

# Mater Franchise Strategies and Transfer Issues; Case Study

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There are many ways to extend your brand-name in a franchise company. The goal is to do it as fast as possible while maintaining a strong franchise family. Often franchise systems will choose a Master franchise strategy, whereby they will sell their rights to others within a region to again sell franchises.

This strategy works well for both parties and provides significant financial incentives to the Master franchise partner. However, once all the areas in territories are sold within the region of responsibility for the Master franchise agreement, then the Master franchise has less financial incentives and generally only receives a percentage of the royalties of the current franchisees. At this point often the Master franchise will wish to sell their rights back to the franchisor or to another entity.

The first time I had to deal with such a situation I found it necessary to set specific limitations and stipulations all the transfer. Later I decided to include these limitations and stipulations in the Master franchise agreement prior to assigning. Below is a copy of the clause in the contracts that I came up with;

## 5.7 Transfer of Master Franchise

Master Franchisee may not directly or indirectly sell, pledge, assign, transfer or convey any interest in the Master Franchise without the prior written consent of Franchisor. In connection with any sale, transfer or assignment of the Master Franchise, the following requirements for Master Franchisee (assignee) must be met to the full satisfaction of Franchisor as a condition to any transfer:

- (a) The assignee must, at the time of such assignment or transfer, be financially responsible and economically capable of performing Franchisor's objectives in this Franchise Agreement and in Franchisor's business development plan.
- (b) The assignee must expressly assume and agree to perform such obligations and sign a binding agreement with Franchisor.
- (c) The assignee must be trained and pass Franchisor's special Master Franchise training course.
- (d) The assignee must be competent and subject to a thirty (30) to sixty (60) calendar day review by Franchisor before a transfer to them.
- (e) The assignee must run their own "THE CAR WASH GUYS" franchise for at least four (4) months before the transfer.
- (f) The assignee must own and run a company store unit for the duration of their franchise in a specifically designated area other than the Marketing Areas of their master area franchisees but in the same general region as their master area franchisees.
- (g) The assignee must be able to provide all on-going support items to franchisees listed in this Franchise Agreement.
- (h) The assignee must attend any formed franchisee organization, union or association meetings in their master area which have been officially recognized by the Franchisor, providing that the franchisees want the Master Franchisee to be there and of which their master area franchisees are a member.
- (i) The assignee must maintain on hand at least one regional team member and one loaner truck for every twenty (20) franchisees in their assigned master area.
- (j) The assignee must sign a non-competition agreement with their master area franchisees not to operate their company store in the Marketing Areas of their master area franchisees unless they have been asked to by a franchisee in case of vacation or injury.

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When expanding a franchising company thru master franchising you would be well advised to consider such things. You will need to consult with a Franchising Attorney to make sure this is done correctly and in your best interests and you should ask them about these issues. I hope you will consider this in 2006. Lance Winslow - Online Think Tank forum board. If you have innovative thoughts and unique perspectives, come think with Lance; [www.WorldThinkTank.net/wttbbs/](http://www.WorldThinkTank.net/wttbbs/)