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BUSINESS & TECHNOLOGY

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How to get big bucks with a franchise

BUSINESS

Imagine opening 10 new business locations without having to foot the bill for real estate and development costs or taking on any of the risk.

Even more, imagine finding managers to run those locations, who are just as committed to growing the company as you.

Sound far-fetched?

Not if we're talking about franchising, one of the fastest ways to grow a small business without breaking the bank, experts say.

"It's a way for companies to expand and grow, using other people's capital and human resources," says Harold Kestenbaum, a franchise attorney who is counsel to Farrell Fritz in Uniondale.

That's because it's the franchisees, not the franchisor, that have to pay the expense of securing a location, renovating it, equipping it, stocking and staffing it, Kestenbaum explains. In essence, they become stakeholders, who now have a vested interest in making the business work.

As the franchisor, you are responsible for providing the necessary training to get them started, as well as any follow-up they may need and company-



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wide marketing support, use of name, logo, etc. Most of these start-up costs would be covered by an initial franchise fee that you would collect from the franchisee, Kestenbaum says. You would also be paid a weekly or monthly royalty fee, which typically ranges between 4 percent and 6 percent of a franchisee's gross sales, he notes.

Sound like a sweet deal?

Well, it can be, providing that your business is franchisable.

"Not every business is," says Ken Stein, president of Kensington Co. & Affiliates in Roslyn Heights, which specializes in franchise sales and development. "A franchisable business is a business that has proven reliable systems that can be duplicated."

This means that when you follow certain procedures and practices, you can assume certain results, he explains. The bottom line is this: The business has to be teachable, or franchising just won't work.

A franchisable business should also be able to demonstrate its ability to capture market share in the face of competition, adds Dan Rowe, chief executive of Fransmart, an Alexandria, Va.-based franchise development firm.

If you're not making enough money to pay your own bills, then don't even consider franchising. Your franchisees must be able to get a return on their investment, preferably a 25 percent to 30 percent annual return, he says.

Beyond strong financials, having a proven track record also is beneficial, experts say. In general, it helps if it's an established concept, notes Rowe, although there are exceptions.

For instance, GarageTek Inc., the Syosset-based manufacturer of garage storage systems, was in business only about a year before it started franchising in 2001, says co-founder Skip Barrett. It now has 55 franchisees and growing.

It helped that the concept was unique at the time, says Barrett, who estimates that it cost the company more than \$750,000 to get into franchising. This included legal and consulting fees, marketing and creating all the

necessary materials and manuals.

The company, which worked with Kestenbaum, has about half a dozen training manuals it gives to new franchisees covering everything from operations to sales and marketing.

Training is essential to any franchise operation, says Capt. Joseph Frohnhoefer, chief executive of Sea Tow Services International, the Southold-based company that has been helping stranded boaters since 1983.

At Sea Tow, training is a minimum of three weeks with some time on the water at one of its training centers, says Frohnhoefer, noting that the company now has more than 100 franchisees in the United States and 12 internationally.

Sea Tow started licensing its name in 1984, but it wasn't until 2000 that it started franchising at the request of its licensees who wanted more stability and a stake in the long-term growth of the company, Frohnhoefer says. It cost the corporate organization close to \$500,000 to go from licensing to franchising its operations. The total franchise network now represents about \$22 million in annual sales, of which Sea Tow International

generates about \$4 million annually in royalties and franchise fees, he says.

It's a commitment, he adds, but one that he thinks is worth it. For franchisors starting out, he suggests getting experienced legal counsel to help establish the framework and walk you through all the paperwork.

Among the legal documents that need to be filed is a Uniform Franchise Offering Circular, basically a disclosure statement that outlines the franchisor's entire operations including its franchise fee structure, history, and management, says Stein of Kensington Co. & Affiliates.

When getting started, you'll also want to consult with an accounting firm, preferably one that has handled franchisors before, and perhaps a franchise consultant, experts say.

It certainly seems like a lot of work, but if you don't set up the framework right from the beginning, you could have problems down the road.

In the end, if you're not willing to make the investment in growing your own business, then why should anyone else?

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