2026 IDI Annual Conference

Franchisor’s strategies for acquiring control of the sub-franchisee network

Discussion Panel, Lisbon, June 5, 2026

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On termination of the master franchise agreement, the franchisor may need to take over the sub-franchisee network created by the master franchisee, either to manage it directly or to transfer it to a new master franchisee.

Franchisor perspective

- Preserve the brand presence and revenue base.
- Avoid interruption of support, supply and quality control.
- Acquire control at the lowest lawful and defensible cost.

Master franchisee perspective

- Receive compensation for developing the network.
- Protect local goodwill, customer relationships and investments.
- Avoid being stripped of value through termination mechanics.

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1. Contractual architecture

• Pre-negotiate assignment, novation or step-in rights in the master agreement and mirror them in the sub-franchise agreements.

• Use sub-franchisee pre-consent carefully: enough to enable continuity, not so intrusive that it destroys the master's contractual autonomy.

• Define what transfers: sub-franchise agreements, customer data, manuals, local IP, supply arrangements, leases, deposits and operating records.

• Avoid relying on a "termination equals automatic transfer" concept unless it is supported by local law and the sub-franchise contracts.

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2. Valuation and compensation, if any (and for what?)

- Separate the franchisor's need for continuity from the master's claim to be paid for network development and local goodwill.

- Pre-agree valuation mechanics: revenue multiple, EBITDA, net investment, unit count, remaining term, or hybrid formula with expert determination.

- Tie compensation to actual transfer value and compliance history; do not reward a master whose own breach caused termination.

- Draft for litigation: objective data sources, valuation date, accounting standard, treatment of debt, tax, disputes and non-performing units.

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3. Managing the transition period

- Decide early whether the brand will continue, close the units, operate directly, or appoint a new master franchisee.
- Stabilise sub-franchisees through fast communication: who supports them, who invoices them, who supplies them, and what changes now.
- Secure access to data, manuals, supplier accounts, reporting systems, marketing channels and operational know-how before leverage is lost.
- Expect resistance where sub-franchisees are loyal to the master; expect support where they fear uncertainty or inadequate master support.

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4. New master, local law and dispute prevention

• Select the new master for integration capability, local credibility, financing, operational infrastructure and legal readiness.

• Clarify whether the incoming master accepts the existing network “as is” or needs renegotiation of local terms.

• Map local constraints on termination, assignment, disclosure, good faith, non-competes, competition law and franchise-specific regulation.

• Use mediation or expert determination for valuation and handover issues, but preserve emergency remedies where network continuity is at risk.

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Thank you and questions

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