

P R O S P E R I T A S

EUGEN KLEIN REAL ESTATE BROKERAGE & MARKETING SYSTEMS

DECEMBER 2004

BUYING A BUSINESS: FRANCHISES & MLMs

CORPORATE FINANCE PART III

Editorial



I want to take this opportunity to extend to all of you my deepest wish that you should have a very Merry and Blessed Christmas.

This is one of those occasions when we take time off to devote special time to those people – our family, relatives, and friends – who we do not always have the time to present our full attention during the busy working year. It is also a good time to remember those who are less fortunate. Donations of blankets, supplies, or non-perishable items to the Sisters of Charity, Food Bank, or other charitable organizations are to be greatly commended.

In the final article of this year, I take a look at franchises and MLMs (pyramid marketing schemes). While the former are considerably more reliable than the latter, both are often alternatives that appeal to novices in the business world – so I hope you will forgive the negative and cautionary tone, and let it not dampen your Christmas cheer.

As always, you are welcome to contact me any time with your questions and concerns regarding the disposition of your commercial investments or businesses. ■

Eugen L. Klein
B.Comm (UREC), CRES, ARM®, RI, FRI
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Two common mistakes made by naive buyers are the purchase of a worthless franchise or any network multi-level marketing (MLM) “opportunity”. There are legitimate franchises which are a reasonable investment of time and money; there are few legitimate network marketing companies. The vast majority of MLMs follows business principles which are completely unsound.

A good franchise should give you instant market position and/or a protected territory, proven operational systems with excellent long term support, a proprietary technology, and perhaps even some financing. The support is especially important for those franchises which portray themselves as “home-based businesses”.

The long term value of a good franchise should take into account the demographic trends of its location in addition to the information received from the franchisor. If possible, one should look at case studies of similar franchises in similar locations to be able to realistically evaluate the potential. Meet with other franchisees

DON'T FEED THE BEARS.

By Eugen Klein, B.Comm(UREC), CRES, ARM®, RI, FRI
Real Estate Broker

to check the legitimacy of franchisor projections against real income and expense numbers. If you are buying an existing franchise you can usually count on the revenues remaining very steady.

The best franchises will have already done most of your planning and set up for you, and will pre-screen both you and your suggested location to ensure it will be successful (so that you can produce stable revenues for them). Be aware that some franchises are extremely selective with the people they will allow to own one of their businesses – you want to be aware of this when you are planning your exit strategy.

Something to avoid at all costs: “network marketing” or “multi-level marketing” (MLM). “Businesses” that require you to resell the opportunity to your friends and neighbours to build a multi-level organization are more ill advised than a bad franchise. The failure rate for MLMs approaches 100%.

Most network MLMs sell “unique” products. Understand that these are products which could not make it in the normal retail distribution channels.

(continued on page 4)

T E S T I M O N I A L S

“We are writing to you to express our gratitude for your significant contribution to the MLS link project. For the first time in our history, REBGV will be implementing a new MLS system. This project will be the most important change in services REBGV has made on the way members do their business”

Bill Binnie
2002 President, Real Estate
Board of Greater Vancouver

“Rarely does someone come along who attacks life and business with such zeal. I have been a commercial real estate agent for the past 16 years and have only met a handful of people with Eugen’s credentials. I have no compunction about sending any of my clients or referrals to Eugen as I know they will be well served.”

Mr. B. Mark Thiessen
Prairie Region Director, National
Commercial Council, CREA

“I take this opportunity to express my sincere appreciation to you for continuing to send me your ‘Prosperitas’ newsletters. Your writings are always a great read ... concise and yet very informative. Your articles in the Real Estate Magazine (REM) have also not gone unnoticed...”

Wayne Yu, CCIM, FRI, CLO, CRES, RI
President, Real Estate Institute of
Canada, Greater Vancouver Chapter

“I have known Eugen Klein for approximately fifteen years. I am impressed by his commitment to life and all its opportunities and challenges. By my experience he is hard working, honest, intelligent, sincere and courteous.”

John Windsor, R.I.(B.C.), F.R.I.C.S.
President, North American Property
Corporation

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Goddard & Smith
International Realty Inc.





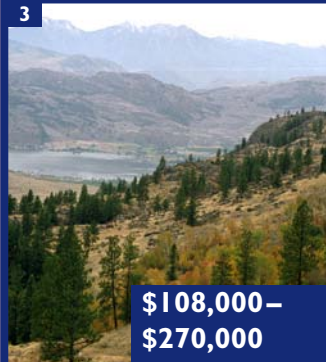
FEATURED PROPERTY

LANGLEY PUB & SPORTS BAR

Popular nightclub/sports bar
 Just undergone extensive renovations
 Fantastic location; seats 280; 8000 sq. ft.
 Revenues ~ \$80,000 /month
\$399,000



\$590,000



\$108,000 – \$270,000



\$325,000



\$10,500,000 (USD)



\$2,000,000



\$15 - \$18 psf



\$56,000



\$10,000



\$668,000

- 2. 16785 104TH AVENUE**
 Surrey; vacant land in developing residential area – strip mall or office low rise use. 0.39 acres.
- 3. REGAL RIDGE ESTATES**
 Stunning views; vacant, fully serviced 3.2 acre recreational lots, Osoyoos BC. Paved roads, new commercial 2.5 acre lots ready.
- 4. 7937 ENTERPRISE ROAD**
 Chilliwack; 50,000 sq. ft. lot in new business park. Wide variety of uses, close to hwy, visibility, easy access.
- 5. 45 ACRES MANUFACTURING**
 Best manufacturing land available in Blaine, WA. Junction I-5 & Pacific Hwy; truck stop, manufacturing, duty free potential. Border proximity, 10 parcels all serviced.
- 6. PUB & SPORTS BAR**
 Greater Vancouver Pub & Liquor Store, only liquor store in area. Near sky train & hi-density development.
- 7. WHISTLER LEASE SPACES**
 30,000 sq. ft. light industrial/service retail space: 17 units, varying size, \$15 - \$18 psf. Located just off Hwy 99 in Function Junction, Whistler.
- 8. SEAFOOD RESTAURANT**
 Heart of Walnut Grove; 50 seats & patio. Sales average \$700 per day, open for breakfast, lunch & takeout.
- 9. GLOBAL SAFE DEALERSHIP**
 Cleaning & safety product endorsed by top insurers – reduces slip fall claims. Profit \$1 per sq. ft. treated.
- 10. HOPE RESIDENTIAL LAND**
 Waterfront development property on Fraser River near Hope. Land fully serviced, excellent views. Perfect for hotel/motel or mobile home park.

This communication is not intended to induce a breach of already listed properties or businesses. All information must be verified by the purchaser. Images are representative only.

COMMUNITY

My 'Community' section is dedicated to the extraordinary people who have contributed to my life with exceptional service. I would like to share my good fortune of knowing them with you. Please feel free to convey my recommendation.

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CHARTERED ACCOUNTANT
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CIBC RESIDENTIAL FINANCE
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CIBC RESIDENTIAL FINANCE
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DIGITAL PRINTING
 Mr. Jason Romo
 Vancouver (604) 420-3400

FEATURED PROPERTY

20512 64TH AVENUE

Langley industrial lot for lease.
3.74 acre lot available for lease.

\$1.50 per sq. ft.



12. RESIDENTIAL TOWER DEVELOPMENT

Strip mall for redevelopment into com/res tower, 15+ stories. 360 views (Vancouver & Puget Sound), prime location with highest elevation.

13. FRASER VALLEY RESIDENTIAL LAND

View property overlooking Fraser River; 30+ acres, serviced, zoned for 100+ units.

14. DETACHED BUILDINGS, CHILLIWACK

Live/work includes 3 separate buildings: rancher, 2000 sq. ft. offices and 4600 sq. ft. warehouse.

15. 5471 VIOLA STREET

Chilliwack; central Vedder Crossing. Rental income is \$1050 per month. 1110 sq. ft. priced to sell

16. 44290 YALE ROAD

Warehouse strata units in industrial section of Chilliwack; Yale Rd; next to hwy. 6000 sq. ft. total. Excellent location.

17. 19360 64TH AVENUE

Surrey. Good neighbourhood, close to all amenities, 2044 sq. ft. incl. 900 sq. ft. 2 bdrm suite, currently vacant.

18. #103 - 8988 FRASERTON COURT

In South Burnaby Business Park; 2,109 sq. ft. incl. 606 sq. ft. mezzanine. Currently in use as high tech music studio.

19. LANGLEY BURGER JOINT

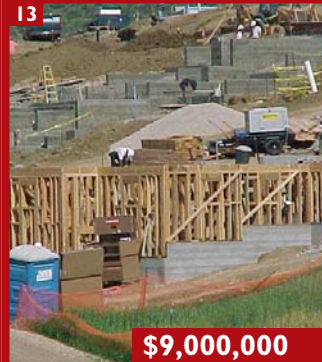
Very popular drive-in, downtown Langley. B liquor license, 52 patio+ 38 indoor seating. Owner will stay to train.

20. FOUR STAR RESORT

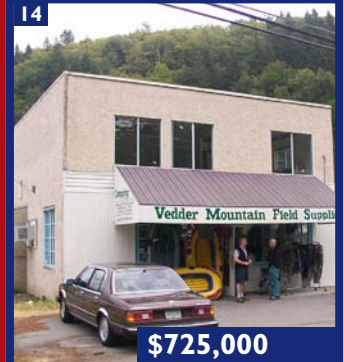
18.73 acres; restaurant, pub, 33 rooms, indoor swimming pool, cabins, strong revenue growth third straight year.



\$13,000,000



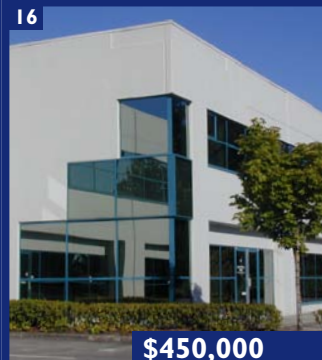
\$9,000,000



\$725,000



\$145,000



\$450,000



\$395,000



\$425,000



\$125,000



\$4,250,000

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Financing Partners

Corporate Finance III – More Tiered Financing



Editor's Note: This is the third in a series of articles on corporate finance.

Reasons to Use the Tiered Approach

Here are some other reasons why this tiered approach to financing is a good strategy:

Reduce credit risk

Over exposure to any one financial institution can lead to financial constraints that ultimately limit growth and leave you wondering who is really in control of your business. Most business loans today are on a demand basis, regardless of term or amortization and can get called with little advance warning. As a result, the best time to establish a new banking relationship is when you do not need one. Multiple banking relationships build in financial flexibility with future alternatives.

Stability

Today's financial institutions experience fast paced changes to their policies as well as frequent movement of branch managers. Financing stability can be improved through using multiple financial suppliers.

Niche lenders and products

Specialty lenders can sometimes provide financing programs better suited to the business with terms and conditions that are focused and specific to the industry the business operates in. As well, these lenders know the industry they operate in and are not so quick to panic when the industry experiences a downturn.

Availability in access and ease of process

With the advent of new technology and the Internet, financing a business is as close as the computer. New web based services



give instant access, to both the entrepreneur and accountant, to a multiple range of lenders and financing products. And this can be done without ever leaving the office.

More Options, Better Choices

With specialization and niche lending come new and innovative terms and conditions. With increased competition from the new emerging players come better products with better features.

Current bank facility at maximum

Current bank facilities could be stretched to the maximum and yet the business needs additional capital to operate. The bank may not be in the position to satisfy all the requirements of the business because they may have loaned the maximum amount their lending policies allow. This is where alternatives and the niche lenders can play a significant role.

Improve average cost of funds

The accountant should always be on the lookout for opportunities to reduce the average cost of funds to the business. Refinancing is often a case of replacing existing debt with new terms and conditions, including rate, so that at the end of the day both cost and cash flow have been improved.

Improve security

Financing is not always about money. It could simply be about changing, reducing, or eliminating the old security arrangements. Examples of this would be removing personal guarantees or removing principal residence collateral.

Industry and economic fluctuations

Industry and economic fluctuations can affect banking relationships. Lending is all about risk. When banks get overexposed in certain industries, everyone in that industry experiences a tightening of lending policies. Compare the "fast and furious" financing practices of the high tech industry in 1999 to financing a high tech company today.

Fitting the Pieces of the Puzzle Together

Successful financing is a puzzle with many pieces and therefore, developing structure for a proposed financing program is critical to success. What is crucial is identifying and matching the:

- Purpose - to the Product
- Product - to the Asset
- Asset - to the Lender
- Lender - to the Industry

By doing this, the financing proposal now becomes a crucial component in every business plan.

Mark Eikeland, CGA, is president and founder of NetFinance.ca, an on-line full service corporate finance resource for accountants and accounting firms throughout BC and Alberta. This area of his practice focuses specifically on corporate finance, and is where clients are assisted in financing their start-up, acquisition, re-organization, and expansion plans. Visit NetFinance.ca for more information.

(continued from page 1)

Hence the need for a pyramid scheme which locks you into a vertical structure and forces you to spend most of your time seeking out and indoctrinating new members, rather than marketing and selling your product. Don't believe that it's a part time effort. No start up is ever part time. The only way an MLM works is if you get in early, recruit others and sell hard during the early growth curve, then bail out before the inevitable crash. This is not a good way to build a business career but it is a great way to hurt people you are close to.

Remember that in the end, your revenues and those of all the people above and below you in the chain must come from product sales. If your attraction to the business has more to do with the idea of skimming margins off other people's sales than a genuine interest in the product line, what makes you think your business can possibly succeed? It is bad enough to mistake personal enthusiasm for a product for general market appeal; it is consummate inanity to base revenues on a product in which you yourself have no confidence.

If you want to sell products, buy a retail store. The margins are better and you won't alienate your friends and relatives. To get other people to sell for you so that you can make money from their efforts, hire salespeople for your store. That's the way it is done in the legitimate world of business. ■

INVESTMENT ■ BUSINESS BROKERAGE ■ SITE SELECTION ■ ASSEMBLY



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