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AS SEEN IN **Upsize**
Minnesota

How to know if your business is a franchise

GROWTH opportunities abound for new franchise systems in today's economy. Downsized executives are looking to leave corporate America and get into their own businesses. If you own a successful business, someone may even have asked you recently whether franchises are available. However, not all successful businesses will become successful franchises. This article will help you decide whether your business (or idea) is "franchiseable."

Idea or concept?

Ideas are the backbone of every franchise system. However, many ideas that were franchised too quickly are now mere footnotes in the history of franchising. Implement your idea before licensing it to others.

Even then, proving your idea at one location may give you a successful business, but having a successful business does not necessarily equate to a successful concept. To be certain your success is not due solely to a location, or to your own personal efforts in the business, test the concept at multiple locations before embarking on a franchise rollout.

Apart from the concept itself, the most important element of many franchises is the name under which the business operates. It must attract customers, but it also must be one you can prevent others from using. To do so, the name must be unique.

While you may know that nobody else in your market is using a similar name, is it being used in other markets? If so,

[tips]

- 1 | While the business should be simple, the system should not.
- 2 | You may attract prospective franchisees by your unique concept or name, but to be successful, franchisees need systems that allow them to operate the business and stay ahead of the competition.
- 3 | You need to not only develop a prototype, but also document the systems, recipes, procedures, marketing techniques, and the like that you will provide to your franchisees, and develop training programs that enable franchisees to replicate your success.

even if no one else has obtained a federal trademark registration for that name, you will not be able to expand the business under that name, or a similar name, in those markets. Conduct a nationwide search to determine whether others are using the same or a similar name.

Once you know the name is available, register the name on a national level to protect it from future users. To do that,

the name cannot be merely descriptive of the business. "Apple" can be protected as a trademark for a computer, but it could never be protected as a trademark for an apple-growing business. While "Pizza Hut" may give the consumer the image of a restaurant at which pizza is consumed, the restaurant is not actually a "hut," and therefore the name is not descriptive, and was able to be registered as a trademark. However, "Pizza Restaurant," while conjuring up the same image, is not a name that can be protected.

Keep it simple, at first. When McDonald's began operating, it offered more types of milk shakes (chocolate, vanilla and strawberry) than sandwiches (hamburger and cheeseburger). When Taco Bell began, it offered primarily beef tacos, not the variety of enchiladas, burritos, gorditos and chalupas you find on the menu today. Many mature franchisors started as very simple businesses, but added products or services over time, giving franchisees the opportunity to learn a very simple operation but later add additional profit centers.

The concept of keeping the business simple is a particular problem for full-service restaurants that rely on extensive menus. Gourmet restaurants that rely on maintaining five-star quality standards to justify five-star pricing are also difficult to franchise. There are very few examples of successful franchises of this nature because they are simply too difficult to replicate through independent franchisees.

“What is it that you will offer your franchisees to keep them in the system for five, 10 or 20 years? If all you have is your franchise agreement, that bodes well for the lawyer who will enforce it, but it is not the way to build a franchise system.”

— **Joseph Fittante Jr.** and **Charles Modell**, Larkin Hoffman Daly & Lindgren

Sophisticated systems

While the business should be simple, the system should not. You may attract prospective franchisees by your unique concept or name, but to be successful, franchisees need systems that allow them to operate the business and stay ahead of the competition. You need to not only develop a prototype, but also document the systems, recipes (for food service businesses), procedures, marketing techniques, and the like, that you will provide to your franchisees, and develop training programs that enable franchisees to replicate your success.

One of the hottest concepts today is the 24-hour fitness concept. The founders of Anytime Fitness were among the first to pioneer the concept; state-of-the-art exercise equipment in relatively small locations in the neighborhoods where people live and work.

There are no swimming pools, sport courts, day care or food service operations. By not providing these add-on activities, the founders of Anytime Fitness knew they could provide consumers most of what they wanted from a fitness facility, in a setting that was much easier to operate and could be built and operated for a fraction of the cost of the

big box clubs.

While the Anytime Fitness business concept is a simple one, there is nothing simple about the support the franchisor provides its franchisees. The franchisor developed a real estate group that assists franchisees with site selection and lease negotiation. It negotiated equipment packages at favorable rates. It has arrangements with various lenders to provide financing for franchisees. An affiliate provides security equipment and security monitoring. Another affiliate works with insurance companies and health maintenance organizations to obtain reimbursements on membership fees that franchisees can offer to their members.

Anytime Fitness has even entered into an agreement with a company that processes all billings so that franchisees do not have to handle any money! All of this is in addition to the development of training programs and manuals that are expected of every franchise system. It is no wonder the system has grown from 41 outlets at the start of 2005 to more than 1,300 outlets today.

The assistance you provide must not only be initial assistance, but ongoing assistance as well; once franchisees are

established, if they do not feel you are constantly adding value, they will quickly forget the initial assistance you gave them. If you are already established as a household name throughout the world, the ongoing value you bring to franchisees is obvious. Apart from everything else they get, without the McDonald's or Subway name, franchisees of those systems lose hundreds of millions of dollars a year in advertising that brings people to their restaurants. What is it that you will offer your franchisees to keep them in the system for five, 10 or 20 years? If all you have is your franchise agreement, that bodes well for the lawyer who will enforce it, but it is not the way to build a franchise system.

Simple economics

This is the simplest but most important question to ask. Can franchisees pay you a royalty that makes you profitable, while still earning a healthy return on their investment? Do some financial modeling to answer this question before you embark on a franchise program. Making franchisees profitable is not the only thing you need to do to be a successful franchisor, but the failure to have profitable franchisees is the death knell for a franchise system.

Becoming a successful franchisor does not happen overnight. It takes a proven concept, time, money, and a commitment to your franchisees. It is a different business than anything you have probably done in the past. However, if you put it all together, you could be the next Subway or Anytime Fitness.

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