SELL YOUR OPERATING FRANCHISE IN 3 SIMPLE STEPS

Congratulations, you have built a successful franchise and are now ready to exit. You might wonder: Is selling a franchise different from selling an independent business? What can you do to ensure a successful sale?

Here are three simple ways to successfully sell your operating franchise:

STEP 1: Prepare Your Franchise for Sale

Start by contacting your franchisor. There is no reason to keep the sale confidential from your franchisor who is accustomed to their franchisees exiting at some point. Ask if they can help you with a resale or transfer. Find out the extent of assistance they offer. The process varies significantly from franchise to franchise, so don't skip this step.

Ask your franchisor the following questions:

- **What are your transfer fees when I sell my franchise?** The fees should be indicated in your franchise agreement. Some franchises do not charge a transfer fee; others charge fees between $1,000 and $30,000.
- **What are the qualifications for a buyer of a franchise resale?** Your franchisor must approve the buyer before you can sell your business. Qualifications usually relate to credit score, net worth or experiences.
- **What rules of thumb do you use to value my business?** Franchisors normally share the basic rules of thumb in determining the sales price — i.e., what multiples of your gross revenue or cash flow you may be able sell your franchise for.

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Some franchisors can help you with multiple elements of the sale. Others, however, do not want any involvement with the resale other than to approve the new franchisee.

Franchisors want you to succeed in selling your business not only because a new qualified franchisee in the system can potentially increase revenues (hence the rise in royalties, as well), but also because they want to avoid reporting a closed or terminated franchise in Item 20 of their Franchise Disclosure Document (FDD), which most buyers scrutinize.

The more franchises close down or fail to renew, the harder it is for a franchisor to sell new franchises. Franchise brokers who quickly review certain FDD sections including Items 3, 19 and 20 for red flags also avoid selling franchises with several terminations or non-renewals.

Preparation also includes obtaining a valuation, adjusting or normalizing your financial statements, and preparing a marketing package — often called a business summary or an offering memorandum — for your business.

STEP 2: Market Your Franchise for Sale

Most business brokers use online portals and their own proprietary databases to market businesses for sale. If your franchisor does not aggressively market the sale of your business, a business broker can do this for you. Franchisor brokers are not ideal because they specialize in selling a new franchise, not an existing or operating franchise.

In selling an operating franchise, there are two powerful tools at your disposal:

- **Item 19 in the Franchise Disclosure Document (Earnings Disclaimer)** – If your franchise's performance falls below the median or average compared with those of other franchisees in your system, use this financial data from the franchisor to show buyers that your franchise has the potential to perform much better. Franchisors, however, are not required to disclose an earnings claim.
- **Item 20 in the Franchise Disclosure Document (Renewal, Turnover and Cancellation Rates)** – Item 20 contains a list of the transfers, closures and non-renewals of the franchise. A healthy franchise has a high renewal rate and a low number of closures. An unhealthy franchise system will have a very high number of non-renewals and terminations. If your system is healthy, use this data to show the buyer that your franchise has a sound business model.

Marketing the sale of your business varies from franchise to franchise, hence making resales a bit more complex than selling an independent business.

STEP 3: Negotiate and Close the Deal

Once you've found a buyer who is interested in both your business and the franchise model, you can negotiate a price and begin with the closing process. Consider these variations that make selling an independent business different from selling a franchise:

- **FDD** – The buyer must receive a copy of the FDD 14 days prior to being 'awarded' the franchise.
- **Discovery** - Because you are selling an operating business, buyers may focus more on your specific business than on the merits of the franchise model. Franchisors, however, may require buyers to attend the Discovery Day before they buy the franchise or prior to making an offer. The process varies based on the franchisor's preferences and practices.
- **The Closing** – Closing styles also vary from franchise to franchise. Most franchisors prefer to just review the purchase agreement and not be involved in the closing process. Some conduct a roundtable closing. In our case, however, all of the closings are done virtually.


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Selling an operating franchise has a higher success rate than selling an independent business because most buyers place a high value on the support provided by the franchisors. Unlike franchises, most independent businesses lack the infrastructure and systems that make a business attractive to buyers. In our analysis of over 10,000 transactions, most franchises are worth about 10%-20% more than their independent counterparts.

By following the steps above and employing an experienced business broker, you can successfully exit your business.

Jacob Orosz is the founder and president of Morgan & Westfield, a professional services firm that specializes in the confidential appraisal and sale of small- to mid-size, privately owned businesses.

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