

Revitalizing Your Franchise System Through the Proactive Use of a Resale Process

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Franchising
Building local businesses,
one opportunity at a time.

Moderator: **Shawn M. Caric, CFE, VP Franchising & Ops**
Hollywood Tans, LLC

Panelist: **Gaylen Knack, Principal**
Gray Plant Mooty

Richard Leveille Jr., CFE, EVP Franchise Dev.
Smoothie King Franchises, Inc.

Jan Pithey, VP of Franchising
Dunn Bros. Coffee

START FROM THE BEGINNING OF THE RELATIONSHIP

- Succession Planning; It's never too early to discuss
 - Discovery Day
 - Training
 - Conventions
- Get Operations Involved Early and Often
 - Annual or semi-annual Succession Planning Sessions
- What's the End Game?
 - It's not always about the franchisor
 - Be proactive

IS THE FRANCHISEE BUILDING VALUE IN THE BUSINESS?

- Store Image/Standards
 - “The Gold Standard”
- Reinvesting
 - How are net profits being used?
 - Reinvesting, paying down debt or taking it home?
- Maintaining the Books
 - Any unusual items?
 - Following regular bookkeeping standards?

THE TRANSFER PROCESS

- WHY?
 - ROI
 - Manage expectations of all parties
- THINGS TO CONSIDER
 - Valuation of the business
 - Strategy (Brokers, Advertising, etc)
 - HQ Contact/Area of responsibility

THE TRANSFER PROCESS

- FRANCHISE AGREEMENT REQUIREMENTS
 - Fees
 - Notice of Intent to Sell
 - Purchase Agreement approvals
 - First Right of Refusal
 - Candidate Approval Process
 - Store Upgrades/Improvements
 - Training
 - Agreements with Vendors, etc

THE TRANSFER PROCESS

- DOCUMENT THE PROCESS
 - Seller Responsibility
 - Buyer Responsibility
 - Franchisor Responsibility

FRANCHISE DISCLOSURE BASICS AND CHALLENGES

- DISCLOSURE BASICS

- Disclose prospective buyer with current FDD if:
 - Buyer must sign new form of agreement or
 - Franchisor “active” in transfer process

FRANCHISE DISCLOSURE BASICS AND CHALLENGES

- DISCLOSURE CHALLENGES
 - Selling franchisee suspected of providing false info
 - Convince seller of need to correct
 - Address issue with prospective buyer – potential challenges
 - Include “safety net” in Franchise Agreement

FRANCHISE DISCLOSURE BASICS AND CHALLENGES

- DISCLOSURE CHALLENGES (continued)
 - Selling franchisee provides little or no notice of transfer
 - Use advance tactics to avoid situation
 - Maintain seller responsibility
 - Invoke default process

PRICING CHALLENGES

- DEALING WITH UNREALISTIC GOALS/EXPECTATIONS
 - Franchisee overestimates value of business
 - Underperforming franchisee equates debt load with business value
 - Negotiated price of business is too high

PURSuing A PROACTIVE RESALE PROGRAM

- Benefits of a Proactive Approach
 - Saving a franchisee from closing
 - Increased control over franchisee ownership changes
- Drawbacks to a Proactive Approach
 - Requires discipline and investment in resale program
 - Potentially increases exposure to liability

PURSuing A PROACTIVE RESALE PROGRAM

- KEY TACTICS
 - Resales as an exit strategy for underperforming franchisees
 - Use as an offensive measure in default situations
 - Offer termination agreement with a window to sell

PURSUING A PROACTIVE RESALE PROGRAM

- KEY TACTICS (continued)
 - Protecting your financial position in distressed sales
 - Understand leverage and how to use it
 - Persuade franchisee of value of deal
 - Knowing when to pull the plug – “lost causes”



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