11 Steps to Becoming a Franchisor

Once you have decided to franchise your business follow these important steps to become a franchisor:

1. **Trademark Registration.** If you have not obtained a federal trademark registration for the principal trademark of your business, your first step should be to register your trademark. This is one of the most important elements of your business and must be protected. In addition, consider whether you have adequately protected other technology and trade secrets that are essential to the operation of your business.

2. **Capital Needs.** Only after you have placed your first franchisee in business is your company likely to see franchise fee revenue. In most franchised businesses, volume is relatively low when the business opens, which means income from franchise fees from new franchisees may be low. Your plan should include a financial model that demonstrates how you and your franchisees can both make a profit over time.

3. **Operations Manuals.** The operations manual is an integral part of a franchise system. It outlines the policies and procedures to maintain your system and brand standards. If you haven’t committed these policies and procedures to writing, someone needs to develop the operations manual to guide franchisees as they operate their businesses. Many new franchisors retain franchise consultants to document their policies and procedures.

4. **Legal Documents.** Every franchisor must prepare a franchise agreement and a Franchise Disclosure Document (FDD). The franchise agreement defines the relationship and outlines the obligations and duties of the franchisor and franchisee. This agreement must maintain flexibility to address issues, such as territory rights and e-commerce, over the term of the agreement (often five to 10 years, or longer). An FDD describes the history of the franchisor and its predecessors and affiliates, explains the franchise being offered, summarizes certain contract provisions, explains fees and costs to start a franchise, and contains information about the franchisor’s franchisees. Unless an exemption applies, federal franchise law requires every prospective franchisee to receive an FDD before signing a franchise agreement or paying any money relating to a franchise.

5. **Financial Statements.** Depending on the states in which the franchisor operates, an audit may be required before a company may begin offering franchises. A franchise consultant or franchise attorney can advise you regarding the financial statements that will be needed.
Registration. Many states require franchisors to register the franchises they plan to offer before soliciting prospective franchisees. Others may require franchisors to file notices to avail themselves of exemptions, or to register as a business opportunity, especially if the franchisor lacks a federal trademark registration. It may take between 30 and 90 days from the date the original FDD is prepared and registration applications are submitted, for approvals to be granted by the various states.

Recruiting Franchisees. As a franchisor, you must recruit, train, motivate, and keep good franchisees. Your first group of franchisees is crucial to your success. The early group of franchisees will set the tone for the growing franchise system.

Training. Franchisors must offer an initial training program to teach franchisees how to launch and operate their business. In addition to this training, prospective franchisees will expect ongoing training for their key staff on how to make their business more successful. Many franchise systems host annual conventions or meetings where franchisees receive ongoing training and updates on system developments.

Advertising. Virtually all franchisees expect to benefit from an advertising program. To increase visibility, franchisors must create an advertising program that will work in many markets. A funding mechanism for the advertising is usually a major part of a franchise plan.

Establish a Strong Vendor Program. To develop a strong brand, franchisors must ensure consistency in the products and services their franchisees offer to the public. In most franchise systems, this means that the franchisor must maintain control over the vendors with whom its franchisees do business. Managing the vendor selection process involves numerous issues, perhaps chief of which is the degree of control the franchisor desires to exercise.

Establish Channels of Communication with Franchisees. Successful franchise executives identify effective communication with franchisees as the most critical challenge in building and maintaining a sound franchise system. As systems grow in size, senior franchisor executives find it difficult to maintain personal contact with each franchisee. By establishing and developing effective channels of communication early in a system’s growth, franchisors can better gather system feedback and avoid franchisee dissatisfaction.