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# *9 Things to Know Before Franchising*

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## 9 things to know before franchising

Franchising has a long, strong history of growth and job creation and includes highly recognizable brands. Franchising dates back to the 1850s and, by the 1950s, franchising experienced explosive growth by some of the strongest brands still around today.

A study conducted by the International Franchise Association in 2007 substantiated the tremendous growth franchising has had over the past four or five decades. The study found that nearly 828,138 franchises in 300 lines of business generated over \$2 trillion to the US economy in 2007<sup>1</sup>.

Franchising can be a road to financial success, provided the franchisor approaches the process with realistic expectations and a sound business concept. In this guide, we outline nine basic aspects of your existing business that are essential to begin franchising.

### Start with a proven track record

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Working out the details of a successful business yourself through experience, trial and error, and planning is the primary process to developing a franchise concept. Think of your initial business as a laboratory to test all aspects of operations, management and marketing until perfected. Once you reach a sustainable level of revenue and profitability, you then have a proven track record for others to replicate.

The best mentor for future franchisees will be you, with the success you have maintained over several years. After all, your ultimate success as a franchisor is tied to the individual successes of your franchisees.

Would your current track record present well to franchise prospects?

### Create a unique concept

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There is an interesting duality in franchising. The concept must feel familiar to both prospective franchisees and to those who will be their customers and, at the same time, must be unique.

Differentiation can come in the form of pricing, operations or marketing. Regardless of your strength, be the best and make it a unique value proposition for customers and prospective franchisees.

How is your concept unique and how will you describe it in a compelling way to future franchisees?

## Make your idea repeatable

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If you have a profitable track record with a unique or strong business concept, the next step is to determine whether the idea can be duplicated and standardized. In other words, can the concept be repeated with minimal modification as new franchise locations are launched?

What are the most identifiable elements of your franchise concept? Can you consistently implement these elements regardless of the franchisee and the location chosen? What systems can be standardized at the start to make it easy for franchisees to function and easy for the franchise operation to keep tabs on all the franchisees? What do you need to design into your franchise plans to ensure the execution of your franchise concept is as flawless as possible? Making alterations to design, advertising or the basic business structure will get increasingly difficult as you add franchises.

Small mistakes get replicated if initial planning is poor.

What can you do today to ensure individual franchises can be consistently duplicated and standardized?

## Protect your intellectual property from the start

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If you haven't protected your company name, logo, branding or other unique business features, you must do so immediately before launching into the franchising process. The wisest avenue when protecting your intellectual property is engaging an attorney who can assist with proper protection before your documents are drafted and filed. This step will also alert you if you are inadvertently infringing on someone else's intellectual property. Proper protection will minimize potential future legal disputes over intellectual property with franchisees and outside parties.

Before you mention your franchising ideas, take this precaution. There is no quicker way to lose control of your idea, than to put it out publicly without strong legal protection.

What steps have you taken to protect your intellectual property?

## Create a cash reserve for the launch

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Unlike creating a chain system on your own, expansion through franchising can be a lower cost way to grow, but it is certainly not a zero cost way to grow.

The amount you'll need may be much less than the capital you would need to expand your business as a chain because the franchisees provide much of the capital over time. But, you will need a capital reserve to launch your franchise to cover new expenses for accounting support and

systems, legal counsel for initial documentation and ongoing support, and marketing professionals as well as a franchisee sales system, and franchisee support and training programs.

With each franchise unit sale, you will start generating upfront fees and, eventually, royalty payments. Until sales and royalties are steadily underway, however, you'll need a cash reserve sufficient to survive while you sell your concept only to ideal franchisees. It takes time to gain traction in the marketplace. And, it takes a bit of financial wherewithal to not panic and sell to the wrong types of franchisees.

What do you anticipate as an adequate cash reserve?

## Understand your ideal franchisee

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If you're thinking about franchising, it's likely you would consider yourself an entrepreneur. As such, you may have risked quite a bit to start and grow your business.

Successful franchisees, on the other hand, probably like to follow rules, have step-by-step procedures, and want a formula for success. Whereas you created a proven business concept and unique market position, franchisees are willing to pay you for your systems and for taking much of the risk out of going into business for themselves.

Your successful franchisee will have characteristics and work habits different than yours and you need to fully explore who you think would best implement your systems. Remember, the creation was yours, the initial implementation was yours, but the ongoing growth of the idea will be in the hands of franchisees.

By the time new franchisors invest years building a successful business, take the time to create a franchise concept and get the paperwork in order to launch it, they are chomping at the bit to sell their first franchises. Without a system for selecting ideal franchisees, this anxiety to sell can cause the franchisor to make mistakes with long-lasting effects. Saying "No" to prospects who don't measure up to your expectations is equal to or more important than saying "Yes."

Create a profile for an ideal franchisee and stick to it—you'll be glad you did. Successful franchisees will pay more royalties, may need less hand-holding, will become part of your marketing strength and may buy additional units for their own business growth.

What personal characteristics, work ethic and attitude do you think are necessary to be successful in your franchise system?

## Develop a strong management team

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Moving from successful business owner to the role of franchisor means you'll be engaged in very different activities than the day-to-day operations of your business. You'll focus primarily on selling and supporting franchised operations.

Having a top-notch management team in place to operate your existing business while you concentrate on launching and operating the franchise system will be important to the ongoing success of your original business and to the new franchise system. In addition, you'll likely need expertise for the franchise operation in areas not currently your strengths, which may include sales, training, daily support, accounting and marketing.

Who do you need to surround yourself with so you can focus on the critical tasks of launching and operating a franchise system?

## Avoid franchisee disputes with solid strategic thinking

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From a franchisee point-of-view, buying a franchise is a great way to instantly be in business with a successful concept. Once established, however, some franchisees begin to resent the ongoing royalty payments and systematized structure. They may feel they can run the business better or cheaper themselves; they may begin to stray from the rules.

Beyond the required state and federal documentation needed to register and sell franchises, a skilled franchise attorney can guide you through the decisions necessary to mitigate future disputes with franchisees and outline how conflicts will be resolved.

In what areas do you imagine you might have potential disputes with new or long-time franchisees?

## Invest in training and support

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Though household names today, some early franchisors experienced growing pains as the focus shifted from supporting a few franchisees to selling many new franchises. Take a lesson from this playbook and balance your sales efforts with an investment in training and ongoing support to nurture the individual growth of each existing franchise.

The more resources you provide to franchisees to enhance their success, the more success you may realize. And, what better way to enhance your sales efforts than to make existing franchisees successful and knowledgeable in all facets of the business? Some customers will have such a good experience, they will want to buy their own franchise.

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The resources you provide franchisees may include training programs, site selection criteria, operations and employee manuals, advertising guidelines and other systematic methods for franchisees to best take advantage of the intellectual property you have developed.

The support you provide and the training you implement will instill quality control processes at the unit level and will create uniform methods of service. Customers should have the same expectations and experiences, regardless of the franchisee they do business with or visit.

What areas of training and support do you need to focus on now?

## For more information

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Developing a solid franchise concept hinges on several factors and requires a significant and knowledgeable attention to detail. The upfront strategies you put in place will affect your business and your personal success for many years to come. It's worth the time and diligence to do it right.

Have questions? Contact the attorneys at Kirton McConkie at (801) 328-3600 or via email at:

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<sup>i</sup> International Franchise Association, Economic Impact of Franchised Businesses, Volume 3, 2007