



EPISODE
156

THE DEAL ROOM

The top legal tips when selling a franchise

The Deal Room Podcast

Episode 156 – The top legal tips in selling a franchise

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Transcript

Joanna: Hi it's Joanna Oakey here and welcome back to The Deal Room Podcast a podcast proudly brought to you by our commercial legal practice Aspect Legal Now today we have on the show a guest that we have had in the past we have Nicole Segal from our very own Aspect Legal talking about the top legal tips in selling a franchise. Now Nicole has been on the show before when we have looked at the legal tips when buying a franchise. So today we're flipping the story around a bit and we're looking at how to prepare a business for exit when you're selling a franchise. So if you are a business owner that runs a franchised business, and you're looking at exiting in the future, or indeed you're a broker or other advisor to franchises, then you might find this episode interesting. So buckle in, here we go with Nicole. Hi, Nicole, welcome to The Deal Room podcast.

Nicole: Thank you for having me.

Joanna: Brilliant. Well, no, thank you. I'm really excited to talk today. Of course, a few episodes ago, we talked about the top legal tips when buying a franchise. And so today, we thought let's flip it around and look at it from the other perspective for all of our franchisees out there who are, you know, potentially gearing up for a sale. So it would be useful if we gave them some pointers about the top legal tips in selling a business that's franchised.

So I guess first of all, you know, some of the tips that we'll talk about today will be general to any business sale environment, because I guess selling a franchised businesses is effectively selling a business but there are nuances of where you know, you have a franchisee because there's it's a different type of relationship. So maybe just give us a quick background, Nicole on what some of these things that you think in particular are relevant to franchisees if they're looking at gearing themselves up for sale?

Nicole: Well, what franchisees are looking to sell their business, they obviously need to get their accounts right and bloodlessly help if it's a profitable business and then so they get their books, right, get all their ducks in order work out exactly the benefits of the sale, how that will really benefit the buyer. So I think if you can work out everything that you've got to offer, the goodwill, the clients, your intellectual property, everything that you can sell, and really outline that quite clearly that would really help some interested purchases to your business.

Joanna: And, you know, I think it's a really good point that you make, because, you know, implicit in that discussion is the value of the franchisor within, you know, which seems obvious, but you know, I think something that's important perhaps for sellers who have franchisees to consider is what is it that really works in your relationship with your franchise or and you know, what information can you provide to the buyers to help them get to that level of comfort about that relationship that they'll be entering into with that franchise or for quite a long period of time to come? You know, perhaps these things as well from that perspective that a franchisee should be considering.

Nicole: Absolutely and the the benefit of the franchisee selling to another franchisees or the inside information how how they deal with that particular franchise or their relationship with that franchisor and all the, you know when to turn to them for backing support or train additional training or those sorts of issues that franchisor could really assisting you franchisee

Joanna: Yeah, yep, brilliant. Okay, and then so and maybe let's run through the other elements, obviously, one of the elements to think about is this contractual relationship with the franchisor maybe if you can spell out to our listening audience sort of the steps that need to be taken by a seller in preparing for sale and then throughout the the sale process.

Nicole: Absolutely. So when you sell a franchise business, you've got an existing franchise agreement that you would really need to assign to the new franchisee, and the franchisor would obviously have to approve of that franchise assignment. So there's a number of things that you'd really the new franchisee would really need to provide to the franchisor.

In order to obtain the approval, they'd have to provide obviously, their names, their business experience, their business history, and they'd really have to prove to the franchisor that they would be prepared to actually meet the standards and meet the franchisors expectations to be able to assign the franchise to the new franchisee.

So the franchisor will have a lot of criteria and a lot of it is actually contained in the franchising Code of Conduct. Franchisors need to be reasonable, they can't just refuse franchises, or sells to franchisees because it's too hard or they're not interested, they need to be reasonable throughout the process. But they also need to be satisfied that the new franchisee will actually make the money, at the end of the day, be good security be good for that brand, be good for the image. That's what that really need to prove.

Joanna: So it's important, you know, for sellers, as well as buyers to understand you don't have that information that will need to be provided. But, you know, hopefully, it's reassurance as well, that there are certain requirements that provided to the legislation to ensure that there's the reasonableness of the, of the franchise or in considering all of that. So, you know, I think that that's a real positive. And so maybe that leads us to, perhaps talking a little bit about who are the Is there a typical type of buyer of a franchise, in your experience,

Nicole: What said is a typical type of buyer, I think buyers can be from all walks of life from all sorts of cultures, usually buyers, obviously are entrepreneurs or independent wants to proactive want to take the initiative, as opposed to just working nine to five for someone else. So I guess that might be the typical buyer. But generally, franchisees are buying into a franchise with the benefit of there's an existing model and existing seats, existing training existing know-hows existing customers, and they're the real benefits of buying into a franchise. So equally, when you're selling a franchise, you really need to make those all those elements clear to the potential purchaser and you know, let them know your customers, let them know your sales, let them know, the benefits to owning this particular business and how you can really benefit the purchaser.

Joanna: Yeah, it's about getting really clear in your mind, isn't it the value within your business? And how that value will pass to the buyer? I guess that's some, you know, sort of the way that we look at these sort of transaction so it's get yourself prepared for sale know what it know what's going to happen in the sale transaction, get your accounts clean.

Nicole: Absolutely. It is probably easier if with the franchise system, probably their normal businesses, because it's so strict and generally has to be audited. So the accounts are generally probably in a better state than most businesses.

Joanna: Fabulous. Yes. And then get ready to have some of those discussions in terms of recognizing and communicating what that value is in the business and how that value will transfer and and discussing, you know, some of the benefits of the franchise relationship that you're working in at the time. Is there anything we've left out from there? Do you think Nicole, in terms of the tips when we're selling a franchise business?

Nicole: Well, I think people who've sold businesses before usually need the approval of the landlord. So I guess this is just the double approval seeing the landlord's approval. Anyway,

the franchisors approval, so you can enter into any agreement without both of those approvals conditional upon the actual sale. And look, sometimes franchisors are really happy for franchisees to sell their business to another franchise. And sometimes they even provide financial incentives I recently acted for a client where the franchisor chipped in \$10,000 or whatever of the purchase price and said you know, we're happy to take you on as a new franchisee it will pay you know \$10,000 for the purchase of the business to really get you going so you can wow you're working with us and and that's what a good franchise model looks like when they really you can see that that from the beginning. They're happy to engage they're happy to negotiate and they're happy to work with a franchisee.

Joanna: Do you know what Nicole? I have a feeling once this episode is our phone lines are going to go hot. Everyone will be looking for you, Nicole, and be just like who is that franchisor, get me connected with them, they sound fabulous. And that's secret information is only available here through Aspect Legal, I love it, Nicole always providing a bit of extra value there but one of the things that, you know, I think would be useful for us to mention is there's actually a lot of moving parts when you're selling or indeed on the other side buying a business that's franchised and so because you've got the moving parts, I mean, there's always moving parts in the business so there's always a lot of people that you've got to get across the line. And but he we've got that extra and that extra component of the franchise or and having to deal with the franchise agreement. There's timeframes that that you know, relate to the disclosure documents and all of these sorts of things, right. So there's lots of new parts. So I think this is where it's really important to be very selective in the people that you have on your deal team.

And you know, the lawyers who are effectively in many instances project managing this and making sure everything runs smoothly and quickly through the process. So I think that's just, you know, perhaps that's something that someone who has not sold a business many times before or ever before not bought a business many times before or ever before may not realize that there's so many moving parts and, and it's a critical decision to make to get the right deal team together for people number one who understand the area of franchising, but number two, who know how to get these deals across the line quickly and smoothly. without creating road bumps. Do you have any thoughts on that? Nicole?

Nicole: Yeah, I absolutely agree. And when I deal with these issues, you really need to be organized and be proactive. And I think I as a lawyer can really provide that sort of advice and negotiate with the landlord negotiate with the franchise or also potentially negotiating with the employees and who you're going to leave the key. It's very important to get the right advice, what payouts need to be made what what you need to do, because as you say, there are so many moving parts and it can be seamless, if you have the right team.

Joanna: If you have the right team. Exactly. Because it's a you know, this is just it's just one of those things that are these AI mistakes that I see again, and again and again, people using, you know, buyers and sellers having professionals in their deal team that aren't experienced in this area, and then they get caught up in the slog of things going slow things going wrong, because they don't know how to deal with the issues that come up.

Nicole: Absolutely, yeah, because franchising is a niche area. Not everyone has experienced in it. So there might be very used to selling businesses but may not know the timeframes and the particularly things that are necessary for assigning or transferring a franchise agreement,

Joanna: The nuances of the franchise area Nicole, the nuances of the franchise area. Okay, fabulous. All right. Well, look, I think that's been a really good run through Is there anything that you think we've missed out from our list today for our listeners?

Nicole: I think for both franchisees selling and franchisees coming in, he can go really, really well do your due diligence, ask the right questions, and most importantly, get the right advice.

Joanna: Excellent. Brilliant. Okay, Nicole. As always, it's been a massive pleasure having you on the show. Thank you so much for coming on to the dealer and The Deal Room podcast today.

Nicole: Thank you so much.

Joanna: Well, that's it for this episode of The Deal Room podcast where we had the fabulous Nicole Segal of our very own Aspect Legal talking all about the legal tips in selling a franchise. Now if you'd like more information about this topic, then just head over to our show notes or over to our website at www.thedealroompodcast.com where you'll be able to download a transcript of this podcast episode. If you're one of those people who just love to read it along in finer detail.

There you will be able to find details of how to contact Nicole or any of our other legal eagles and Aspect Legal If you or your clients would like to discuss any legal aspects of business sales or acquisitions, we've got a number of great services and we work with clients both big and small. And so we've got different types of services depending on size and complexity. So look, don't hesitate to book an appointment with our legal Eagles if you'd like to find out how we might be able to assist and finally if you enjoyed what you heard today, then don't forget to hit the subscribe button so that we delivered each week to your phone or your favorite podcast player. Well, thanks again for listening in. You've been listening to Joanna Oakey and The Deal Room podcast. See you next time.