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## Newsletter, June 2009

### Should You Franchise Your Business?

Clients frequently ask me what I think about the franchising of their business. I respond with a scary discussion of the costs of setting up a franchise system. I can't help it – the client sees the upside of franchising, but it's my job to see the downside including the costs and risks. This article will be no different. To help you decide whether you want to invest your time and money in franchising, I will summarize up-front for you the costs and risks.

The core concept is this: A franchise system must succeed on two levels. First, the franchisor must create a viable business model, and second the franchisor must sell the model to franchisees. Most business owners have such difficulty at the first level – creating and maintaining a viable business – that they can't move on to the second level. Once at the second level – selling the business model to franchisees – a business owner will find a very competitive franchise market. There are many franchise owners out there competing for franchisees to buy into their system.

I counsel business owners to only consider franchising after they have proven their business model. It makes sense for the franchisor to first accomplish the first level – creating a viable business – because few potential franchisees will want to buy into a franchise system without a record of sustainable success. Once the business model is proven, the franchisor can move to the second level and sell franchises.

As a potential franchisor you should consider whether your business model can succeed without your unique qualities (such as special skill-sets, know-how or just extreme willpower, all of which the ordinary franchisee might lack). Consider also whether the business model can succeed in other markets, whether the business model has a profit margin sufficient to support the franchisee after payment of franchise fees, and whether the franchise system can offer ongoing benefits to keep the established franchisee in the system once the business is established.

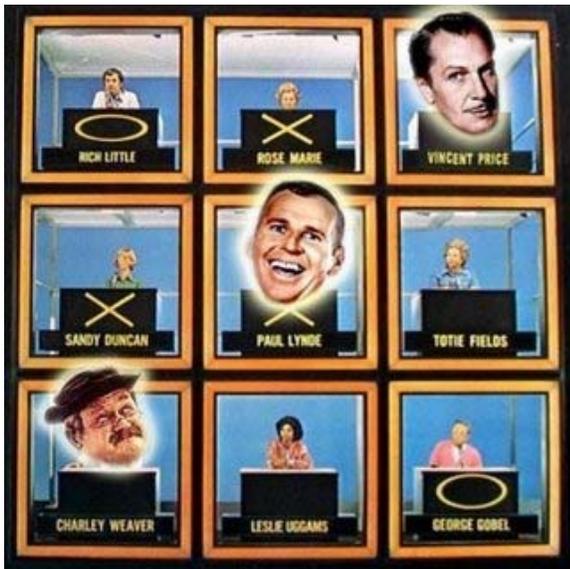
Just as important, you need to seriously consider whether you have the capital to launch a franchise system. A franchise system frequently needs at least \$50,000 in start-up costs plus additional capital to satisfy state regulators. Also think hard whether your existing business can survive while you are spending your time and resources on the franchise system.

I don't want to scare you away, but franchising gets harder before it gets easier. Initially you must sell your first franchise, which is the hardest sale. After that your job gets harder, not easier. Now you are responsible for your franchisees – they have invested their life savings in the franchise and they depend on you to help them succeed. This adds a moral dimension to your responsibilities.

So how do you make the decision whether or not to franchise your business? In sum, think first about your business, and whether the business has proven itself successful enough for franchising. Think second about yourself, and whether you can commit the money, time and energy required for franchising.

If you've read this far and still feel confident in your business system, franchising might be right for you. Remember that the decision to franchise is very complex and draws on many specialists, from lawyers to accountants to financial planners to franchise consultants. Please do your homework.

## Funny Papers – The Hollywood Squares



All questions are from the host, Peter Marshall, and all answers are spontaneous:

Q. If you're going to make a parachute jump, at least how high should you be?

A. Charley Weaver: Three days of steady drinking should do it.

Q. You've been having trouble going to sleep. Are you probably a man or a woman?

A. Don Knotts: That's what's been keeping me awake.

Q. According to Cosmopolitan, if you meet a stranger at a party and you think that he is attractive, is it okay to come out and ask him if he's married?

A.. Rose Marie: No wait until morning.

Q. Which of your five senses tends to diminish as you get older?

A. Charley Weaver: My sense of decency.

Q. Charley, you've just decided to grow strawberries. Are you going to get any during the first year?

A. Charley Weaver: Of course not, I'm too busy growing strawberries.

Q. When you pat a dog on its head he will wag his tail. What will a goose do?

A. Paul Lynde: Make him bark?

Q. Who stays pregnant for a longer period of time, your wife or your elephant?

A. Paul Lynde: Who told you about my elephant?

Q. Jackie Gleason recently revealed that he firmly believes in them and has actually seen them on at least two occasions. What are they?

A. Charley Weaver: His feet.