Grow Your Business By Making It a Franchise

In early January, this column addressed several ideas about taking your small business to the next level in 2011. Among several ideas, I had suggested that one could consider to “open another location… or offer your business as a franchise or business opportunity to someone else”. These ideas got the attention of some entrepreneurial business owners who asked me to say more about the idea of making one’s business into a franchise.

My first question to these owners is are you interested in rapidly expanding your business? If so, then you might consider franchising, especially if your business model is easily replicated.

Then make sure you have a good legal firm to help you because a franchise is a legal and commercial relationship between the owner of a trademark, service mark, trade name, or advertising symbol and an individual or group wishing to use that identification in a business. In the simplest form, a franchiser owns the right to the name or trademark and sells that right to a franchisee. This type could be called product/trade name franchising. The more complex form, which I would call business format franchising, involves a broader ongoing relationship between the two parties. Business format franchises often provide a full range of services, including site selection, training, product supply, marketing plans, and even assistance in obtaining financing.

There are a few things to keep in mind as you determine whether your business could succeed as a franchise and before you spend too much time on this alternative.

1. **Realistically, few businesses are franchisable.** In order to be successful in franchising, your business should feature a superior product or service that sparks the interest of other potential business owners. After all, you need to convince people to want to buy one of your franchises.

2. **Your business concept should be easy to share and teach.** If your company is based on knowledge that only you possess, you will have a difficult time franchising it. Effective franchisors create detailed manuals that outline procedures for each aspect of the business. They also create streamlined training programs for managers, owners and employees.

3. **Your business should be easy to duplicate.** In other words, your business must be one that can succeed over and over in many locations. If it can only function in one place, it is not repeatable and, therefore, not franchisable. Be sure that you can systemize your entire business and document its operations. This will ensure that your business processes can be copied by others.
4. You should be prepared to navigate the various regulatory and legal obstacles involved in franchising. The federal government has rules, and many states also have requirements that must be met in order for you to sell franchises. Once you've begun franchising, some states remain active in the relationship between you and your franchisees by monitoring territorial rights or limiting the transfer and renewal of your franchises.

Be aware that franchising incurs more costs than many other types of businesses. Before you proceed in the franchising process, be sure that your concept will produce an adequate profit.

If you're sure your business will generate enough revenue as a franchise, next consider the fact that the initial start-up process will require a significant amount of cash. You will need to pay attorneys to handle your legal documents and to register your franchise. Additional costs will include paying accountants, creating marketing materials and running advertising to promote the franchise to prospective franchisees. Don't forget about training the employees and developing manuals and other systems you'll need to run the franchise. All in all, you might be looking at $250,000 or more (in addition to the normal costs of running your business in the meantime) to create a sustainable franchise system.

Having said all this, understand that if this option fits for you, it can be a great opportunity for expanding your business and profit potential. To learn more about growing your business or other topics, contact SCORE on our website: [www.score-SEMinnesota.org](http://www.score-SEMinnesota.org). Also look at this site for current workshops and how to participate in the next Small Business Round Table on February 26th with the Hot Topic of “How to market your business”.

Dean L. Swanson  
Southeast Minnesota SCORE  
c/o Rochester Area Chamber of Commerce  
220 South Broadway, Suite 100  
Rochester, MN 55904  
*Dean is a volunteer SCORE Counselor.*