

## **Is it Time to Franchise My Business?**

**By: Carl Khalil and Sada Sheldon**

One of your customers tells you they are moving to Richmond and they like your business concept so much they would like to know if they can acquire the right to franchise one of your businesses under your trade name in Richmond.

Do you say yes or no?

It depends whether you are ready to franchise or not. Here are some factors to consider:

### **1. Have you had franchise inquiries?**

One key piece to the puzzle has already been answered- have you had customers or other people ask if you franchise or otherwise express an interest in starting your business concept in another town. Because one of the secrets to a successful franchise is the ability to sell “copies” of it, this factor favors franchising.

### **2. Is your business profitable?**

Next, look at your profit and loss statement. A franchise must be a win-win proposition, where the franchisee who purchases the rights to your trademark and business model, in exchange for an initial franchise fee and continuing royalty payments to you, makes money even after those costs, and you, the franchisor, also makes money. So your business must be profitable already.

### **3. Do you have sufficient capital to cover the costs of franchising?**

The first steps in franchising include: Legal fees to draft and possibly register with certain states franchise documents; accounting fees to prepare and possibly audit financial statements; selling expenses in the form of marketing pieces, lead generation, and commissions to franchise sales people; drafting an Operations Manual; offering an initial training program; and supporting franchisees in the operation of their business.

These items require a certain amount of capital. So the next question you need to ask yourself is- do you have sufficient capital or, if not, can you access the capital to start franchising.

### **4. Do you have the manpower to support franchisees?**

If you spend every waking moment of the day, seven days per week, running your own business, and have little or no help, it is not yet time to franchise. Why not? Because when you bring on franchises, you will also have to support their needs in areas such as: site selection, supplier arrangements, marketing, operational execution, customer service, etc.

So if you want to franchise, make sure you either have the time or you have a team in place with the time and talent to not only run existing operations, but also assist potential franchisees in running their operations.

### **5. I think I am ready to franchise, what are the first few steps?**

The first step is to select and register a trademark with counsel through the US Patent & Trademark Office. A trademark is one of the cornerstones of a franchise, the brand name under which your franchised outlets will operate.

Then you will need to work with counsel to prepare a franchise agreement and Franchise Disclosure Document or “FDD.” An FDD is required by federal law to sell franchises in the United States.

You will also need to draft an Operations Manual, which is an A-Z guide provided to a franchisee on how to start and operate their business.

And you will need to develop an initial training program, which teaches new franchisees how to start and run their franchises. Very often, the Operations Manual functions as the guide or textbook to the initial training program.

Franchising is an exciting step, to be considered a long term adventure or journey. Many iconic American brands were started this way. If you think you may be ready to franchise, these are five factors that can help in that decision.

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