

HOW TO END A FRANCHISE RELATIONSHIP

Whether you are a franchisor or franchisee, understanding the five key ways the franchise relationship can end is crucial. This factsheet outlines your options in line with the Franchising Code of Conduct, key considerations and actions you must take.

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1. FRANCHISE AGREEMENT EXPIRATION



- The agreement automatically ends when the initial term or any renewal term expires.
- The franchisee may have the option to renew the agreement, subject to meeting specific conditions outlined in the franchise agreement.

2. MUTUAL AGREEMENT



- Both parties can agree to terminate the relationship early, releasing them from further obligations under the agreement.
- The terms of the separation should be clearly documented in a Deed of Surrender and Release.

3. TERMINATION BY FRANCHISOR



- **Breach of Agreement:** If the franchisee fails to meet obligations (e.g. performance targets, fee payment), and does not resolve this breach in line with s 55 of the Franchising Code.
- **Notice Requirements:** Under s 55(2) of the Franchising Code, a maximum of 30 days' notice is required.
- **Failure to Meet Preconditions:** If the franchisee does not meet prerequisites like completing training.
- **Special Circumstances:** Includes situations such as franchisee bankruptcy or loss of required licenses (s 57 and s 58 of the Franchising Code).

4. TERMINATION BY FRANCHISEE



- **Cooling-off Period:** The franchisee can terminate the agreement within 14 days of signing the contract.
- **Breach by Franchisor:** If the franchisor breaches the agreement and fails to resolve it, the franchisee can terminate the agreement.
- **Early Termination Request:** The franchisee can request early termination under 54 of the Franchising Code, subject to franchisor approval.

5. TRANSFER OR SALE OF THE FRANCHISE



- The franchisee may sell the business to a new franchisee, subject to the franchisor's approval.
- The franchisor may have a **Right of First Refusal**, enabling them to buy the franchise before an external buyer.

KEY CONSIDERATIONS



- **Notice Periods:** The notice period depends on the termination reason. Refer to the franchise agreement and Franchising Code for compliance.
- **Cooling-off Rights:** Franchisees can terminate the agreement within 14 days of signing, with limited financial penalties.
- **Post-Termination Obligations:** These may include non-compete clauses, returning materials, and stopping the use of the franchisor's intellectual property after termination.
- **Dispute Resolution:** The Franchising Code mandates a dispute resolution process before certain types of termination.

ACTIONS REQUIRED UPON TERMINATION



Upon termination, you should sign a Deed of Surrender and Release, outlining the conditions for surrendering the franchise agreement and post-termination terms, such as:

- ceasing to operate under the franchise brand;
- returning or destroying confidential information and operations manuals;
- removing all signage and branding;
- fulfilling any restraint of trade obligations; and
- settling outstanding financial obligations.