

Opportunity in franchising

Five tips for building a stronger, more sustainable franchise business

INTERVIEWED BY MARK SCOTT

Franchising can be a lucrative opportunity for your business, providing the means to expand both your brand awareness and geographic footprint while also earning additional profit through royalty payments.

But many franchise systems fail because they fail to build an infrastructure that can support the new business model.

“Close to 75 percent of all startup franchisors fail within the first 10 years,” says Kacie N. Davis, associate with Kegler, Brown, Hill + Ritter. “A lot of owners see the potential in franchising their business concept and how quickly they can grow their brand and receive a new revenue stream. However, some fail to realize the initial cost of compliance and other important factors. There are things which need to be considered before you franchise.”

Smart Business spoke with Davis about five key tips that can help build a successful, sustainable franchising business.


Tip No. 1 – Establish legally compliant operations from the beginning

Make sure your franchise system is in compliance with all federal and state regulations. The Federal Trade Commission regulates franchise sales and provides the minimum level of compliance for a franchisor. Sales of franchised businesses in violation of the FTC franchise rule are subject to penalties, the ability for franchisees to rescind their contract and other damages.

Various registration states also add a layer of additional compliance. The most important (and costly) piece of compliance for a franchisor is preparing the required Franchise Disclosure Document (FDD). The FDD is a comprehensive regulated report of the franchised business, providing franchisees with detailed information on

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the investment they are about to make. The FTC requires franchisors to provide prospective franchisees with the FDD at least 14 days before money is exchanged or contracts are signed. Find legal counsel who can help you prepare the FDD and navigate other requirements before you start selling.

Tip No. 2 – Select the right franchisees

Look for motivated, skilled people who are enthusiastic about your brand and concept, not those looking for a business to call their own. Prior industry experience is a plus. You may also want to set a net worth requirement for your franchisees, ensuring you select someone who can afford the franchise and inject enough capital to keep it running. The bottom line: Don't just accept anyone interested in purchasing a franchise.

Tip No. 3 – Develop a systematic growth plan

Focus on intentional strategic growth rather than growing haphazardly. Everybody wants to see their business grow, but if you don't have a plan from the start, you could end up with a model that is difficult to manage.

Develop a systematic growth plan of the areas you want to go into rather than just letting people pop up and come to you. Let your market analysis drive the growth plan and make sure you're growing at a speed which allows you to maintain the necessary support to make it work.

Tip No. 4 – Consider franchisee profitability and satisfaction

Don't lose sight of the return on investment for your franchisees. Their goal is to develop a business opportunity that provides more money than they would have earned in a traditional employment situation or by opening up their own independent business.

If you don't focus on what the franchisee can make out of it, you're going to have a hard time selling additional franchises. Franchisees are more satisfied when you support them through training, marketing support and other services. Give them the blueprint for an ongoing, successful business. This will in turn drive your profits and help sell future franchised units.

Tip No. 5 – Don't lose sight of the brand and underlying business operation

Once you start franchising, your primary business becomes selling that franchise. However, never lose sight of what the business is that you are selling. Keep building the brand and reputation for that business, whether it's locally, regionally or nationally, to build your customer base. Focus on improving your operations and systems to keep your business competitive. These efforts will help aid you in selling additional franchised units. ●