



STARTING A FRANCHISE THE 3 PHASES TO GROWING YOUR BUSINESS

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One of the most important goals for owners of successful businesses is growth. Growing your business to reach a broader audience or earn more money is a worthy pursuit for your company, and there are a number of ways to go about that growth.

As you compare growth strategies, ask yourself some important questions:

- Do you want to grow your brand name?
- Do you want to charge an upfront fee on all growth?
- Do you want to collect royalties?

If you answered yes to those questions, franchising is the growth strategy that will get you what you are looking for.

Accurate Franchising, Inc. is the franchising expert. We know what it takes to turn a strong business into a franchise success, and our track record proves it. In our experience, we have found that there are three phases to growing your business through franchising:

1. Understanding the Law
2. Developing Your System
3. Recruiting Franchise Owners

This eBook will walk you through these three phases. In addition, we have included keys for a successful franchise and several tips to help you know if your business is ready to expand with franchising. So get reading and learn if you have what it takes to turn your business into a franchise.

Understanding the legal aspects of starting a franchise is essential. The Federal Trade Commission, or FTC, has put a handful of regulations in place to help franchisors and franchisees build solid relationships that work. As a franchisor, the five major regulations that apply to you have to do with paperwork and contracts.

These are:

1. Franchise Disclosure Document
2. Franchise Agreement
3. State and Local Filings
4. New Business Entity
5. Trademark Registration

FRANCHISE DISCLOSURE DOCUMENT

As one of the most important documents you give your franchise candidates, the Franchise Disclosure Document (FDD) is full of information about your brand. Every single franchise in America is required to have an accurate FDD with 23 items mandated by the FTC (see sidebar for all 23 items).

The purpose of the FDD is to give accurate, transparent information about your franchise to anyone considering joining your business. The FDD gives candidates the information they need to make an informed decision. It also describes the roles and responsibilities of the franchisor and the franchisee so everyone knows what is expected of them.

THE 23 ITEMS MANDATED BY THE FTC:

- ITEM 1:** The franchisor and all parents, predecessors, and affiliates
- ITEM 2:** Business experience
- ITEM 3:** Litigation
- ITEM 4:** Bankruptcy
- ITEM 5:** Initial fees
- ITEM 6:** Other fees
- ITEM 7:** Estimated initial investment
- ITEM 8:** Restrictions on sources of products and services
- ITEM 9:** Franchisee's obligations
- ITEM 10:** Financing terms and conditions
- ITEM 11:** Franchisor's assistance, advertising, computer systems, and training
- ITEM 12:** Territory information
- ITEM 13:** Trademarks, service, and trade names
- ITEM 14:** Patents, copyrights, and proprietary information
- ITEM 15:** Obligation to participate in the actual operation of the franchise business
- ITEM 16:** Restrictions on what the franchisee may sell
- ITEM 17:** Renewal, termination, transfer, and dispute resolution
- ITEM 18:** Public figures
- ITEM 19:** Financial performance representations
- ITEM 20:** Outlets and franchisee information
- ITEM 21:** Financial statements
- ITEM 22:** Contracts
- ITEM 23:** Receipts

FRANCHISE AGREEMENT

As a franchisor, you need to set out some ground rules for the relationship between you and franchisees.

The franchise agreement does just that, putting into words the roles and responsibilities of both parties. Even more importantly, the franchise agreement acts as a legally binding contract between the franchisor and the franchisee, so it includes things like:

- The defined territory
- The franchisor's services
- The franchisee's payments
- The franchisee's obligations



STATE AND LOCAL FILINGS

Each state has its own unique registration and filing requirements. Simply put, you cannot operate as a franchise owner in your state without knowing the requirements and properly registering your business. As you prepare to turn your business into a franchise, research what you will have to do on a state and local level to be in compliance with the law.

NEW BUSINESS ENTITY

As we described above, the FTC requires that you lay out certain details about your business in the FDD. One of these important items includes financial information from the company's last three years. Registering as a new business entity means that you will only be required to include financial information from the beginning of your franchise. Going forward, you will then need to update your financial information in your FDD each year.

TRADEMARK REGISTRATION

In business, your trademark is of utmost importance. Registering your trademark not only protects your brand, but it also shows any prospective franchisees that yours is a company worth investing in. Ultimately, your company will grow as a result of the value of your trademark, so take this step to protect it.

Important Note: As franchisor, you are responsible for updating each of these items on a yearly basis.

Some of these legal items require complex knowledge of the law, which is why it is so important to go into franchising with an experienced partner. Accurate Franchising, Inc. has been working in franchising for years, and our legal experts keep up to date on any and all changes to the regulations.



One of the biggest selling points of a franchise can be its system. People with little or no experience can become business owners through franchising because of the franchisor's careful effort in creating a functional system.

Developing your franchise system requires a fair amount of work and planning upfront, but it is absolutely critical in making franchising work. With the help of Accurate Franchising, Inc.'s consultants, you can get through the development stage with ease, which will make the next steps go smoothly as well.

STRATEGIC PLANNING

The first step in any successful business—whether you are just starting out or have been in business for 50 years—is planning. Be strategic about how you want your franchise to look, where you want it to go, and how you want to get there.

Treat this strategic planning stage like you would treat a brand new venture. After all, expanding your business through franchising is a brand new venture, and there is a lot to think about. Write a thorough business plan, including:

- **Company Description**—include how your company differs from the competition and where your business serves (this can include areas where you wish to open franchises as well)
- **Market Analysis**—research your industry, your competition, and market
- **Organization and Management**—determine who will be working in what positions from the top down
- **Marketing**—outline your marketing strategy, including the ideal candidates for your franchise
- **Sales**—consider your sales strategy; how are you going to get franchisees to invest in your brand?
- **Financial Projections and Goals**—how much do you expect your franchise to earn in six months, one year, five years, and so on? How much do you want to earn in that time?

Your business plan can be as formal or informal as you want it to be. If you are using it to seek funding, then a professional look and feel will be helpful to you. But if you are using it as a guideline for yourself, it can be relatively informal.

FEES AND ROYALTIES

Chances are you became interested in growing your business through franchising because of the vast earning potential. As a franchisor, a large portion of your earnings come from the fees and royalties that franchisees pay. Choosing these fees is a balancing act between generating revenue, covering your expenses, and allowing your franchisees to earn sufficient income.

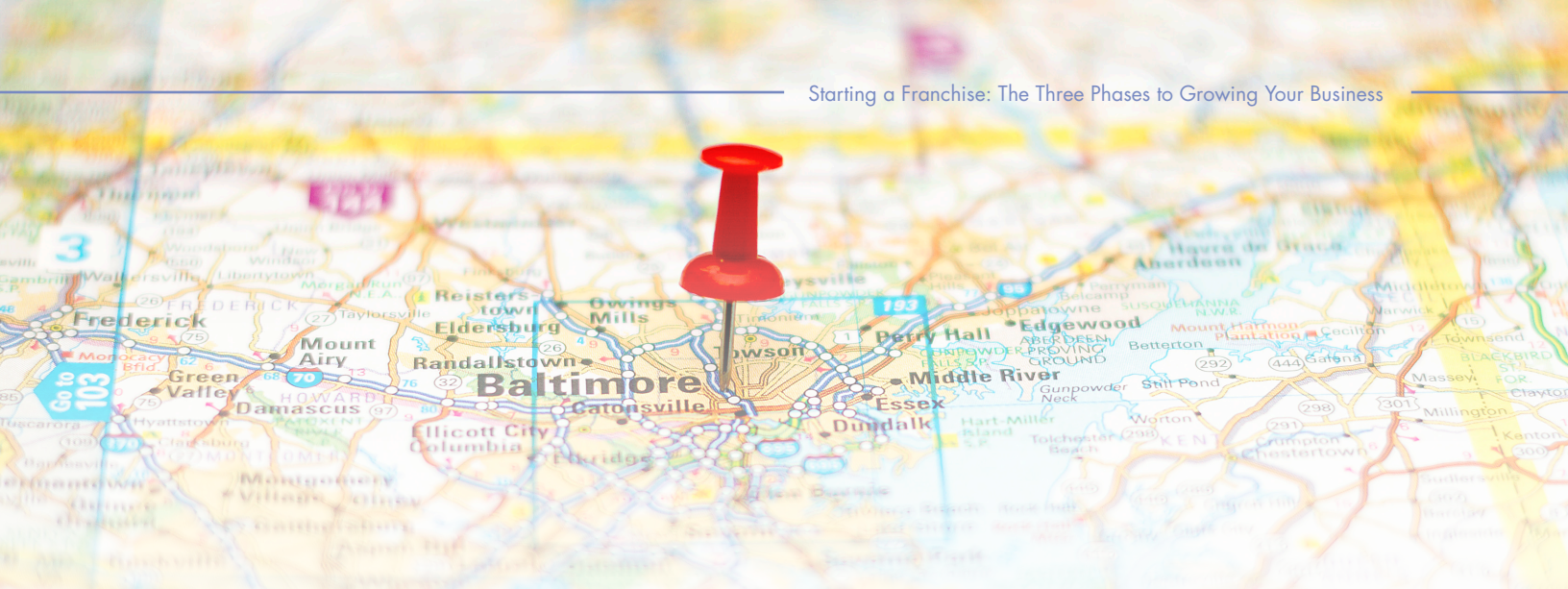
The two main fees are the initial franchise fee and the ongoing royalty payments:



INITIAL FRANCHISE FEE: The initial franchise fee paid by franchisees in a lump sum should be enough to cover the expenses related to helping that owner get his or her business up and running. This includes training, advertising, helping with location, and more.



ONGOING ROYALTY PAYMENTS: Your franchisees will pay ongoing royalty payments to you on a regular basis. These payments serve as a means to generate revenue, pay administrative costs and advertising/recruiting expenses, and fund the franchisee support staff (IT, marketing, business strategies, etc).



TERRITORIES

Defining the territories in which you want to do business—as well as how you define and protect individual franchisee territories—is a key part of the planning stage. Take the time to ask yourself some questions about territories, including:

- Will I guarantee protected territories for franchisees?
- What am I looking for in a franchise territory?
- How involved do I want to be in choosing a site with/for a franchisee?

OPERATIONS MANUAL

Another major selling point for many franchisees is that a franchise system already has designated operations and procedures, which saves them from spending the time creating these things themselves. That means that it is your responsibility to put together an operations manual that tells your franchisees how to run their businesses day to day. Because you already have a successful business, creating operations policies does not need to be difficult. If you already have an operations manual, it may only require a few additions to be suitable for your franchise owners.

The policies and procedures outlined in the operations manual give your franchisees the direction they need to represent your brand. Additionally, they clearly tell franchise owners what they can and cannot do as part of your system. An operations manual acts as a kind of rulebook, and franchise owners who violate these rules may need to face consequences.

TRAINING PROGRAMS

The reason that people without experience owning a business can succeed as franchise owners is because the franchisor trains them. Before you can start recruiting franchisees, you need to create training programs that are sufficient to teach candidates about your industry, your product, and being a business owner.

Combined with your ongoing support and expertise, your training programs give your franchisees the tools they need to succeed. Because your franchisees' success directly translates to your success, training is an important part of your system.



After you have fully set up your system, you are ready to start recruiting franchise owners! Finding and qualifying franchise owners is an exciting and intense process. Your hard work and persistence pay off when you start bringing in leads and signing franchisees to your system. Marketing is the first step in finding owners. Next, you can go through the process of qualifying your candidates and awarding franchises.

MARKETING

As you have probably learned in your career as a business owner, marketing is an endless endeavor that keeps your business healthy and growing. This remains true when you convert into a franchise. In order to consistently find new franchise owners and expand into new territories, you need to have ongoing marketing efforts.

It takes between 100 and 200 leads to find one franchisee, so keep up your marketing efforts. A few places to look for leads include:

1. Broker networks
2. Internet advertising
3. Trade shows

Form a presence both online and in person to make the most of your marketing dollars. Soon, you will see your effort pay off as qualified leads start becoming prospects.



QUALIFYING CANDIDATES

Now that you have prospects interested in your brand, you can start the process to determine if they will be a good fit for your brand. Qualifying franchise candidates is an important process, because you do not want to accept every single person who comes to you with a check. Finding franchise owners that work well with your policies ultimately helps your business, because when franchisees are successful, your brand grows more successful.

After you have qualified candidates, it is time to award franchises! From there, it is a matter of signing franchise agreements, training owners, finding locations, and helping the owner get their business up and running.

6 KEYS TO A SUCCESSFUL FRANCHISE

In our experience, we have learned a few keys for successful franchisees. Read through these for tips on operating a strong franchise system.

- 1. Managing the franchisor/franchisee relationship**—The franchisor/franchisee relationship is an important part of any franchise system. Manage and foster this relationship by being available for your franchisees when they have ideas or need help.
- 2. Understanding obligations**—This goes hand in hand with managing the relationship between you and your franchisees. If both parties understand their obligations, they can more easily fulfill their responsibilities and keep the business thriving.
- 3. Developing resource pool**—Your network is essential in attracting franchisees and keeping them happy. Build a resource pool of suppliers and connections in addition to the corporate resources that you offer franchisees.
- 4. Utilizing effective management tools**—Being a good manager is an important skill in a franchise system. Because you are working with a diverse group of owner-operators, effective management is essential.
- 5. Providing ongoing training**—In order to keep your brand up to date, you need to keep your franchisees up to date. Ongoing training can take the form of yearly conferences, frequently updated online modules, or a variety of other things.
- 6. Advertising and marketing**—Put simply, you can never stop advertising and marketing. Whether you are building your brand name, attracting customers, or converting franchise leads, you need to always have your eyes on strong advertising and marketing strategies.

BONUS: TIPS TO HELP YOU KNOW IF YOUR BUSINESS IS GOOD FOR FRANCHISING

A question we get asked all the time is, "How do I know if my business will work as a franchise?" Here are some tips that we give people who ask this question.

Franchising may be a good strategy for you if:

- Your business is repeatable in different markets.
- Your business is easy to learn for someone without business-owning experience.
- Your industry is relevant everywhere, or at least in a variety of locations different than your own.
- Your industry already has franchisees.

If you are still unsure, you can try our franchise feasibility study, found on our website.

READY TO GET STARTED?

Accurate Franchising, Inc. is the franchise consultant company with the experience to help you get your business to the next level. Work with us to expand your business, and our experts will help you every step of the way.

Visit us at www.AccurateFranchising.com to learn more.



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