Franchise Agreements

In one of my columns a few weeks ago, I wrote about the future of franchises for 2020. I got some requests from readers to explain “Franchise Agreements” to which I had referred.

Franchise Agreements are the core operating principles that define the relationship between the franchisor and the franchisee.

It’s a legally binding document that spells out, usually in great detail, the integrated touch points of running the business from the franchisor and franchisee point of view. If you think of a franchisor (the brand) as a License and the franchisee (individual owner) as the Licensee, this contract establishes each one’s rights and obligations.

The purpose of utilizing a Franchise Agreement is a simple proposition to comprehend. This legal document is designed to balance the needs of the franchisor in protecting its intellectual property--while at the same time, ensuring consistency in how each of its franchisees operates as collective representatives of the brand.

I always recommend to an entrepreneur, that it is highly advisable to provide yourself with legal representation when reviewing a Franchise Agreement. Due diligence is the responsibility of the licensee in this case, and it is extremely important for potential franchisees to understand every aspect of the mutually beneficial relationship spelled out in the document.

Franchise Agreements are known for their length and level of detail, but all typically include the following sections:

- **Relationship**: The contract will define the two parties entering the agreement, who owns the intellectual property, and the obligations of the franchisee to operate according to the brand’s expectations.

- **Duration**: The length of the relationship, which can vary based on the brand, its territory and expansion goals.
• **Initial franchise fee and associated costs:** Franchisees will pay a set initial franchise fee, most likely royalties and possibly other associated costs—all of which must be listed.

• **Territory:** Where the licensee is authorized to operate the franchise, whether or not it is protected (no competition) and the precise boundaries.

• **Site selection and development:** Franchisees are typically responsible for site selection, pending approval and assistance from the franchisor.

• **Training and support:** Franchisors will detail what they provide the franchisee in terms of training prior to opening the business and the level of ongoing support.

• **Intellectual property:** How a franchisee is permitted to utilize the brand’s intellectual property.

• **Marketing/Advertising:** If applicable, the commitment franchisees must make to cooperative funds for the purpose of promotion.

• **Insurance:** The minimum insurance policy a franchisee must carry to operate the franchise.

• **Records:** Bookkeeping required by the franchisor and its’ right to auditing of information.

• **Miscellaneous:** Other sections may include instructions or expectations of a franchisee's successor rights, default, termination, indemnification, dispute resolution, resale rights, transfer rights, and other assorted notification processes.

You may wish to consider more than one to make a selection for your business. Compare the agreements. As you may notice, there are several commonalities that you might find in any type of legally binding contract. The franchise agreement should be carefully reviewed with professional legal representation. I advise that if you don’t understand a particular point, always make it a point to ask questions until you understand.

Over the years I have worked with FranNet and found them to be extremely helpful. They assist individuals with the entire franchise process – from franchising an existing business to purchasing or selling a franchise. FranNet is committed to providing continuous marketing, business and operational support so that they may be looked upon as the most knowledgeable, professional and successful franchise consultants in the industry.
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