

SO YOU WANT TO FRANCHISE?

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I. Why Franchise?

Your business is a success. You have a devoted clientele, a popular product and a proven system. Perhaps you've considered expanding your business by opening additional locations. Several obstacles stand in your way, however. You don't have the time to manage a second (or third, or fourth) location and you're hesitant to risk your existing business by diverting capital to a new business. By franchising your business, you can overcome both of these obstacles. By franchising, you sell certain licensing rights to a third party who will use those rights to open their own business.

One out of every ten businesses in the U.S. is a franchise, and there are over 600,000 franchised businesses in the U.S. franchisors and franchisees have a lot to offer each other.

II. Advantages and Disadvantages

- Revenue Streams
- Control over New Franchises
- Bigger and Better
- Disadvantages

You already know what you have to offer potential franchisees – a successful business model and known product. What can a franchisee offer in return?

By franchising, you can expand your business without relying entirely on your own resources. He or she will provide the capital to start the business and the dedicated management to get it up and running.

A franchisee will have a vested interest in promoting your brand and making their franchise as profitable as possible. They will work hard to maximize efficiency.

Benefits to Franchisees:

- The right to use the franchisor's trademark or service mark
- The right to use your business's image (including trade dress and décor)

- Your method of business

Benefits to Franchisors:

- Revenue from fees
- Expansion with few costs and little risk
- Control over many aspects of the way the franchisee operates his or her business

Revenue Streams

Most franchisors collect several fees from their franchisees, including an initial franchise fee, a royalty fee (usually monthly) and an advertising fee. You can also develop private-label products that your franchisees purchase from you. You may also be able to work out an agreement with the supplier of those products and receive other benefits, such as rebates or a marketing allowance. You may also lease equipment to your franchisees or offer special operating assistance for a fee. In exchange for an option fee, you could offer your franchisees in the option to purchase additional franchises in other territories.

Control over New Franchises

Almost all franchisors set standards and specifications that govern the important elements of the franchise's operation. This includes:

- Products and services your franchisees sell
- Size and appearance of the business location
- Training of employees
- Advertising and promotion
- Territories in which franchisees may operate

Most franchise agreements also include covenants not to compete, restrictions on their use of your confidential information and right of first refusal to purchase the franchisee's business.

Bigger and Better

Expanding your business through franchisees will also give you increased brand name recognition and increased buying power in your area and possibly nationally.

Your franchising agreement will specify that your franchisees put a certain percentage of their gross revenue into an advertising fund. This will allow the franchise to purchase more and better advertising in your area, which will benefit the entire business and franchise system.

Each franchise will need nearly identical products. As your franchises purchase more of these products, you may be able to negotiate lower prices.

Disadvantages of Franchising

Low profits during early stages of new franchises – New franchises will need time to grow. Don't expect an instant return on your investment.

Careful supervision of first franchises – While your system may work in theory, your first few franchisees will put it to the test. Be ready to refine your process and the resources you offer your franchisees.

Legal expenses

If you plan to franchise in multiple states, you may face various legal expenses in order to properly register or qualify your franchise. Each state has different legal requirements. Duell Law Firm, located in Birmingham, Alabama has over thirty years of experience.

Failures

While the majority of franchisees are happy with their investment, there will be some who are not, resulting in additional legal costs to sever the franchise relationship. **An experienced franchise attorney can help you craft agreements that will provide you with some protection when these situations arise.**

III. Questions to Ask Before Franchising

- Is My Business Ready to Franchise?
- Am I Ready to Manage a Franchise?
- What Do Franchisees Want in a Franchise?

Is My Business Ready to Franchise?

Franchisees won't have your experience to guide them. You'll have to provide a lot of support and guidance to new franchisees. Most importantly, is your business easy to replicate and are you willing to teach others how to do it.

Standardized goods and services – Each of your franchises must reliably deliver the same product. For example, all of a restaurant's franchises must use the same amounts and types of ingredients.

Standardized skills – Ideally, employees should be able to move laterally among your franchises with a minimum of upheaval. Each employee should be trained to perform the same tasks in the same way. A good franchise provides quality resources such as training seminars and manuals.

Standardized Operating Procedure – While your customers will never see them, your operating procedures are as important as the products you offer.

These include:

- Product preparation and delivery
- Bookkeeping
- Accounting
- Advertising
- Hiring

Am I Ready to Manage a Franchise?

Are you prepared to manage a larger organization? Can you leave the management of franchises in the hands of franchisees?

As a business owner, you may have spent years immersed in the day-to-day tasks and operations of your business. You've made purchasing decisions, both major and minor. You've dealt one-on-one with customers and suppliers. You've interviewed, hired and trained your staff. When problems arose, you were probably just a phone call away if you weren't already on site. When you franchise, that will change. Most of your tasks will focus on leading and organizing your growing business.

What Do Franchisees Want in a Franchise?

Consider your business from the franchisee's perspective. Savvy franchisees (the kind of franchisees you want) want a franchise that:

- Offers a distinctive product
- Returns reliable, consistent revenues
- Provides a reliable, easily-taught system
- Requires start-up costs in proportion to the risk involved
- Transfers readily to another city, state or even country

IV. Steps to Begin Franchising

- Review Your Business Plan
- Consider Your Image
- Examine the area Market
- Seek Legal Advice
- Build a Solid Support Structure
- Locate Potential Franchisees

Review Your Business Plan

Convert your existing business plan into a franchise plan. This should include:

- Company review – Where is your business today and how did it get there?
- Current products – What products does your company offer and why?
- Current market – Analyze the current market in your area and surrounding states and your place within it.
- Future market – How do you expect the market to change, and how have you prepared for those changes?
- Five-year plan – Where will your company be in five years and how will you get there?
- Growth – How do you expect your business to grow, and how have you prepared for that?
- Costs – Detail your expected costs.

Consider Your Image

Examine your business's 'look', including logo, employee uniforms, packaging and location layout. Can it be replicated? Does it offer universal appeal? Does it 'match' your product?

Ideally, your business's look will communicate important facts about your product instantly to the consumer. For example, businesses offering medical services, such as optometrists and dentists, often have a medical look and feel to them. The employees often wear uniforms that resemble a doctor's lab coat or a nurse's scrubs. Most likely, the optometrist's logo will feature eyes or glasses and the dentist's will feature teeth. These sorts of businesses strive for a look and feel that projects confidence and competence. A standardized appearance is an important part of the franchise package. You might find it hard to sell a great franchise with a quality product if your look doesn't elicit the right feelings in your potential franchisees and customers.

Examine the Market

Study successful franchises, especially those in your industry. Visit your public library or the internet resources and more information about the different franchises that are already successful. Why are these businesses successful? Do you have something to offer this market? What costs are involved?

Seek Legal Advice

Franchising is highly regulated and very complex. An experienced franchise attorney such as Richard Duell, III of Duell Law Firm in Birmingham, Alabama is essential to help you structure your operation and avoid legal difficulties with state and federal agencies. An experienced attorney will be an asset to your franchise as well as to you. Your franchisees may also seek clarification of the particulars of any agreements from their legal advisor.

Your franchise attorney will assist you with many aspects of your new franchise including:

- Registration of your trademarks or service marks and your intellectual property
- Entity selection and formation for your franchise company
- Development of your franchise documents, including:
- A Franchise Disclosure Document (commonly referred to as a FDD)
- A franchise agreement

In order to prepare these documents, you will need to gather some information:

- Background information about your business
- Background information about your primary officers
- Projected initial fees, including monthly fees, franchising fees and royalties
- Estimated average, maximum and minimum start-up costs
- Advertising requirements
- Required suppliers

Build a Solid Support Structure

Most franchisees choose to buy a franchise rather than starting an independent business because franchising offers far less risk. Part of the appeal of a franchise is the resources it can offer franchisees.

Franchise development team – You should have a team ready to offer on-site assistance to each new franchise for the first week or two of its operation. Your team should be courteous, professional and well-informed about all aspects of your business. This team will be the main point-of-contact between you and your franchisees.

Training program – This can include seminars, manuals, videos and other teaching tools. Be prepared to revise these materials during the early stages of franchising.

Financial assistance – Your franchisees may need some help financing their purchase. Many successful franchises offer a variety of financial solutions to help promising franchises get started.

Ongoing support – Ideally, there should be frequent communication between franchisees and the home office. A successful franchise is prepared to offer continued support throughout the life of the franchisor/franchisee relationship. This might include financial assistance, further training or support during a crisis.

Locate Potential Franchisees – Your first few franchisees are, in some ways, the most critical. They need to have the skills to help them over the rough spots in your system. As a franchisor, you will need successful franchisees to attract additional franchisees, as well as provide revenue to continue to expand your business. Call Duell Law Firm in Birmingham, Alabama for more professional information.

Your pool of potential franchisees will be determined by several factors:

- Skills required
- Cost to purchase a franchise
- Training time required
- Income potential

As a general rule, it's in your best interests to have the large pool of candidates available to you. This will allow you to charge higher fees and to choose quality franchisees. You can expand this pool by standardizing the requirements and offering assistance.

V. Conclusion

Franchising your business is a tremendous step, and one that should be taken only after careful consideration and thorough preparation. By combining your well-established business with motivation and the capital of individual entrepreneurs, everyone involved can reap the benefits.

Don't be afraid to seek advice. Franchising is a huge industry (with franchises of its own). Experienced franchise attorneys, consultants and other professionals can help you take your business to the next level.

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