have a list of what I consider my favorite, some of my favorite brands that I would consider investing in and there's 71, I think on that list now, and again, I'm on the far right is a list. Roi. Earnings don't care what the widget is looking for semi absentee, as long as it's ethical provides a valued service to the community. So I automatically do a check on my top brands that I really like. And then I also include brands that that my candidate steering me towards. So then on the next zoom call that we do an outline typically will take about 75 minutes, I'll probably have it narrowed down to maybe a half dozen or so brands that I will introduce to them. On that call, we'll go through each brand that will have sent them to them in an email prior to the call. We'll review each one, I'll answer any questions they have on those brands, I'll give you my opinion on the brands. And then we'll try to isolate it down to start with maybe two, possibly three to take a deeper dive into. And then once we do that, I make an introduction to those I introduce my candidate to those brands, which means I send them a set of brands information on my candidate, I also call the brands and explain why this candidate is going to make a great asset to the organization because I'm trying to position them to be approved by the franchise, the company will

reach out to the candidate right away by email, they'll send them a calendar link to schedule a time for a zoom time, but they'll set up a whole bunch of information that they can review in the meantime, once they engage with the brand and they start to go through a discovery process to learn about the brand and for the brand to learn about them. I'm talking to my candidate, usually a couple of times a week, we're just talking on a regular basis. That's why I really can't take on too many candidates at once. It becomes kind of overwhelming for me. So I tried to keep it to a to a limit of a reasonable amount. And, and consequently, you know, I also want to work with people I like and so if we click, I'll work with a candidate if if they don't appreciate what I'm bringing to the table, then I often don't because again I mean this is such a value You bought a valuable service. I wish I had it when I broke into franchising, and it's absolutely free to them.

Mike Stohler

Yeah, and you know, why not do it right? It's like what I always say about the mentor ship and and, you know, just business consultants, all this sort of stuff. You need to get help. Because you're they're going to spend money one way you're going to spend money the other way. And I'd rather spend money winning

instead of failing. Speaking of failing, industry news, things like that, say most a great percentage of people that go into franchising fail. various reasons, what are some of the reasons that you see that maybe you can tell our listeners is like, look, you know, this is why people fail. This is what you need to do to make sure that to help you succeed.

Bob Bernotas

Okay, so let's touch on that that's important. From a statistical standpoint, there was a study done by Chamber of Commerce a number of years back, and they basically tracked a whole bunch of independent mom and pop businesses that all open around the same time they tracked him for a five year period. They concurrently tract a whole bunch of franchises, different franchises that open around that same period of time for that same concurrent five year period. At the end of five years, the independent businesses 48% Were still up and operating, which actually surprised me I didn't think was going to be that high of the franchises 97% Were actually still in operation. Now. Some of them have turned over and had different ownership at that point, but still 97% Were still in operation. Now. Some may have not have not been making money at that point. Some may have been breaking breaking even. It's it is easy to make a mistake and choose the right franchise chose the wrong franchise, but there are incredibly strong opportunities as well. The reason why people fail in franchising, if it's a good system. And a preponderance of

franchisees are succeeding in that system and a reason somebody fails, there's either there's some extenuating circumstances, there's illness, there's divorce, there's death, I actually had a candidate, you know, God bless his soul, we he died, he signed up for a franchise died, and his wife didn't want to run it. And she contacted me right away, and we helped her get it, get it sold. But if it's if it's a reputable company with a strong model, there's no way that you shouldn't succeed if the preponderance of franchisees are succeeding unless, and the companies are also, the better ones are pretty selective with who they accept as franchisees, I mean, often people get get turned down by it. So if they think you can succeed, and you have the capital to do this properly, they will they'll approve, you

Mike Stohler

know, in any type of business, when you go into working for yourself, you need a team. And I'm a big proponent of a team, what kind of team do franchise owners need? That day one you need, you know, the bookkeeper, the accounting, the attorney, you know, these type of team? And where is that checklist to kind of like, make sure hey, you got to have this insurance. You got to do this. You got to have wrecked accounting? What are some of the who are the team members that franchise owners need?

Bob Bernotas

Yeah, well, it's a great question. Also, I mean, I always have some franchise attorneys, I always recommend more for peace of mind and anything else franchise companies aren't going to make changes to their to their franchise agreement. In some cases, when it comes to territory, there may be some negotiating room and so forth. But it's always good to talk with a franchise attorney, just so if nothing else for peace of mind, you do not want to use an attorney that's not a franchise attorney, you'll end up spending more money because they're going to educate themselves on your dime. And often they're going to make mistakes. So use a franchising attorney and accountant evaluating the business I would say not so much I think a good accountant once you get into the business so you can maximize the tax ramifications of having a business and obviously there's a lot of benefit to being able to tax benefits to having a business. But the franchise companies also the better ones, they will have a list they'll have a whole bunch of people that they will connect you with or or I should say, you know, partners that they're going to connect you with in franchising today is a business at a box at least with the better companies. Anything that you could possibly think of In terms of setting up an entity, and they will give you guidance with that, and I can certainly give guidance with that. I mean, it might be some differences in the entity you set up depending upon how your capital, you're capitalizing your company. For instance, if you're going to if you're going to do a 401 K, rollover, basically take funds from

your 401 K or an IRA if eligible to do it. Without extracting fun, you're basically rolling funds from your your 401 k or IRA into a business without taxation without penalty without interest, but it has to be done in a certain way. It has to roll into a C Corp. So there's entities that will help you set that up, and then make sure you stay in compliance with it. Did I answer your question? That I ramble? Yeah,

Mike Stohler

no, no, you did. I was just seeing how it compared because you know, a lot of people, when they go into business for themselves, I need to save money. So they try to do everything themselves. And they don't delegate and that gets a lot of people in trouble. Yeah, it causes burnout. Yep,

Bob Bernotas

absolutely, absolutely. The better franchise companies, the last thing they want you doing is whatever the service actually is, they want you scaling, building and scaling a business. If you I'll give you a perfect example. I mean, you go back 30 years, there was a great company, a very, very successful service company in franchising, called certain CertaPro Painters. They, their initial model, was to seek out painters and make them franchisees, they quickly discovered, that was a horrible idea. painters did not make good franchisees. So then they reset, looked at their model evaluated and reset and decided, hey, we're just gonna look for smart people that have people skills that have the financial wherewithal to, to execute upon our model. And they're driven people, their their concept just blew up after that. And they were wildly wildly successful. And the companies that the last thing you want to do is be chained to whatever the business is. I mean, look, what I do now with with, that's why I also invest in franchises because I want to eventually back off what I'm doing because this is linear income. When I do it, I make money. If I stopped doing it, I stopped making money when you're doing a job. You're making money. When you stopped doing it, you stopped making money with a franchise, the whole point is, in my opinion, get it launched, they've you put some time into it to get it going. But as you as it develops, you're putting less and less time into it and you're scaling it larger and larger. Yeah,

Mike Stohler

that makes a lot of sense, Bob. So where else can people find you?

Bob Bernotas

Just simply go to my website at [franchise with bob.com](http://franchisewithbob.com). You can book right on there some time with me if you want to have a discussion. We'll spend 2030 minutes together, we'll assess your situation pretty quickly, and we'll see if it makes sense for us to work together if we do. If it makes sense. We'll embark on a journey for the next 810 1214 weeks and hopefully we can find you really something great in franchising. So

Mike Stohler

you everybody you know, don't do it yourself. Don't wonder what kind of franchises if you're interested. Even in the concept of possibly owning franchises, why not get a free consultation with Bob at [franchise with bob.com](http://franchisewithbob.com) Just alleviate some of the questions, you know, and it may persuade you to not do it or to do it. But anyway, always get help with the experts. Bob, I appreciate you coming on today. Thanks for tuning in to the richer geek podcast, where we're helping others find creative ways to build wealth and financial freedom. For today's show notes, including all the links and resources from our show, and more information about our guests, visit us at www.therichergeek/podcast. And don't forget to jump over to Apple podcasts, Google Play Stitcher, or wherever you get your podcasts and hit the subscribe button. Share with others who could benefit from listening and leave a rating and review to get the podcast in front of your eyes. I appreciate you and thanks for listening