

# Hamilton Pratt Question & Answer

## How safe is it to pay a deposit to a Franchisor?



Franchisors devote a great deal of time to the recruitment process and, during that process, they will provide confidential information to a prospective franchisee. Clearly franchisors do not want to do this if a franchisee is not "serious" about taking the franchise so franchisors very often ask prospective franchisees to pay a deposit of usually £2/3,000 which is used as part payment of the initial franchise fee.

The British Franchise Association requires its members, if they take a deposit to return it if the prospective franchisee does not go ahead after deducting third party (but not their own) costs. In relation to BFA members franchisees do have a fair measure of protection because they can always complain to the BFA who could remove membership from a franchisor that holds on to a deposit.

In relation to non BFA franchisors the position is much riskier because possession is nine tenths of the law and it can often be very expensive to recover relatively small sums through the courts. If you do pay a deposit make sure that the terms on which the franchisor holds the deposit and can deduct sums are very clearly set out!

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