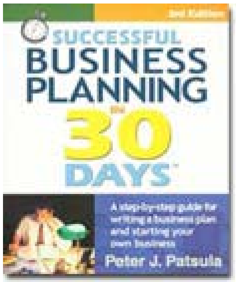
The ENTREPRENUER'S Guidebook Series™

Next Page

THANKS for selecting this guidebook! Many hours of painstaking work have gone into its creation. Send feedback or suggestions to www.patsulamedia.com. And check out our **highly rated planner / guide …** at bp30.com



Highly Rated
Amazon.com

It's one of the best of its kind.
- Alan Caruba
Bookview.com

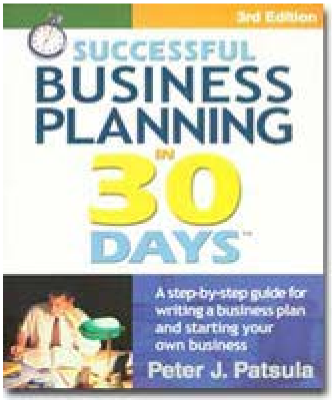
COPYRIGHT INFO

384 pages $21.95

Successful Business Planning in 30 Days™

A Step-by-Step Guide for Writing a Business Plan and Starting Your Own Business, **3rd Edition**

Purchase this book online at bp30.com or by calling toll-free **1-800-247-6553** (orders only, please have credit card ready).



ISBN 0967840236

Immersing you in the language of business to help you think like an entrepreneur!

INCLUDES:

- The **30 Day** Business Plan™
- The **One Day** Business Plan™
- 150 pages of **Time-Saving Worksheets** including 100 + sample passages to get you started fast and thinking in the right direction!
- A **15 page** sample business plan.
- **200** + motivational and fact quotes, 11 success stories, and 33 profit tips!

Praise from Readers and Critics

Five Star Reviews ★★★★★

Provides an important key to writing a business plan and starting your own business.
\- **Midwest Book Review**, Oregon, WI
Amazon.com review

This is a must read for anyone before starting your own business.
\- **Mike Milliken**, BN.com Review.

This book has helped me a great deal in thinking about my business
\- **Jason Myers**, TX
Amazon.com review

PERSONAL PLANNING

Guidebook #76:

Franchising Your Operations 3

What is a Franchise? **4**

Types of Franchises 5

How to Franchise Your Operations **6**

The Franchise Package 6

The Franchise Contract 7

The Franchise Disclosure Document 12

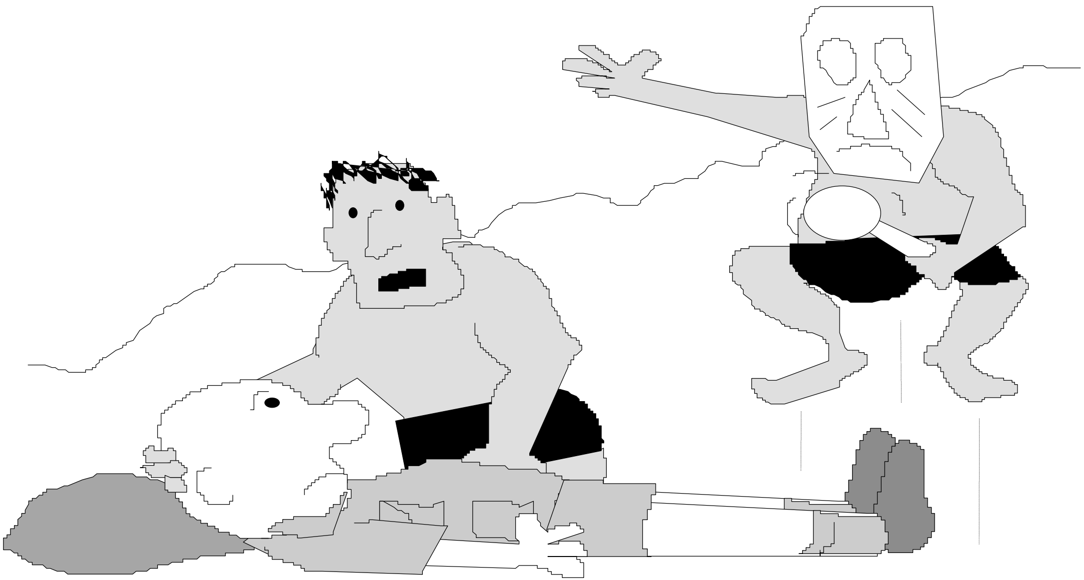
Promoting Your Franchise **14**

Promoting the Benefits of Owning a Franchise 14

Alleviating the Fears of Owning a Franchise 16

Selecting the Right Franchisee **20**

Getting More Information 20



"He says he can franchise your business no problem, but if you want hair on your head, we'll have to sacrifice a virgin."

FRANCHISING YOUR OPERATIONS

FOR over 30 years, franchising has been well promoted, from the $1,000 to $5,000 bookkeeping and tax service, to the $150,000 to $500,000 convenience store or fast food operation. In its basic form, it is an arrangement whereby new entrepreneurs lease the name of, and secure the operating know-how of other more experienced entrepreneurs.

The main advantage of franchising your operations to other entrepreneurs, rather than adding your own outlets, is that it allows you to expand your operations without risking too much of your own capital. You get a legion of ambitious owners who want to succeed just as much as you want them to succeed.

The value of the franchise to the franchisee is that it gives the new owner the safety of an already publicly accepted product or service as well as access to your managerial experience.

WHAT IS A FRANCHISE?

TO SET-UP a franchised business, a license must be granted by your company - the *franchiser* - to an individual or firm - the *franchisee* - to own and operate a business similar to yours under certain terms and conditions as outlined by the license.

The license may give rights for the franchisee to use your name, tradenames, trademarks, service marks and/or advertising symbols, as well as your service, promotion, selling, distribution, and display methods. It may also define a specific, limited territory within which the franchisee may operate, participate in your promotion programs, sell your products and have access to your support and training. Fees are normally based on an initial amount and a royalty or percentage of future sales.

NOTE The term *license* is often used for a franchise when the franchiser does not

The Franchising Concept

THE FRANCHISE concept is simple to grasp. The *franchisee*, a new entrepreneur, signs a contract with you the *franchisor*, a successful franchising company. This contract spells out the terms and conditions under which they are permitted to operate a *franchise* of your business – a unit of a large chain. The contract is a license to operate under your present corporate trade name, and in accordance with your policies and marketing procedures.

want to use the terms "franchise" or "franchising contract."

Types of Franchises

There are two basic types of franchises:

- product/trade name franchising
- business format franchising

In the first form, a franchisor owns the right to use a name or trade name, and sells that right to a franchisee. This is known as “product/trade name franchising.”

BY the year 2000, according to the Washington-based Naisbitt Group (Mega trends), franchising volume should reach $705 billion. About 2000 companies currently issue franchises in the United States (South Korea has Pizza Huts, Wendy’s, 7-11’s and KFCs). Already franchises employ more than 5.6 million full- and part-time workers (1985).
FUNFACT

In a more complex form, called “business format franchising,” a broader and ongoing relationship exists between the two parties. Here, the franchisor may also provide a full range of services, including site selection, training, product supply, marketing plans, and even financing. The franchisee may also be required to sells goods or services supplied by the franchisor or those that meet the franchisor’s quality standards.

HOW TO FRANCHISE YOUR OPERATIONS

IF YOU have a successful business with unique or particularly salable methods, products, and or services, you may want to consider franchising your business to others – i.e., cloning your operations. Presumably you can pass on the fruits of your experience, methods with which you've achieved success, and your business name, which will give the franchisee the reputation that you have already established. However, before proceeding any further, you should consult experts in the field, to determine if indeed your operation is a good candidate for a franchise. Having done this, you will then need to:

New franchise owners include increasing numbers of women who are entering business via this route and of capitalized entrepreneurs who have little or no business experience.
FUNFACT

- Develop a franchise package.
- Write a franchise contract.
- Prepare a "Franchise Disclosure Document."

The Franchise Package

To present your franchise to others who might be interested you must develop what is called a "franchise package." The franchise package should contain a manual that describes in detail how your service is performed or products are produced, methods of business, marketing techniques to be used, retail outlets restrictions and design, and any rules which should be adhered to in operating the business. You can also include your business logo, press release forms, and other materials that the franchisor will need to set up the business.

The Franchise Contract

Based on the amount of control you want to retain, you and your attorney need to draw up a franchise contract that details the exact nature of your relationship with the franchisee by listing your rights & responsibilities as well as the rights & responsibilities of the franchisee.

Based on the amount of control you want to retain, you and your attorney need to draw up a franchise contract that details the exact nature of your relationship with the franchisee.

In general, your contract should specify what you the franchisor will provide in the way of initial and continuing assistance, and what the financial and operational contributions of the franchisee will be (e.g., ad fees, royalty payments).

The contract should also detail areas of concerns such as territorial rights and contract renewal conditions. These and other essential components of the *Franchise Contract* are described in more detail below.

NOTE Keep in mind that anyone who considers buying a franchise from you will be strongly interested in its advantages compared with going it alone (these advantages are discussed in more detail in the next section). Consequently, the amount of control you retain and responsibilities you detail in the franchise agreement should be balanced with the amount of assistance and other advantages your franchise has to offer.

Advertising Fees – In your contract you will need to detail what percentage if any you will charge the franchisee for advertising. The advertising fee is usually based on a percentage of gross sales, much smaller than the royalty fee. It is pooled with the advertising fees paid by other franchisees and used to market the company as a whole. Decisions on use are normally shared by the franchisor and a franchisee advisory group.

Contract Renewal Conditions and Procedures – Franchise agreements are usually renewed every year. The exact conditions of this procedure will vary depending on the nature of your franchise.

In your contract you should insist that you have the right to cancel or not renew a contract with a franchisee who is liable to endanger the image all outlets by running an unacceptable operation.

"Buy Back" Clause – In your contract you may want to include a buy-back clause that gives you the option to repurchase your franchise at some future date under certain conditions as outlined in the contract, e.g., the death of the present owner or if the owner wishes to sell. If the franchisee is forced to sell back to the franchisor because the contract has expired, has been canceled or the franchise failed, the contract may outline that the franchisee can only expect to receive the book value of the business with no compensation for goodwill or other intangibles.

"Escape" or Termination Clause – In your contract you should insist that you have the right to cancel or not renew a contract with a franchisee who is liable to endanger the image of all outlets by running an unacceptable operation. You need to do this to protect your own interests and give yourself the power to enforce your standards of operation policies. This clause should specify that failure to follow your rules will result in revocation of the franchisee's right to your business name and logo (i.e., you will not renew their contract).

You may also want to specify that if the franchisee's sales do not meet expectations spelled out in the agreement, you the franchisor may exercise the option not to renew their contract.

Escherichia coli bacteria (E-coli bacteria) is a common harmless bacterium of the human gastronintenstinal tract and is found in the fecal matter of humans and animals. However, if ingested in large amounts it can pose serious health problems. ***FUNFACT***

NOTE Be aware that your "escape" or termination clause will generate powerful feelings of insecurity within the franchisee. The moment they read this clause they will imagine having invested thousands or millions of dollars in inventory, leasehold improvements and equipment, in addition to thousands of hours of effort building a market share, only to have you one day come along and say, "Sorry pal. I'm terminating your contract. The color of your walls is all wrong; your milkshake machine contains 2% more E-coli bacteria than we allow (see side quote); and your management practices are a tad sloppy." You should thus provide parameters to this clause, which outlines scenarios in which this clause will be put into affect. It also helps if you can provide real-life examples that verify past termination actions have never been unreasonable.

Franchise Fee – In your contract you need to detail the exact amount of money paid by the franchisee to you the franchisor for the right to operate your franchise. Amounts vary, but franchises within the same industry tend to stay competitive with one another. From the franchisor's point of view, the fee should cover use of the company name, business form and operating method, initial training, assistance in selecting a location, help in finding appropriate financing, expertise in getting the business started and the cost of finding the right franchisee.

Franchising as a growth strategy offers advantages if you are short of expansion capital, yet have a concept that can be packaged and taught to others who wish to invest in a business. ***SUPERTIP***

Minimum Start-up Costs – In your contract you should detail all costs required to get your business off the ground, including the franchise fee, materials, initial advertising, inventory, training, payroll, car leasing, entire cost of construction, and entire cost of equipping the facility. Start-up costs can range for as little as several thousand dollars to $100,000 to and much more.

Operating Procedures – In your contract you need to detail the products the franchisee can sell as well as the methods you want them to use.

Royalty Payments – In your contract you need to detail royalty payments the franchisee is expected to pay, especially if you are providing on-going assistance in such areas as supplying inventory, business counseling & training, equipment support, accounting help, etc.

A royalty payment is an ongoing fee paid to you, the franchisor. Most often this fee is a percentage of gross sales, but sometimes is a percentage of profits or a flat fee per month, per customer, or per transaction. This fee typically ranges from 4% to 8% of sales but can range anywhere from 2 to 15% of sales, depending on the extent of services you provide.

NOTE You may decide to charge the franchisee no monthly fee, if you can make enough profit from them from the

"No Strings Attached Franchising Packages

ONE FRANCHISING OPTION worth considering is selling franchises for a certain amount of money up-front with no strings attached. In this manner, you will be able to make a profit in helping others start similar businesses without having to deal with the work and responsibilities of supervising franchisees. Buyers of your package will have the benefit of your knowledge and business experience and will still be able to maintain their autonomy. If you choose this option, you probably won't give away the rights to your business name and logo since you will have no control over their business practices once they've purchased your package.

sale of inventory purchased from you.

Selling Clause – In your contract you need a clause that details the fact that a franchisee cannot simply close up shop someday and sell their business to a third party without involving you. This clause should detail how and to whom the franchisee may dispose of the business, and perhaps include the amount of money he or she can sell it for.

Standards of Operation – In your contract you may need to detail hours of work, whom the franchisee may employ, recipes, food portions, record keeping methods, hiring and firing practices etc., in order to maintain a basic level of quality and standards of operation.

Be realistic in the amount of control you can actually retain; supervision of a number of franchises can be difficult and time consuming.
SUPERTIP

Territorial Rights – In your contract you need to detail the exact extent and limitations of the franchisee's trading area as well as the amount of franchises you can sell in their area or vicinity. From the franchisees point of view, they want to make sure their territory will not be encroached upon by you or other franchises.

Training Provided – In your contract you need to detail the specific support you will give. Gives times and dates of annual seminars, workshops and conferences.

The Franchise Disclosure Document

To help protect franchisees from unreputable fly-by-nighter franchisors, the Federal Trade Commission (FTC) and various other state regulatory agencies (depending on the state you are in), require that the potential franchise buyer must be given complete and accurate information about the company selling the franchise, its financial condition, and its products or service, through what is known as the "Franchise Disclosure Document" or the "Franchise Offering Circular."

Unless you have considerable business experience and legal training you need a lawyer, an accountant and a business advisor to consul you and go over your Disclosure Document and franchsie contract.
SUPERTIP

The FTC rule requires that you provide this document to the prospective franchisee at least ten days before they pay any money or legally commit themselves to a purchase. This document includes 20 important items of information such as:

- Names, addresses and telephone numbers of other purchasers
- A fully audited financial statement of the franchise seller
- The background and experience of the key executives of the franchisor's staff
- The cost required to start and maintain the business
- The responsibilities the franchisor and franchisee will share once they franchise is purchased

PROMOTING YOUR FRANCHISE

AFTER YOU have put together your franchise package and worked out the details of your franchise contract and disclosure document, you will then be left with the arduous task of promoting your franchise to others.

To begin this task, it is important to identify in your promotional material, just like you would if selling a product or service: 1) the specific advantages and benefits of your franchise to potential franchisees, as well as; 2) provide factual information and specific performance data to overcome their objections and alleviate their fears of ownership.

Most franchise firms feel that if they make 10% net profit after paying expenses they are doing well. Contact International Franchise Association, 1350 New York Avenue, NW, Washington D.C.
FUNFACT

Promoting the Benefits of Owning a Franchise

Persuading a potential franchisee to purchase your franchise begins by promoting the success of your present operations and reminding them that a high percentage of all your franchises are profitable (if this is in fact the case).

You also need to inform the franchisee and prove to them that:

By owning a franchise, the franchisee will have an easier time obtaining financing. Make it explicitly clear that money lenders, from the Small Business Administration down to the smallest commercial banks, state development offices, and minority assistance programs, prefer to gamble on a franchise rather than an unproved, private venture. Also, if you are able to help franchisees obtain financing, or if you have the resources to finance their franchise yourself, make sure the details of these programs are fully explained.

NOTE The most reputable franchisors have a master franchisee financing program with one or more banks. This program is a common package developed by the banks that all branches use for established franchisors. In Canada, all the five big banks have franchise divisions that may be able to assist you in developing a finance package for your franchisees. Likewise, in the U.S. many of the larger banks have departments that specialize in this area as well.

The most reputable franchisors have a master franchisee financing program with one or more banks.

When a franchisee signs with a reputable franchisor like yourself, they purchase a complete package designed to help them succeed. They will receive professional assistance in most phases of their business development including location hunting, construction of the facility, the proper equipment to use, inventory control systems, bookkeeping methods and promotion approaches.

You will train the new franchisee to the best of your ability to help them succeed. You must make it clear to your potential franchisee that not only do you provide an initial period of intensive training, but you insist upon it. You will also continue to render management help through supervision once their operations get started. Convince them that they will succeed, because they have you and your company as a support group if things go wrong.

Your franchise is known and recognized throughout the city, state and country. One of the most notable advantages of buying a franchise is the consumer recognition and goodwill that comes with an already successful business. You must prove to the franchisee that your business is well known in the industry and that it is not entirely unreasonable for them to expect that they will be riding on the popularity of your brand or company name.

You must prove to the franchisee that your business is well known in the industry and that it is not entirely unreasonable for them to expect that they will be riding on the popularity of your brand or company name.

Alleviating the Fears of Owning a Franchise

Persuading a potential franchisee to purchase your franchise also involves alleviating their fears of ownership, loss of autonomy and reduced freedom for personal innovation. For example most entrepreneurs won't like the idea that they have little say in the products they have to sell and that they may end up being required to carry certain items that don't move well in their neighborhood or sell at prices that are too high or too low for their area. You need to persuade them and show them that you have a successful track record at picking the right products and that you offer some flexibility to unique situations.

You also need to persuade and prove to them that:

You are a respected member within your industry and have nothing to hide. Tell your potential franchisee that before they sign anything they should consult their accountant, banker, the local Chamber of Commerce, Dun and Bradstreet and trade organizations in your field for unbiased information about your company. Make sure they know that you have nothing to hide and are only looking for the right candidates to further the success of your operations.

Tell your potential franchisee that before they sign anything they should consult their accountant, banker, the local Chamber of Commerce, Dun and Bradstreet's and trade organizations in your field for unbiased information about your company.

Invite them to visit several of your franchised outlets currently operating and owned by other franchisees (don't try and mislead them by sending them to company owned outlets). Encourage them to ask these franchisees how satisfied they are with their situation (a respected franchisor always encourages prospective franchisees to visit and talk to other owners of the franchise).

NOTE A prospective franchisee will be especially keen on asking other franchisses about their experiences regarding your earnings claims and profit margins.

You have a proven reputation for following up on all the promises outlined in your promotional material and disclosure document. In some cases it is not unknown for franchisor's to hold back on the training and management assistance they promised; or to declare bankruptcy and go out of business leaving the franchisee with out the support it already paid for and expected to receive. You need to prove to the franchisee that this will not be the case with your franchise.

You have a vital stake in keeping the franchisee's new branch alive and growing. Consequently, you will continue to give the new franchisee assistance in such important areas as merchandising, sales promotion and even financing.

When franchising your business, the legal problems can seem overwhelming, but with a good plan and competent advice, you can develop a franchise system that could prove extremely profitable.
SUPERTIP

Your "escape" and "buy back clause" is fair and reasonable. Buy-back and escape clauses are designed to protect the parent company's interest, but nevertheless can send shivers up and down a franchisee's spine. If not clearly stated and supported with documented examples, if and when any of these clauses were exercised, the potential franchisee will be pre-disposed to imagine worst-case scenarios.

You won't open a new store right next door. Franchisees want to make sure you can't steal their market share by establishing a company owned operation in the same area after they have invested years of effort establishing the market. In fact, according to Don Shafer, chairperson of the Canadian Franchise Association: "The largest area of legal disputes about franchises in the U.S. now deals with territorial encroachment."

Industries that rely on franchised business to distribute their products and services touch every aspect of life from fast foods to real estate and from automobile sales to tax preparation.
FUNFACT

SELECTING THE RIGHT FRANCHISEE

IN ORDER TO select the right candidate to operate your franchise you should develop a proven standard or criteria that outlines exactly what makes a successful franchisee. Not only will this help you select better candidates, but it will also help the franchisee determine if they have what it takes to succeed with your franchise. Remember, no franchisee wants to fail, and it is in your best interests that they don't.

TO select the right candidate to operate your franchise you should develop a proven standard or criteria that outlines exactly what makes a successful franchisee.

Getting More Information

IF YOU'RE quite serious about franchising your operations, you will need more detailed information and consultation. Contact the U.S. Small Business Administration, the Federal Trade Commission, the Better Business Bureau, local Chambers of Commerce, and the International Franchise Association. You will also need to consult a lawyer and an accountant with expertise in this area.

