

Title:

How Turn A Franchise Agreement To Your Advantage

Word Count:

520

Summary:

How to understand the terms of your franchise agreement and turn it to your advantage, before signing on the dotted line...

Keywords:

franchise agreement, legal advice

Article Body:

Deciding to buy a Franchise is a huge decision. Once you have convinced yourself that franchising suits your character and business aspirations, have identified the right franchise, done your sums, attended the initial training and perhaps paid an initial deposit you will be presented with a Franchise Agreement to sign.

Typically this agreement could run to 40 or 50 pages and can be a daunting read to those unfamiliar with commercial contracts. The very nature of a franchise business structure means that the agreement will be fairly complex. Remember that this document provides the framework for your business life over the next seven years or so.

Franchisors, particularly established ones, will rarely change or negotiate the terms of their standard Franchise Agreement as they will want to maintain uniformity across all the franchises. However, it is essential that you understand what you are being asked to sign. Once you have signed an agreement as a business person (without the cotton wool treatment given to consumers) you will struggle to persuade a court later that the terms were unfair or sufficiently unreasonable to be void. You will be stuck with it! I strongly recommend that you seek legal advice from a commercial solicitor familiar with franchising.

Key areas include establishing the true cost of the franchise including ongoing royalties, advertising costs, minimum stock purchases. What location and territorial rights have been granted? Are these exclusive to you? What property and equipment is required? What obligations are there on you and the Franchisor relating to the ongoing operation of the franchise?

Often the most complex area relates to renewal and termination of the franchise. Are you granted an automatic renewal right beyond the franchise term of 5 or 7 years? What renewal fee is payable? Can you sell the franchise on? Usually you will need to give the franchisor first option and/or a right of veto over the acceptability of any proposed transferee, often coupled with a % fee. What are the consequences of an early termination by you if you want or need to get out prematurely? There will usually be a minimum period with forfeiture of the franchise fee, stock and possibly other financial penalties and compensation. What if you are in breach? What circumstances would lead to an automatic termination? Are you given a period in which to remedy your breach?

Ask yourself some "What if?" scenarios. What if you died or were seriously ill? What if you failed to meet your sales targets? What if you wanted to sell product out of your territory? What if a customer sued you for faulty products? If you cannot answer all your What ifs, do seek more advice. Don't be afraid to ask the Franchisor these questions. But don't expect an impartial response. The Franchise Agreement will usually have an express term preventing any reliance upon representations or claims made by the Franchisor in the initial presentations or documentation. Much to the disappointment of many clients who come to us for advice having run an unsuccessful franchise, this applies particularly to any claims as to how much money can be earned... Buyer beware!