



International Distribution Institute

# Franchisee Liquidity Issues at the Start of the Relationship

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## Threshold Considerations

- Robust franchisee candidate vetting/  
screening process is essential
  - Due diligence must include thorough credit  
and background check
- Importance of clearly defined  
expectations from Day One
  - Provide expectations in writing as a  
checklist



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# Traditional Franchisor Financing Assistance

- Franchise fees
  - Discount
  - Instalments
  - Payment holiday
- Equipment financing/leasing
- Direct loan(s) by franchisor
  - Typically debt financing
  - Can range from small percentage to full amount of debt burden



## Traditional Franchisor Financing Assistance

- Structuring options vary
- Collateralization issues
- Special funding programs (e.g. veterans programs)
- Sub-leasing of premises by franchisor

# External Finance

- Understand their lending criteria
- Relationship
  - Success
  - Information
- Business Plan
- Guarantee
- Government Loan Assistance





## Joint Venture – A Growing Trend?

- Greater operational role by franchisor
- Equity strength; shared investment costs/risks
- Faster operational roll-out than with traditional franchise model
- Franchisee gets benefit of franchisor's management expertise



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# Joint Venture – Special Considerations

- Voting control threshold – who owns what percent?
- Majority and super-majority voting thresholds – applicable to what?
- Management of the JV entity – who appoints the officers?
- Approval of business plan – what happens in case of disagreements?
- Deadlock provisions – what process will the parties pursue?



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## Joint Venture – Special Considerations

- Periodic business reviews – do you want a renegotiation window?
- Dispute resolution and choice of law – how much do these matter?
- Handling existing businesses – how to deal with JV partners business?
- Handling new opportunities – how to handle noncompetes?





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# Joint Venture – Special Considerations

- Exit/Termination Issues
  - Separate termination rights under royalty/license agreement, JV agreement
  - Cross-default / termination of royalty / franchise agreement with end of JV
  - Buy-Sell (or put) of ownership interests vs. actual liquidation of JV entity?
  - Reconciliation, distribution of cash/property obligations at termination
  - Liquidation process, timing; local legal requirements



## When it Goes Wrong

- Active credit control
- Failure to enforce?
- Assess issue
- Provide support
- Agree terms
- Enforce terms
- Take security
- Assist with sale