AFH SENIOR CARE AREA DEVELOPER

THE SUPERIOR OPTION FOR BUILDING WEALTH IN FRANCHISING

What is an Area Developer?

An Area Developer (or AD) is an entrepreneur who purchases the exclusive rights to a large regional territory. The AD recruits new franchisees and helps them open their locations in this exclusive territory, following an agreed upon schedule. The AD is trained by the Franchisor in how to perform the various services to be provided to these franchisees. The AD may but is not required to open 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 “AD” the superior franchise business investment vehicle?

This is due to the superior “return on investment” potential that Area Development offers. The AD usually receives revenue from multiple revenue streams, which can include: 1) revenue from the AD’s pilot unit, 2) typically 50% of the initial franchise fees paid by franchisees, and 3) typically 45% of the ongoing royalty fees paid by franchisees in the AD’s region over the 10-20 year life of such businesses. These and other key features of the Area Development business model are listed below:

Operates with a limited number of customers.

Operates with a limited number of employees (eventually 2 - 4).

Operates with minimal or no rent expense.

Operates with minimal or no inventory expense.

AD’s own a large exclusive georgaphic territory.

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AD'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.

AD's typically receive 50% of the initial franchise fees paid by new franchisees opening in the AD's regional territory.

AD's receive an ongoing "lifetime" royalty income stream, typically 45% – for the life of each of the franchised businesses location within their territory.

AD'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.

AD is an established business development and operations vehicle. Some of the largest and most successful franchise systems have grown using Area Development (Century 21, McDonalds, Subway, etc.).

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

Let's look at an example of a territory fee of $375K, for a market population of 250,000. This $375K Territory Fee includes the pilot unit's initial franchise fee of $50K, which results in a net investment cost of $325K ($200k minus $40k) for the AD "side" of the business.

The AD's revenue streams typically include: 1) 50% of the Initial Franchise Fees paid by new franchisees in the region, and 2) 45% of the Ongoing Royalties paid, as this example illustrates:

Initial Franchise Fees		Ongoing Royalties	
	$50,000 Single unit franchise fee		8% Single unit royalty
X	50% AD's percentage	X	45% AD's percentage
	$25,000 AD's revenue per unit		3.6% AD's portion
X	Number of units in region	X	$ Annual unite sale volume
=	AD's gross "up-front revenue"	=	AD's revenue, per unit, per year

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As the above illustrates, the AD’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 AD’s ongoing royalty revenue, simply multiply expected gross revenue from individual units by 3.6%, 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 Area Developer to enjoy a significant ROI. And, regions typically contain from 25 or more.

OWNING AN AREA 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 AD in this same franchise system, and 2) some of the operating “mechanics” of each approach:

INVESTMENT COMPARISON

Unit		Area Developer
$350,000	**Cost to open the doors**	$0
$50,000	**Working capital**	$100,000
$0	**Territory fee**	$375,000
$350,000	**Total investment**	$475,000

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OPERATING RESULTS COMPARISON

Unit	Area Developer
Generates unit revenue	Generates unit revenue
Pays 8% royalties on unit sales	Pays 3.6% royalties on unit sales
Pays typical retail rent	Little or no rent expense
Pays typical inventory costs	Little or no inventory costs
N / A	Recieves 50% of franchise fees
N / A	Recieves 45% of royalty 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 Area 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 AD 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 Area 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 Area Developer.

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