

FRANLAW[®]

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BUSINESSES SHOULD CONSIDER EXPANSION THROUGH FRANCHISING

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Franchising is an extraordinarily successful way for businesses of almost any type to expand. The business which is looking for a relatively low cost way to reach customers should consider franchising.

Franchising provides the money, people and time for business expansion.

If you have grown a successful business and know that now is the time to expand but do not have the financial resources or the management personnel to build and operate a chain of company-owned stores, consider franchising. It can be an effective way to obtain capital to build stores and to obtain dedicated people to run those stores. Franchising has proven itself as a successful method to expand one's business and gain national name recognition. The United States Department of Commerce has reported that over one-third of all retail sales are currently made through franchise stores. This growth is expected to continue. Fifty percent of all retail sales are predicted to be made by franchise stores, according to the Naisbitt Group.

Franchisees are in business for themselves but not by themselves.

Individual ownership is the key to the success of the franchise method of business expansion. The individual entrepreneur brings his drive and motivation to a business which operates within a safety net of systems and controls. Training and support are important features of a well-run franchise system, making it unnecessary for a franchisee to learn through trial and error. He learns how to do it right the first time. The trademark name for the business draws customers to his business on the first day.

Franchisors receive initial franchise fees and ongoing royalties from each store.

The initial franchise fee is a one-time fee charged to new franchisees. The ongoing royalty fee is based upon a percentage of the sales of each franchise location. The franchise fee, royalty, and the sale of supplies to franchisees are typical ways by which a franchisor makes money. Though the amount of these fees ranges widely, a \$25,000 franchise fee and a 6% royalty would be fairly typical. A franchisor can also save money for all stores, including its company-owned stores, through volume discounts from suppliers of equipment, inventory, services, and advertising for the entire franchise system.

A successful franchise system starts with a successful prototype store. The franchised business must be profitable, have a name which can be registered as a trademark, and have business operating systems which can be taught to a new franchisee. A franchisor must have sufficient capital to start a franchising program. Prior to selling or even offering to sell a franchise, a franchisor must prepare a comprehensive franchise agreement and register a franchise offering circular. The federal and state franchise laws regulate the pre-sale disclosure of information to prospective franchisees. A franchisor must understand the special ongoing franchise relationship, select qualified franchisees, and develop strong, long-term relationships with the franchisees.

A lawyer specializing in franchising is essential to starting a franchise system. The franchise lawyer will write the franchise contract, draft and register the franchise offering circular, register the franchise sales people and advertisements, review the real estate leases, prepare any necessary corporate documents, and have the connections with the business services necessary for a franchisor to get started. A franchise consultant can assist the new franchisor with operations manuals, training programs, advertising and public relations materials, franchise recruitment programs, business plans, and communication programs.

The outlook for franchising is bright. Franchising is a rapid and relatively low-cost way to expand your business when compared to the money, people and time that otherwise would be required to build, open and operate a chain of company-owned stores. The experienced franchise lawyer and consultant are key support people for the business owner interested in successfully expanding its business by franchising.

Michael R. Liss is a franchise attorney who has helped businesses start franchising successfully since 1980. His law firm has offices in Oak Brook, Illinois. Mr. Liss can be reached at (888) FRANLAW.