

Why Do I Pay A Franchise Fee?

Franchising is a strategy the Franchisor uses to achieve its objectives, including market penetration and market domination. Franchises are granted or awarded to a qualifying Franchise candidate who has similar objectives in their own marketplace. That Franchisee will have the responsibility to fully implement the operating and marketing systems of the Franchisor in their defined area for a specified period of time. The relationship is not generally one of parity.

If it were a relationship of parity, the Franchisee would take on a great deal more responsibility, and of course, liability and risk as well. The relationship is not one of actual partnership in the legal sense. However, good Franchise systems will generally recognize their Franchisees as Strategic-Partners, meaning they are in a partnership of sorts aimed at achieving unified goals, but not one of legal partnership or equity.

The Franchise fee is the cost of putting the Franchisee into the business of the Franchisor, not as a partner, but as a participant. Costs include:

1. The development costs of all elements of the Franchisor's system
2. Training the individual Franchisee to use those system elements and programs
3. Marketing and advertising to find Candidates
4. Costs of qualifying Candidates, including rejecting many unqualified Candidates
5. Salaries, travel, administration, etc.
6. Legal expenses to draft agreements defining the methods and terms for the Franchisee to participate, etc.

It is the Franchisor's assessment to cover those costs as well as a reasonable markup. In other words, it's the entry fee to the point of the completion of the initial training programs. To the Franchisee, it must represent a reasonable fee to allow you to become a part of the existing system, including all the training programs that are a part of that system, to help you reach your own business goals.

When asked about the Franchise fee, the Franchisor should have this concept clearly defined in their approach to Franchising. They should recognize the Franchise Fee should be reflective of the value of entry into a well-developed, comprehensive system for the participant Franchisee. They should also recognize it as the recovery of costs to find, qualify and grant legal rights to participate in that system to the very best Franchisees for the Franchisor's business.