Reviewing your franchise agreement

You have decided to become your own boss. You have researched the different franchise systems on offer and selected the one you want to go into business with. They have accepted you as a franchisee and given you a copy of their standard franchise contract. STOP!

At this point a staggering 66% of franchisees sign the contract without taking legal advice. Often the franchisor will add to the sense of urgency by telling you that there are "many other" people waiting to sign up for the franchise area that you want, or that the next training course is starting soon and the franchise contract needs to be signed before you can enroll on it, or the discount period on the initial fee is about to run out and a higher fee will be payable if the contract isn't sighed soon.

It is always important to take legal advice before you sign a contract that (in the case of most franchise agreements) usually lasts for 5 years, with no option to simply walk away.

And don't be persuaded by logic such as, "80 other franchisees have signed up to this franchise – so it can't be that bad!" or "most franchisees don't usually take legal advice – and they're doing just fine!"

What to look out for

A typical franchise agreement will cover six main areas:

1. Term

The term of your franchise agreement covers how long the franchise lasts, how it is renewed and on what terms. It also looks at how your franchise can be terminated early. There may well be performance criteria to be met.

2. Territory

This is the geographic area which your franchise covers. Whether or not you have exclusive rights and how the borders of the franchise territories are covered.

3. Fees

These come in many forms and are usually broken down into an initial fee, royalties on sales and a regular management fee. Depending on the franchise you may also have other costs to pay. Joint marketing is a common one.

4. Support

The amount of help you get from your franchisor is often critical for success both when you start your business and on a continuing basis, as you progress.

5. Restrictions

Most franchisees will place restrictions on what you are and what you are not allowed to do. They often stipulate how you should run your business. Minimum stock and staffing levels are common, as are where you purchase your stock and how much you can sell your product or service for.

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6. Exit

The framework in which you can sell your business and what happens if you can't continue in business for some reason – perhaps due to ill health or lack of funds.

Other items which need to be considered include how "goodwill" is treated, insurance cover, and intellectual property rights

It is the reality that franchise agreements are not usually tested until things start to go wrong. If you are unlucky enough that the franchise you bought is not all you expected it to be then (and it does happen) you may live to regret not taking legal advice before signing your franchise agreement.

This is particularly true in franchising, where a franchisee typically has little power when things start to go down hill. Far less so than in an independent business, where a business owner can close the doors and hand back the keys. In franchising, there is an ongoing responsibility until the end of the franchise period. So remember, before you sign your franchise agreement, **STOP!** and take legal advice.