

WHAT YOU NEED TO KNOW ABOUT FRANCHISING YOUR BUSINESS

The Success of Franchising

Never before in the history of marketing has a method been more successful for business owners to expand than in franchising.

According to the U.S. Department of Commerce, franchising has a failure rate of only 3.7 percent.

Franchising is expected to reach \$2 trillion by 2010, according to the Federal Trade Commission.

A survey was conducted with the help of the International Franchise Association to its franchisor membership and one of the questions that was asked to existing franchisees was..."Would you purchase your franchise if you had it to do over again?" The answer was positive from 93 percent of the owners. This confirms the success of franchising in the lives of franchise owners.

What is franchising?

To define franchising in one word would be “marketing”.

Franchising is a very sophisticated method of marketing a product or service that just happened to be federally regulated in the United States and many foreign countries. Although franchising as a method of marketing can be dated back thousands of years ago, modern day franchising had its origin around 1850 when Singer Manufacturing Company began offering distribution agreements to individuals to represent their product. Franchising has come a long way since then. Around the 1900's, the oil and gas industries along with the automotive and bottling industries, used “trademark” franchising exclusively. By the mid 1930's numerous businesses used “business format” franchising as their method of expansion. But by the 1950's with businesses like McDonalds, franchising came into it's own. It was not until October 21, 1979 that the federal government enacted FTC Rule 436 which requires franchisors to comply with various regulations and guidelines in the offering of a franchise. This rule is still required to this day. For a copy of the Rule go to <http://www.nfsdev.com/rule/ftc436.pdf>

What is a Franchise?

A franchise in a word is an “agreement”. It is the contractual relationship that binds the parties together. The true value of any franchise will depend on the agreement itself. It is very important that the agreement be marketable too!

Some of the items that require careful consideration are:

- The initial franchise fee
- The trademarks and use of
- The continuing fees (royalties)
- The terms and conditions of the agreement
- The territory
- The training provided
- The support of the franchisor