REGIONAL DEVELOPMENT

The Superior Option for Building Wealth in Franchising

WHAT IS A "REGIONAL DEVELOPER?

A Regional Developer (or RD) is an entrepreneur who purchases the exclusive rights to a large regional territory. The RD recruits new franchisees and helps them open their locations in this exclusive territory, following an agreed upon schedule. The RD is trained by the Franchisor in how to perform the various services to be provided to these franchisees. The RD typically opens a pilot unit, hires a manager to operate it, and uses the pilot unit as a showcase for the operation of the business in the local market.

WHY IS "RD" THE SUPERIOR FRANCHISE BUSINESS INVESTMENT VEHICLE?

This is due to the superior "return on investment" potential that regional development offers. The RD usually receives revenue from *multiple* revenue streams, which can include: 1) revenue from the RD's pilot unit, 2) typically 50% of the initial franchise fees paid by franchisees, and 3) typically 50% of the ongoing royalty fees paid by franchisees in the RD's region over the 10-20 year life of such businesses. These and other key features of the Regional Development business model are listed below:

- Operates with a limited number of customers.
- Operates with a small number of employees (eventually 2-4).
- Operates with minimal or no rent expense.
- Operates with little or no inventory expense.
- RD's own a large (often very large) exclusive geographic territory.
- RD's can personally open additional locations in their regions at a reduced cost – to keep or sell later as an existing business, at a substantially higher price.
- RD's typically pay half of the initial franchise fee and ongoing royalties on any additional units they personally open and operate.
- RD's typically receive 50% of the initial franchise fees paid by new franchisees opening in the RD's regional territory.
- RD's receive an ongoing "lifetime" royalty income stream, typically 50% – for the life of each of the franchised businesses location within their territory.
- RD's may choose to hire a general manager and step out of day-to-day involvement in the business, after the initial start-up phase.
- RD is an established business development and operations vehicle. Some of the largest and most successful franchise systems have grown using regional development (Century 21, McDonalds, Subway, etc.).
- Due to the nature of a particular business, some franchise systems may offer other revenue streams to the RD, in addition to those mentioned above.

WHAT IS THE "INVESTMENT VERSUS ROI" PICTURE FOR RD?

Let's look at an example of a hypothetical territory fee of $200K, for a hypothetical market population of 3,000,000. This $200K Territory Fee includes the pilot unit's initial franchise fee of $40K, which results in a net investment cost of $160K ($200k minus $40k) for the RD "side" of the business. Now, on the next page, let's examine the RD's potential return on this $160K from two of the revenue streams in this hypothetical example: initial fees and ongoing royalties.

The RD's revenue streams typically include: 1) 50% of the Initial Franchise Fees paid by new franchisees in the region, and 2) 50% of the Ongoing Royalties paid, as this example illustrates:

Initial Franchise Fees		**Ongoing Royalties**	
$40K	Single Unit Franchise Fee	6%	Single Unit Royalty
x 50%	RD's Percentage	x 50%	RD's Percentage
$20K	RD's Revenue Per Unit	3%	RD's Portion
x	Number Units Deve. in Region	x $	Annual Unit Sales Volume
=	RD's Gross "Up-Front" Revenue	=	RD's Revenue, Per Unit, Per Year

As the above illustrates, the RD's recruitment of franchisees can generate significant front end revenue, helping support the early stage of development of the business. And next, to determine the RD's ongoing royalty revenue, simply multiply expected gross revenue from individual units by 3%, and then, multiply the result by the number of units to be opened in the region. This exercise demonstrates that it is possible for a successful regional developer to enjoy a significant ROI. And, regions typically contain from 25 or 30, to as many as 50 or 60 units, or more.

OWNING A REGIONAL DEVELOPMENT BUSINESS, VERSUS OWNING A FRANCHISE UNIT:

Let's examine two other approaches to examining this same hypothetical franchise: 1) comparing the investment cost of a single successful franchised unit, to the investment required to be an RD in this same franchise system, and 2) some of the operating "mechanics" of each approach:

Unit	Investment Comparison	RD
$300K	Cost to Open the Doors	$260K
$50K	Working Capital	$50K
$0	Additional Working Cap.	$50k
$0	Territory Fee	$200K
$350K	**Total Investment**	**$560K**

Unit	Operating Results Comparison	RD
Generates Unit Revenue		Generates Unit Revenue
Pays 6% Roy. on Unit Sales		Pays 3% Roy. on Unit Sales
Pays Typical Retail Rent		Little or No Rent Expense
Pays Typical Inventory Costs		Little or No Inventory Costs
N/A		Receives 50% of Fran. Fees
N/A		Receives 50% of Roy. Fees
Single Revenue Stream		Multiple Revenue Streams

SUMMARY: It must be noted here that the information above provides a very simplified example of the start-up and operation of a regional development business. The investment costs will vary depending on the nature of the franchise business. However, it is also clear that for the additional investment, the RD has the opportunity to reap a higher return, and build a business that not only can provide a superior income stream, but create a source of long term revenue which can make a positive impact on a family's financial future for generations to come. And, for the capable entrepreneur, investing in and operating a regional development business can be viewed as an attractive alternative investment to the stock market and/or real estate - one that remains under the control of the regional developer.