



## A GOOD FRANCHISE AGREEMENT CAN BE YOUR BEST FRIEND

If you are about to become a new franchisee, you may have some anxiety when it comes time to sign the franchise agreement. You will probably wonder what part of the franchise agreement is negotiable and how you can be certain you're getting a fair deal.

Every franchise company has a standard franchise agreement which states what the franchisor expects from you and what is allowed. The better and stronger the company, the longer the agreement and the less likely they will be to negotiate the terms of the agreement. This is only fair. Why should a better negotiator get a better "deal" on their franchise than someone else?

There are also legal issues involved when a franchise company makes some agreement terms negotiable to only some franchisees. A franchise company must comply with laws requiring them to disclose any special deals or terms they have negotiated, which protects potential franchisees. And, having many different agreements can be cumbersome to administer.

Assuming you've chosen to join a strong and successful franchise, you need not be afraid of the franchise agreement. Consider the purpose of a contract as it applies to franchising:

1. Describes the costs associated with being awarded a franchise
2. Explains the issues regarding physical property, such as the location, building, equipment and supplies
3. Defines the operating practices which protect the entire franchise system
4. Identifies your protected territory
5. Protects the franchise network from the few "bad apples" that may harm the brand.

Suppose you've purchased a Mighty Cold Ice Cream franchise. The franchisor's agreement says you will buy the equipment and ice cream ingredients from them at a discounted price. Your business is protected because you have the discounted price in a contract. The brand is protected because it means no franchisee can sell another, perhaps inferior, product under the Mighty Cold name.

As you can see, this is the major benefit of franchising. The quality of the product is standard from franchise site to franchise site. Susan in Sacramento uses the same recipe and ingredients as Bernie in Boston. Serving sizes are the same and everything from pricing to advertising is similar. A Mighty Cold fan knows that wherever he travels, eating a dish of vanilla swirl will give him the same enjoyable experience.

In addition to protecting the quality and standards of the brand, a good franchise agreement will define the rules of the relationship. The Mighty Cold agreement may prevent Susan from selling her Aunt Lena's krumkake in her ice cream parlor and assure that Bernie doesn't provide advertising space on his parlor walls for the local micro brewery. The rules of the relationship are carefully constructed to make sure each franchisee has an equal opportunity for success, and that the brand name of the franchise is protected.

In the same manner, having a protected territory spelled out guarantees you that your Mighty Cold parlor won't be competing with another Mighty Cold on the next street. The size of your territory, however, is one item that *can* occasionally be negotiated in a contract. So, if that is a concern for you, be sure to ask.

Here's an example of other items you can expect to be covered in a franchise agreement:

- What exactly is covered in the initial franchise fee
- Whether the franchise fee includes an initial inventory of products and supplies
- If the franchisor will provide continuing inventory
- The degree of control the franchisor will exert over franchise identity and product quality
- If continued training and assistance will be provided by the franchisor

- Whether advertising will be local or national and if the cost will be shared
- How royalties are calculated and paid
- What will be the bookkeeping, accounting and reporting requirements

Remember, just because a franchise agreement is valuable to you doesn't mean you should sign it without question. Go over each and every provision carefully and be sure you understand why each item has been included and how it will affect you. A good franchisor will spend whatever time necessary helping you to become comfortable with the contract.

Finally, don't let the complexity of a franchise agreement steal the excitement you have over becoming a business owner. This is a thrilling time and a good franchise agreement is just your assurance of getting a fair and equal chance at success. By protecting the franchise brand name and good will, the franchise

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