5 Essential Elements Franchisees Need to Know about Their Franchise Agreement

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The franchisor and franchisee relationship is a bond built on many factors, including trust. Let’s face it, the amount of risk incurred by both parties dictates an atmosphere of honesty, integrity and conviction — or failure is imminent.

For the franchisor, their brand is at stake. They need to be sure that the people who represent them and their business will do so with a similar passion. Franchisees also have a lot to lose — primarily the money invested and possibly other costs if they do not follow the legal requirements of the franchise contract.

With so much on the line for everyone involved, creating and maintaining a climate of trust is essential. No one can argue that a legal contract is vital to the process. This document is designed to protect both parties and facilitate success. Here are five crucial elements all franchisees should understand about their legal document.

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1. Protection

The Federal Trade Commission implemented the Franchise Rule to facilitate fair contracts and interaction between the franchisor and potential franchisees. This rule protects everyone involved from undisclosed information or other deceptive practices.

The Franchise Rule requires the yearly creation of a Federal Disclosure Document (FDD) which contains 23 specific items of information about the offered franchise, its officers and other franchisees. Be mindful that the franchisor has a massive investment to protect. This document might seem overwhelming with legalese, and both state and federal mandates; however, each item is there for a reason. In addition, you will encounter a Franchise Agreement that further specifies the contract details between you and the franchisor.

It is fair to say, most franchisors want their brand to grow, so they want your franchise to succeed. The requirements in the document are designed to protect both sides from financial ruin or setback and from other liabilities that could harm the brand. “One bad apple” in the whole bunch can do an unbelievable amount of damage to the company. The contract dissuades these types of negative encounters for overall success.

2. Time

Purchasing a franchise is a monumental decision that no one should take lightly or be coaxed into quickly. Know your rights concerning your time frame. You must be allowed 14 days to review the Federal Disclosure Document (FDD). An additional seven days must be granted for the review of the franchise agreement contract. Best practices for signing this binding document include taking your time and sitting down with your

lawyer to make sure that you understand everything.

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3. Reasonable requirements

While the franchisor will most likely be reasonable with the requirements outlined in the franchise agreement document, be sure to understand your role and obligations completely. These requirements should be both practical and attainable. Everyone's limitations and capabilities vary, so if the document outlines requirements you cannot adhere to, you need to know this information up front. You don't want to be bound to an agreement you cannot uphold.

One example would be the financial obligation attached to your agreement. A franchisor might have requirements such as remodeling your location or rebranding at certain intervals or renewal periods. The franchise agreement document might state that these expenses lie totally on your shoulders. If this stipulation sounds like something you cannot honor, you need to have a conversation with the franchisor and come to a mutual agreement. Some laws and regulations are common across the board and non-negotiable for all franchise agreements. However, if your franchisor has additional requirements that don't sound attainable, don't become attached to that brand by signing the document.

4. Specialized lawyer

Both the franchise agreement document and the FDD are quite daunting for anyone's eyes, especially first-time business owners. Even people who have seen these documents can be taken aback by their complexity and length. Hiring a lawyer specializing in franchise agreements and well-versed in scouring details is imperative.

A lawyer who specializes in franchise agreements understands your risk. They also know how to break down the massive document and expose all of its elements. Sectioning the intricate parts allows you to understand your flexibility, risks and obligations, and if the franchisor's requests are reasonable.

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5. Exit requirements

Most people forget to project into the future and consider what will happen if it comes time to sell the franchise. Most franchisors have specific rules for such cases, and you need to know these requirements upfront, not when it's too late.

An optimum agreement will grant some flexibility. It would be best if you took a hard pause on any exit requirements that lack this feature. Suppose you would need to sell the franchise for financial reasons. In this case, you don't want the added burden of fines and other payments dictated by the agreement.

Owning a franchise is a complicated business decision that requires a level of trust with your franchisor. Beyond this understood connection, people considering purchasing a franchise must perform their due diligence.

By investigating the brand thoroughly and approaching the franchise agreement regarding the five crucial elements above, franchisees are one step closer to owning the business of their dreams.

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