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Making legal matters easy and economical for your business

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### How to Start a Franchise System, Part 1

This is part one of a two part series on starting a franchise system. In these two articles I discuss seven basic steps in setting up your franchise system. The basic steps are writing a business plan → researching your competition → protecting your trademarks → legal compliance → sketching out your franchise system → saving money → getting help.

Without further ado, here are the basic steps in starting your franchise system.

**Step One – Business Plan.** I know you are tired of hearing about business plans and perhaps this is a disappointing way for me to begin the article. But I believe that a business plan is a great way to think through your venture. This is the place to start.

**Step Two – Cheat.** Research your competition on the internet and copy what they do best. Some call it cheating; I call it research. I recommend that you read your competition's Uniform Franchise Disclosure Documents (commonly called the UFOC). The ideas you take from your competitors' UFOCs will save you time, energy and resources. It is one of the best investments you can make in setting up your franchise system.

To do this, use the California Department of Corporation's Cal-EASI [free](#) online database of franchise registrations. If you don't mind paying a little more for your data, go to [frandata.com](#) or [franchisehelp.com](#). These latter sites sell UFOC copies.

**Step Three – Protect your Trademarks.** Take the necessary steps to protect your franchise identity by registering your trademarks with the U.S. Patent and Trademark Office. This work includes investigating who else might be using the same or similar names and logos. Start your trademark registration early because a trademark can take months to obtain and sometimes longer. You need to have your franchise name trademarked before you invest significant time and money into the venture.

**Step Four – Legal Compliance.** A franchisor is faced with a large volume of state and federal laws, and you will need to understand and be in compliance with these laws before offering or selling any franchise to anyone. Among numerous other requirements, you must have a UFOC to deliver to your franchisees. You must register the franchise in certain states, for example, California.

In addition, you probably want to form a new legal entity to be the franchisor, most likely a corporation or LLC. A new entity will reduce your liability. A new entity as the franchisor might also reduce the cost of getting audited financial statements, which will be required for your UFOC. A new entity has no history for the accountant to grapple with, hence permits a faster and cheaper audit.

So there you have steps 1-4 (writing a business plan → researching your competition → protecting your trademarks → legal compliance). Next month, in part two of this series, I will sketch a basic outline of a franchise system and discuss the start-up capital you'll need.

And now for my standard pitch... This article only scratches the surface of franchising. There is much more for you to do than I introduce here. Be sure to get the legal, accounting, tax and other help you need to do the job right. You can call me if you have any questions.

## Ideas

Ben Franklin was smooth. Seeking a second term as clerk, he was opposed by a rich and talented new assembly member who proposed a different candidate for the post. Franklin won the job, but he didn't like the threat that the member would pose to his pocketbook in the future. Rather than gaining the man's favor by paying servile respect, however, Franklin wrote a note asking to borrow "a certain very scarce and curious book" that he knew the rich man owned. The man sent the book immediately. Franklin read it and returned it a week later with another note, this one "expressing strongly" his "sense of the favor." The assemblyman "ever afterwards manifested a readiness" to serve Franklin and remained a lifelong friend. It was another instance, Franklin believed, of the truth that "he that hath once done you a Kindness will be more ready to do you another, than he whom you yourself have obliged."

## Funny Papers

Whenever a friend succeeds, a little something in me dies. – Gore Vidal.

It is better to take what does not belong to you than to let it lie around neglected. – Mark Twain.

Politics is not a bad profession. If you succeed, there are many rewards. If you disgrace yourself, you can always write a book. – Ronald Reagan.

TEACHER: Clyde, your composition on "My Dog" is exactly the same as your brother's. Did you copy his?

CLYDE: No, teacher, it's the same dog.