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Franchise Times | May 2018

Excerpts from: How to do franchise resales right

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Jumping into discussions about resales before the ink is dry on a franchise agreement is a little like discussing divorce before the wedding. However, exit strategies are a natural part of the life cycle for any business, and franchisors are recognizing that addressing resales early on can help to pave the way for a smoother transition in the future.

The maturing of the franchise industry, along with an uptick in resale activity, is bringing resale conversations to the forefront for many companies. According to FRANdata, the average transfer rate across all active brands franchising rose from 3.5 percent in 2013 to 4.1 percent in 2016.

A variety of reasons can trigger a franchisee resale such as retirement, personal reasons, entrepreneurial burnout, under-capitalization or the fact that the business simply isn't a good fit for the franchisee. And resales can occur after a year or two or after an owner has held that business for 20 or 30 years.

. . . **Start early**

. . . Some franchisors are proactive in addressing resales early on with incoming franchisees. "You want to be able to trumpet the successes that franchisees have had in selling their businesses, because at some point, everyone is going to want to be able to sell the business for a reasonable price," says Omholt.

It also is beneficial to embed resale discussions into the franchise system through educational sessions and webinars. For example, franchisors can address that topic at annual conventions by organizing break-out sessions led by tax advisers or certified valuation experts.

Play a supporting role

Franchisors can support their franchisees by helping them to think about an exit strategy, as well as walking through some of the processes for business valuation.

Ultimately, it is up to the franchisee to decide on sale price. However, the franchisor can help walk the franchisee through the process of determining a realistic valuation.

"We can hold up the mirror and tell them what the buyer is going to look for," says Thompson.

What does the multiplier of EBITDA (earnings before interest, taxes, depreciation and amortization) look like? How do they do an add-back for things the seller is taking out of the business that doesn't add value to the business?

In some cases, the franchisor can connect the franchisee with interested buyers. Some potential franchisees only want to buy an existing business rather than starting from scratch, while others might want a franchisee in a particular location or territory that is already sold. Resales create an opportunity to bring those interested franchisees into the system, and most franchisors keep records of those inquiries.

Buyers could be a trusted employee or someone in the industry who is ready to go to the next level and become a franchisee, or a neighboring franchisee who wants to expand their territory.

Some franchisors will bet on the horse they know—an existing franchisee—rather than take the risk of bringing in a new operator. "Sometimes that's a great thing, but as an across-the-board practice, we don't see that as particularly healthy," says Alan Gallup, a principal at National Franchise Sales. In any industry, it is important to have a certain portion of new development or resales coming from fresh blood coming into any organization.

"That helps to stimulate new thought, new ideas and it creates a little competitive environment, which if properly managed, is a very healthy thing," says Gallup. In addition, for a franchisee who is looking to maximize the value of their property, restricting the resale to a handful of chosen favorites is going to limit the value.

. . . At the end of the day, the franchisor does have approval rights on a resale. Franchisors want to make sure that buyer has the necessary financial resources and is qualified to run the business. . .

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