



One of the certainties of business life is that at some time or other the ownership of the business will need to change hands. **Derrick Simpson**, one of the UK's leading experts in franchise resales gives us his top tips for capitalising on this opportunity

A wise man once said: "The purpose of a business is to make a profit and the aim of everyone who launches a business is to sell it profitably". Possibly a bold statement, but in reality not that far off the mark. Franchisors have to consider this from two different angles.

Firstly franchisees have a shelf life. Theirs is a life cycle influenced by various factors, which will bring them to the selling decision, including the length of the franchise agreement, their own age, their profitability and, dare I say it, boredom. The second view franchisors need to consider is that of their own business. At some stage or other, a franchisor may want to move on, so they also need to have an eye to their own future.

Interestingly though, with the rapid growth in interest in the reselling of franchises and the launch of specialist

services, franchisors are beginning to better understand the complexities of the whole process of franchisees selling their businesses. However, in many cases they are not applying the same plans or strategic vision to their business as a whole. Many times over the years I have coached franchisees to help them understand how they can optimise the value of the business they are running and have spoken at franchisors' conferences on the exit planning process for franchisees. This advice is often taken up by franchisors on behalf of their franchisees and imported into their operations systems, but often not adopted for their own franchise businesses.

Concentrating for now on franchisees, it is important to recognise that for most franchisees, they buy and sell a business just once in their lives, so it can be an emotional process going

as well as coming. The euphoria and energy exhibited when franchisees sign up, graduate from training courses and then launch their businesses is often dissipated during their lifetime as a franchisee. It is hardly surprising therefore that the same care and lightness of touch employed to bring them into the business should be used to help them exit. When joining, they are taking that big step into the unknown and trusting you with their futures. This is an ethical responsibility that most of us accept as one of the joys of franchising.

Going however seems to be a different kettle of fish. Too often franchisors either abdicate responsibility to assist with a sale or become so involved that it costs them time and money, for their franchisees to sell up and depart. In most cases this is because, whilst the overall sales of existing businesses are

growing, on an individual franchisor basis, the numbers are quite low. Resales are, in most franchises, an annoyance that cause friction, dispute and discord with franchisees. Positions become entrenched and skirmish lines are drawn over issues such as valuation, sourcing purchasers, fees payable and all the other elements of managing their exit.

This is potentially a very challenging situation, but one that can be overcome and even turned to your advantage through planning and the use of a structured system.

Franchising is about systems and operating processes for franchisees, so a resale process should be part of that system.

Discuss selling the business and when the franchisee wishes to exit, during the recruitment process. This gives focus to their lifespan as franchisees and can form the basis of an ongoing business plan for their future growth. For example imagine this conversation. "You want to move on in seven years' time and your ideal selling value will be £XXX, which means in order to achieve that price you will need to be generating £YYY in profit. To generate that level of profitability, and by sticking to our methodology, you need to achieve £ZZZ sales levels and this means the following level of marketing/promotional activity each month".

This gives you, the franchisor, control from day one and manages the franchisees' expectations about what they have to do to achieve their own goals.

Open discussions about the eventual sale of their businesses at regional meetings and conferences will also keep this mutually beneficial focus. Rather than broach the topic themselves and risk damaging existing relationships, they can use an external specialist to provide guidance and perspective to the discussion.



Too often franchisors abdicate the responsibility of assisting with a sale



Franchisees need to fully understand that to optimise the value of their business and to exit cleanly, they must start to prepare for a sale several years in advance (depending on the type of business). Ideally all the Key Performance Indicators of the business will be positive and they will need to produce, usually, three years' accounts and up-to-date management accounts in the form of a written Prospectus of Sale on the business. Their valuation should be truly independent and not simply 'what I need' because that will ensure smoother negotiations and a shorter timeframe for the sale. Again forward planning and discussion will go a long way to overcome this particular challenge.

Standard documentation such as a written Guide to Selling, an outline Prospectus for them to complete, templated adverts, valuation guidance and standard Sale and

Purchase Agreements will ensure that future conflict, friction or simple misunderstandings are reduced to a minimum.

Selling a business is about compromise but it is also about constant consistent communication between all the parties involved and again this must be managed to ensure the successful completion of the sale. There are many parties involved, especially if property is concerned, so ensure you are geared up to manage this exciting and potentially rewarding process either internally or through an external resource.

Having thought about the preparation of your franchisees' resales and positioned them for a successful exit with realistic expectations, it makes sense to apply the same principles and processes to your franchise business to achieve a successful sale. ■

