

Hamilton Pratt

Question & Answer

What is the difference between a master franchise agreement and a franchise agreement?



Increasingly UK franchisors are looking to take their brand overseas. There are a number of ways of doing this but the classic way is to find a master franchisee who will, in effect, be the franchisor in the overseas country. The master franchise agreement requires the master franchisee to make a substantial upfront payment for the territorial rights and to pay to the franchisor a percentage of sums received from franchisees.

The master franchise agreement will contain development obligations which the master franchisee must achieve to retain the agreement or to retain exclusivity in the territory; the master franchisee must train, advise and supervise the running of franchise businesses which will be operated in accordance with a franchise agreement suitable for that territory and which the franchisor has approved.

Master franchise agreements contain some of the provisions that you expect to see in a franchise agreement, but they tend to be more complex because, apart from anything else they generally last for longer than sub franchise agreements – it is by no means unusual for master franchises to be granted for 20 or 25 years.

There are a number of challenges with master franchise agreements. First, what happens when things go wrong because generally franchisors are unable, from a practical point of view, to “step in” and take over a master franchisee’s business. Secondly, what law/courts applies to the agreement – somewhat counter intuitively it is generally more sensible to apply the law/courts of the overseas country.

In all cases local specialist franchise advice has to be obtained and, accordingly (and no doubt you will say “what a surprise!”) the legal costs involved in international master franchising can be high and need to be factored in to the charges which a master franchisee is required to pay.

John Pratt
For Hamilton Pratt

Hamilton Pratt
Franchise House
3A Tournament Court
Tournament Fields
Warwick
CV34 6LG

Tel: 01926 838 900
Fax: 01926 258 799