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How to Start a Franchise System, Part 2

This is part two of a two-part series on starting a franchise system. In these articles I discuss seven basic steps in setting up your franchise system. Last month I gave you steps 1-4, which are: write a business plan → research your competition → protect your trademarks → legal compliance.

Here are steps 5-7, that is, sketch out your franchise system → save money → get help.

Sketch out the Franchise System (Step Four). In step one, you wrote an initial business plan. Now you go back to the plan to cover these issues:

- *Who are your Franchisees?* Consider the basic characteristics of your preferred franchisees, including the minimum capital they need to operate a franchise. Once you know what your franchisees look like, you know how to market to them.
- *Franchise Fees and Terms.* Think through the basic terms of each franchise, including the fee structure, when the franchise term expires, the demands you make of franchisees, and the ongoing value you provide to franchisees to keep them in the system. Consider also some type of advertising fund that franchisees pay into for advertising of the brand.
- *Operations.* Systemize franchisee operations. These include the policies, procedures and standards that every franchisee will follow. Usually you write the system down in an operations manual. The operations manual teaches the franchisee how to set up and run the business.
- *Training Program.* Create a training program that teaches the franchisees how to operate the system. Some training programs last a few days and others last a few months. Training can be done in the classroom, online or on-the-job, depending on your system.
- *Management.* Your franchisees need on-going support. You must have capable management to do this work, including site selection, lease negotiations, staff recruiting, staff training, marketing, customer service, etc. You also must inspect your franchised units periodically to make sure that the franchisees are following your system standards.

- *Marketing Plan.* A franchisor makes money from selling franchises, so you need a plan for marketing the franchise system. Franchise advertising is regulated in some states, for example, California, so be sure to consult a franchise lawyer early in this process.

Step Six – Save Your Money. You need money to start a new franchise. Some experts say that you need from \$50,000 to \$250,000 to get started. Why so much? First, you have start-up costs. These include the normal expenses of starting a business, plus franchise-related costs e.g. marketing, state registrations and special legal and accounting work. Second, some states require that your financial statements show a certain amount of liquid capital, usually a minimum \$25,000, or sometimes 2X the initial franchise fee.

Although it's possible to start a franchise roll-out on the cheap, it's not a good idea. Franchising is a pay-to-play game. Pay what it takes to do the job right.

Step Seven – Get Help. You cannot set up a franchise system alone. At a minimum you need a CPA plus a business lawyer with franchise experience. You probably need a financial planner, franchise consultant, marketing specialist and internet advertising specialist as well. If you remember one thing only from this article, let it be this: When setting up a franchise system, don't be cheap, do it right. You can call me if you have any questions.

Ideas

From Princeton economist Alan Blinder about how the labor market of the next decades won't necessarily be divided between the highly educated and the less-educated: "The critical divide in the future may instead be between those types of work that are easily deliverable through a wire (or via wireless connections) with little or no diminution in quality and those that are not... You can't hammer a nail over the Internet." Matt's take: If you have a skill that can't be exported overseas, done with an algorithm, or downloaded, you always stand a decent chance of making money. The skill can be blue collar or white collar, it makes no difference. We all know about rich plumbers. Practice a trade, be self-sufficient, have autonomy in life.

Funny Papers

