

5 expert tips to success in QSR franchise deals



Franchising industry veterans know there was once a time when financial transactions were relatively straightforward with predictable timelines. Unfortunately, much has changed in recent years. Now, frequent transactions like private equity and family office investments, refranchising, transfers and recapitalizations have significantly longer timelines.

This factor opens up the chance for deals to be exposed to changes in financial performance, as well as changes in legislation, lending conditions and franchisor approval sentiment — all things that can be detrimental to such transactions in a business world where ultimately, time can kill deals.

But restaurateurs are not without options. In fact, taking a proactive stance can help immensely if you know what you're doing. The following five key actions can help you to more easily manage the complexities of today's time-consuming financial transactions.

Upgrade your accounting and financial reporting

The quality of your "books" has an enormous impact on the deal process, particularly asset valuation, re-trading risk, transaction timing and overall scrutiny. Basic accounting systems are

suitable for most small QSRs, but those in growth mode should strongly consider hiring an accounting firm with multi-unit franchise experience to audit existing systems and controls, and recommend upgrades. It's likely, the firm your brand selects will recommend outsourcing some of your QSR's financial functions.

Hire the right attorney

Don't assume that any attorney can expertly guide you through a QSR business transaction, as this is simply not the case. Hire an experienced franchise and/or mergers and acquisitions attorney, possibly even a professional who has experience with your brand.

The guidance of a true expert in these areas not only smooths the entire process of the transaction, but can also help your brand's leaders avoid common transaction pitfalls and delays. Experienced counsel will also have real-time data on the funding sources that have previously helped clients make it to the closing table, as well as those that have thrown up roadblocks.

Engage a capital provider experienced in your brand

Much like your legal counsel, your capital provider should have experience with multi-unit franchises that include your brand or similar QSRs. If you're not well-versed in raising capital, thoroughly vet the lender and even consider retaining a professional firm to assist you with this process.

Again, experience matters. Lenders have been more conservative in recent years because of unpredictable franchise capitol demands, new growth requirements and the inability to have consistent accretive revenue growth as costs escalate. Today, lenders are demanding more data from borrowers and if a transaction is above a certain size threshold, quality of earnings reports are standard.

Build a solid franchisor relationship

In many instances, the franchisor will be a big player in the success of important deals, so a solid relationship with the brand's corporate leadership is absolutely necessary. In large, multi-unit QSR transactions, many franchisors now scrutinize transaction details, financial results, capital plans, partners and lender term sheets. In fact, some franchise brands now mandate development requirements as a condition for franchisor consent, so a strong franchisor relationship can allow for more flexibility in such requirements and timelines.

Focus on what you can control

A big deal can sometimes leave those involved in it feeling like they're trying to board a moving train — you either catch it or you don't, but there's no slowing it down. Still, in other instances these

large transactions can be like pushing a boulder uphill — despite your best efforts, it just doesn't budge.

Either instance can result in massive frustration, so when you're involved in these types of large and complex deals, focus on remaining calm, with the greatest share of your attention going to those issues you actually can control, like tightening finances, hiring a great team and getting to work.