

# Refurbishment: an obligation of the franchisee

Buying a franchise may seem like a short cut to business success; however being a franchisee also comes with great responsibilities. As a result, it pays to ask the right questions so that you know exactly what your long-term obligations will be, especially when it comes to 'freshening up' your franchise outlet...



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"Successful franchised outlets attract a lot of customers. It is inevitable that, over time, the kitchen, and its appliances - and most importantly to patrons - the customer service areas will show wear and tear, and begin to look worn out. That is when the franchisee is unexpectedly faced with the responsibility of freshening up the outlet, which can often be costly," said Et Nyembe, Head of Small Enterprise of Standard Bank.

"Many people who buy franchises, whether they are new or well-established outlets, do not realise that there are often contractual obligations placed on them regarding the refurbishment of their facilities. These can require that an outlet undergoes a 'facelift' or complete refurbishment at stipulated times - usually every five years.

"It may seem unreasonable to have these clauses in contracts, but they are there for good reasons. To be successful, franchised outlets have to remain appealing. The longer they remain attractive to customers, the better the likelihood of success. It is also true that peoples' taste in furniture and fittings change over time. So, although corporate colours and logos may remain in place, keeping an outlet looking modern ensures that it stays relevant to its customers.

"As one of the major success factors with outlets is that they look the same, it is also reasonable that the franchisor reserves the right to appoint the contractors who will undertake refurbishments and other enhancements."

## Discuss refurbishment policy

To avoid the stress of suddenly finding yourself facing massive bills for your outlet, Nyembe suggests that if buying an existing outlet, discuss refurbishment policy with the owner:

- Ask when renovations were last done and when the next project is due;
- Get an idea of the costs previously incurred. These can then be adjusted for inflation, so that you can budget appropriately;
- If you find that the store you are buying is due for refurbishment shortly after you take ownership, think about the price being asked for the business. Use the potential costs as a bargaining chip when negotiating the final purchase price
- Find out what impact the physical restoration has on the business. You may ascertain, for example, that the outlet has to be closed for a week or more. This means that you have to be able to finance running costs and wages during a time when sales drop to zero. Planning cash flow for this period then becomes essential; and
- Consider getting a financial adviser to help you assess the impact that a temporary closure will have on the business. Sales will drop to zero and business could be slow for several weeks after the business reopens. Using historical financial data will help in this process.

"If you are confident that the business is strong enough to take a major refurbishment in its stride, you should discuss this with your financier. If they review the financial history of the outlet and agree with you, they may be willing to factor

renovation costs into the purchase price. Alternatively, the bank may structure a separate financial package to assist you, said Nyembe.

If you are signing a contract for a new outlet with the franchisor, you should ask questions about renovation policy before signing on the dotted line. Find out:

- How often enhancements have to be made;
- What your obligations are. For instance, are you able to negotiate with the franchisor and agree what cosmetic or equipment changes are made? Will there be a choice of contractors allowed? Are you able to negotiate contract price with appointed contractors?; and
- Who pays what; in some instances the franchisor may pay some costs. In other cases, you may be contractually obliged to meet all costs.

"Never just sign a contract because you are told that it is 'a standard industry contract'. Also, don't only rely on a franchisor's word that a refurbishment is really nothing to worry about. Get an attorney, or the franchise specialist at your bank or financier, to give you an independent opinion about these and other clauses in your contract.

"A decision to buy an existing franchise or new outlet store is a life-changing decision. Make sure it is the right one, that no surprises await you and that you have the time available to set aside funds for refurbishments before they come due.

"Asking your bank for advice on how best to save for these changes, or how to finance them, will also mean that you avoid sleepless nights," concluded Nyembe.

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