Buying a Franchise as an EB-5 Investor

Are you a prospective EB-5 investor who is considering purchasing a franchise? Franchise investments are a great alternative to starting a business from scratch. While starting a business is never risk-free, franchise owners benefit from the ease of selling an established product with brand-name recognition. It is important for prospective EB-5 investors to understand the many benefits and drawbacks of pursuing a franchise investment.

What is a franchise?

Let's start with the basics. In a franchise arrangement, the franchiser grants a franchisee the right to use its trademark or trade name along with certain business systems and processes. The franchisee produces and markets goods or services according to the franchiser's specifications. The franchisee pays an upfront fee to the franchiser, in addition to a percentage of sales revenue ("royalty") on an ongoing basis. Franchisees are typically responsible for a defined geographical area or territory. A franchise agreement governs the franchiser-franchisee relationship.

Are franchises eligible for EB-5 investment?

The short answer is yes. Establishing a franchise creates jobs in the same way that any new small business would.

However, a franchise investment is not eligible for affiliation with an EB-5 Regional Center. This is an important distinction. Investment through a Regional Center requires a minimum capital contribution of typically $500,000, while direct investment, such as through a franchise, requires a minimum investment of $1,000,000. Regional Center-facilitated investments include both direct and indirect jobs when determining the total number of jobs created, while direct investments include only direct jobs in the calculation.

Franchise benefits vs. drawbacks

The capital and jobs requirements of the EB-5 program are important to consider, as are the many benefits and constraints of owning a franchise. Let's start with the benefits:

- *Brand-name recognition:* Franchise owners immediately benefit from the widespread recognition of the franchise brand.
- *Proven products or services:* Franchisees are selling products or services that have been thoroughly tested and proven by the franchiser.
- *Standardized plans & procedures:* Franchisers typically provide detailed construction plans and standard operating procedures to guide franchisees, not only during initial construction but also on an ongoing basis.
- *Employee training protocols:* Franchisers usually provide franchisees with detailed protocols to assist with employee training.
- *Ongoing product and marketing support:* Franchisers will sometimes release product improvements or updates, in addition to engaging in marketing activities on a nationwide basis.

Like anything, owning a franchise has certain disadvantages. To name a few:

- *Hefty franchise fees:* The upfront fees charged by franchisers can vary a lot, but typically fall in the range of $20,000 to $50,000. Franchisers also collect a portion of franchisees' sales revenues, usually in the range of two to twenty percent, on a recurring basis.

- *Limited autonomy:* Franchisees are obligated to adhere to the many standards and procedures established by the franchiser. While some franchise owners may appreciate receiving extensive professional guidance, others resent the limited autonomy.
- *Finite growth potential:* Franchisers usually assign a defined regional territory to franchisees. Franchisees may be very successful within this defined territory but have limited ability to grow further into new geographical areas.

Contact us!

Want to learn more about EB-5 franchise investments? EB-5 Affiliate Network can help. Contact us today!