

Iain Martin, head of Kyros Business Services discusses the importance of having a resale strategy

NEED FOR RESALE STRATEGY

THE rationale for the development of a resale process that is specific to the franchisor's business is to provide a transparent and open system for both the franchisee and the purchaser.

As such, it should provide a step-by- step illustrative guide so that both parties understand and recognise the process involved, and the logical progression required to successfully conclude the resale.

Generic templates for resales are available that allow the franchisor to use a proven system for its own specific circumstances. A savvy franchisee will not only want to make a trading profit from his franchise, but also enjoy capital appreciation from his initial investment.

As a franchise system evolves both franchisor and franchisee go through a life cycle. That of the franchisor reflects the various stages of its development when specific skills are required. These may be resident within the management team, or bought in.

As a generalisation, after 10 years in a franchise system a franchisee reaches "old age" and is unwilling to take risks. He is often comfortable with his earnings and is in what is termed the comfort zone.

So what determines the right time for a franchisee to sell? Ideally, he should have included an exit strategy in his original business plan, and will be working towards that final goal with an aim of maximising the resale value of the business.

What often happens, however, is that a franchisee gets into a comfort zone and either voluntarily decides to sell or, due to his lack of performance, is persuaded to sell by the franchisor.

Over time, the franchisor will fine tune the qualities required for a successful franchisee. Sometimes, this means that the franchisees who were recruited at an early stage in the franchisor's life cycle no longer meet its current franchisee selection criteria. Such criteria and standards are essential if the franchisor is to protect the integrity of its franchise network.

Three parties

The agreement for the sale and purchase of the franchise can be between either two or three parties. A three-party agreement involves the franchisor, the exiting franchisee, and incoming franchisee. In this situation, details of the sale and purchase process and requirements would normally be included in the current franchise agreement, and the franchisor is often a party to the lease where premises are involved.

In a two-party resale agreement, the franchisor has no involvement with the franchisee's premises, and will enter into a new franchise agreement with the incoming franchisee.

An important element in the resales process is the valuation of the franchisee's business. Whilst it is helpful to establish guidelines to arrive at this figure, the ultimate price agreed will be based on what someone is prepared to pay, or what the market will bear. A number of accountants offer a valuation service, but as a guide resale values for goodwill are currently averaging around three times restated net profit. This formula does, however, vary considerably depending on the specific franchise.

A franchisor should develop a resale process to recruit new high calibre franchisees to replace those in the network, who have either lost their drive, or are in their comfort zones. By doing so, the franchisor will continue to build its business. In addition, of course, it has a responsibility to the network as a whole to ensure that all the franchisees within the system have the right qualities.

Resales can be a challenging area for many franchisors, and an article of this length can do little more than skim the surface and introduce some of the issues involved. It is an aspect of the business in which calling on the advice of an experienced franchise specialist in this field would prove to be a very wise investment.

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