Franchising & Distribution Law Blog

IMPACT OF PRIVATE EQUITY ON FRANCHISING - THE PROS AND CONS

Leonard Vines (a blog contributor) shares below his insights - both positive and negative - a franchise system should consider when entertaining the idea of a private equity investor. The full article (found here) includes the observations of other industry leaders about private equity's impact on franchising.

"The increasing control of franchise systems by investment groups has affected franchising both positively and negatively. On the positive side, since these groups provide owners a vehicle for succession and exit planning, franchising as a business model may become more desirable as investors can see a way to cash out. Conceivably, some of those who sell will devote funds to develop new, innovative concepts.

In addition to providing necessary funds for expansion, private equity groups can bring skilled expertise and a high level of sophistication. Cost-cutting measures and improved efficiencies, along with the opportunity to forge new relationships, can enhance the value of the system. The franchise can become more competitive and profitable and thereby focus on growth and innovation without the looming cloud of financial pressures. Opportunities to expand both nationally and internationally also can help the overall economy and create more jobs.

On the negative side, however, there is a risk that the culture of the franchise will change for the worse. Franchisees who once felt they were part of a benevolent "family" may feel like employees or "just a number" with little control over their destiny. If the culture changes too dramatically, many franchisees could become unhappy, which is bad not only for the system, but for franchising in general. Finally, some franchisors simply are not prepared to give up control and are not wiling to accept the inevitable changes that will be made to their system."