

JOINING A FRANCHISE – TOP 5 TIPS YOU NEED TO KNOW

1. What are advantages of joining a franchise rather than setting up your own business from scratch?

- it can be quicker to set up and make successful than a new business, which in turn reduces your working capital requirements;
- start-up costs are likely to be lower than starting a new business;
- start-up finance may be more readily available as the brand is well known;
- you may be able to make use of franchisor's purchasing power and take advantage of economies of scale;
- as the franchise is already established, the risk of business failure is substantially less than starting a new business.

2. Investigate the business and financial condition of the franchisor

Before joining a franchise business one of the most important matters for you to consider is the success and reputation of the franchisor's business and brand. Your success as a franchisee will hinge on the franchisor's business and will be directly affected by the actions and solvency of the franchisor. As a first step therefore you should investigate the business and financial condition of the franchisor.

3. Don't handover any money before understanding what you are getting into

Many franchisors will want some commitment from you to demonstrate how serious you are to take over a franchise. Before you part with your hard earned cash make sure you understand what happens to your money once it is handed over - can you get it back if you don't proceed? Will you get a full refund or only part?

4. Get a Risk Review of your Franchise And Finance Contracts

Once you have chosen your franchise and are satisfied that it's the right business for you, you will be required to enter into a franchise agreement (sometimes known as a licence agreement) with the franchisor.

The franchise agreement is one of the most important documents in a franchise business, as it, alongside the manual, will regulate the terms on which you operate the franchise business. It is therefore important that you understand from the outset exactly what your obligations are and

what the franchisor's obligations are. This will help you confirm whether the franchise is right for you.

By way of guidance, some of the key issues covered in the franchise agreement, in addition to your obligations and those of the franchisor, include:

- **Rights** – what rights are being granted? Is the territory in which you may operate sufficient? Is the territory exclusive to you, or can the franchisor sell or appoint others to sell in the same territory?
- **Fees** – what fees are you are required to pay? What is the initial fee? Are there any continuing fees, such as a marketing levy?
- **Term** – how long will the agreement last? Is there a right to renew?
- **Sale** – can you sell your franchise business? If so, what is the process involved?
- **Termination** – when and how can the agreement be terminated?
- **Restrictions** – are there any restrictions on what you can and can't do outside of the franchise business, both during the agreement and after?
- **Onerous and unusual terms** – are there any terms within the agreement that are particularly onerous or unusual and therefore which need careful consideration?

The franchise agreement is likely to be a long and complex document. You should therefore seek advice from a franchise specialist before committing yourself. Remember you will be bound by what you sign!

If you require finance to take on the franchise you will also have to sign up to loan documentation and associated guarantees – to understand the consequences of the financial commitments that you are making, get specialist advice.

5. Get help with any lease of premises and operational licences

The operation of your franchise may be contingent on you finding a property and getting it ready to open within a strict timescale. To ensure you understand the commitment you are entering into when taking on a lease and that the premises can be used as required to operate the franchise get a risk review of any lease documentation and help in applying for appropriate licences.

Word to the wise

Taking on a franchise is a long term commitment that you will not be able to get out of early just because you have changed your mind. Get advice on the contracts that you are required to sign up to so you understand what you are agreeing to and make an informed decision to go ahead.



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