

PREPARATION KEY TO FRANCHISING

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Let's say you run a successful business - so successful that people are always telling you they'd be interested in buying a franchise. What must you do to become a franchisor?

Before your business can sell a franchise, the buyer must be given an extensive disclosure document called a franchise offering circular. It's a document that can be likened to a securities prospectus.

Financial statements of the franchisor must be included in the franchise offering circular, and in many cases these statements must be audited by an accounting firm. A franchise agreement must also be prepared, and the agreement must be described in the circular.

If franchises will be offered outside Ohio, it may be necessary to register the offering circular with state authorities. However, no registration is required if franchises will be offered only in Ohio.

The cost of preparation of the franchise documents ranges from a low of around \$15,000, if franchises are to be offered only in Ohio, to \$100,000 or more if franchises will be offered in numerous states. But the cost of franchising doesn't end there.

A first-time franchisor will probably need to become involved in franchisee recruitment, to adopt new accounting procedures, to create training and operating procedures and perhaps to make other adjustments in his or her business concept.

Even though franchising is complicated and expensive, many business owners find it an attractive way to grow their businesses, when compared with the alternative of financing and staffing company-owned outlets.

Some kinds of business arrangements may be similar in effect to a franchise, but exempt from coverage under franchise laws.

An example might be a joint investment between two parties in a business, where the 'franchisee' receives an employment contract from the business, and the business pays a royalty to the 'franchisor' for his trademark. However, no business owner should employ a strategy like this without reviewing the plan with an attorney familiar with franchise law.

Sellers of business opportunities sometimes assume they aren't covered by franchise laws because they use other words, such as 'distributorships' or 'equipment sales arrangements,' to describe their arrangements. While some of these arrangements may be exempt from franchise laws, the nature of the transaction is the determining factor, not the terminology.