

FREE GUIDE

# How to Negotiate a Franchise Resale

*Anchoring to SDE, using the perception discount, requesting seller financing, and handling the remodel conversation*

Franchise resale negotiation is different from negotiating a new franchise or an independent business deal. This guide covers the specific strategies and tactics that experienced resale buyers use to acquire proven franchise units at favorable prices.

Negotiating a franchise resale is not about winning. It is about arriving at a price and structure that delivers excellent returns to you as the buyer while giving the seller enough to exit on reasonable terms. The strategies in this guide are built around one principle: your offer should reflect the business's current economic reality, not the seller's emotional attachment to what they originally paid.

**The Fundamental Rule**

*Price is always anchored to current maintainable SDE — the earnings the business is demonstrably generating right now — multiplied by an appropriate multiple given the unit's generation, condition, and seller motivation. Never let the seller anchor the conversation to their original investment, their peak earnings year, or what they "need" to retire. Those numbers are irrelevant to you.*

## Strategy 1: Know Your Number Before You Meet

Before any negotiation conversation, calculate your maximum offer price using this framework:

Component	How to Calculate	Example
<b>Trailing 12-month SDE</b>	Verify from financials + POS data	\$80,000
<b>Appropriate multiple</b>	2nd owner: 2.5–3.5×   3rd+ owner: 1.5–2.5×	2.2×
<b>Gross offer price</b>	SDE × multiple	\$176,000
<b>Less: Transfer fee</b>	Ask franchisor — typically \$15K–30K	–\$20,000
<b>Less: Required remodel</b>	Confirm with franchisor before offering	–\$0
<b>Less: Working capital needed</b>	3–6 months of operating expenses	–\$25,000
<b>Your all-in target</b>	Total economic cost to you	\$221,000
<b>Starting offer</b>	<b>All-in target minus negotiating room (~10%)</b>	<b>\$158,000</b>

## Strategy 2: Use the Perception Discount

Franchise units that have changed hands two or more times carry a market perception of troubled history — even when the underlying business is fundamentally sound. Most buyers pass without looking closely. This is your advantage.

When you encounter a 3rd or 4th generation resale with stable or recoverable revenue, you have a significant edge: you are often the only serious buyer looking. Use this position explicitly in your negotiation.

### What to Say

*"I've reviewed the financials carefully and I understand this unit has had multiple owners. That history is reflected in my offer price. Based on current earnings of \$X and the remaining lease term, I believe \$Y is a fair starting point that accounts for the transfer risk I'm taking on." This language is honest, positions you as informed, and anchors the conversation to current data — not the seller's history.*

## Strategy 3: The All-In Cost Conversation

Always negotiate on total all-in cost, not just purchase price. If a seller is asking \$220,000 but the franchisor will require a \$60,000 remodel as a condition of the transfer, the true cost is \$280,000. Present this math clearly:

**"Your asking price is \$220,000. The franchisor has confirmed they require a \$60,000 image update as a condition of approving my transfer. My all-in cost to acquire and reopen this unit is \$280,000. Based on current SDE of \$75,000, that's a 3.7× multiple — which is higher than what I'd pay for a similarly performing unit without the remodel requirement. I'm prepared to offer \$175,000 on the purchase price, with the understanding that I'm carrying the remodel cost."**

This approach is not aggressive — it's logical. Sellers and their brokers understand the math. A seller who has already been through the franchisor conversation will not be surprised by it.

## Strategy 4: Structuring the Seller Note

Seller financing is one of the most powerful tools in a resale negotiation. When you ask the seller to carry a note for 15–25% of the purchase price, you accomplish several things simultaneously:

- You reduce the cash you need at closing
- You demonstrate that the seller believes in the business (they only get paid if it succeeds)
- You create leverage if the seller has misrepresented anything — you can offset the note
- You often unlock a higher headline price that the seller accepts because total proceeds are greater

	No Seller Note	With 20% Seller Note
<b>Asking / accepted price</b>	\$240,000	\$255,000
<b>Seller note (20%)</b>	\$0	\$51,000
<b>Cash at closing (buyer)</b>	\$240,000	\$204,000
<b>Seller note rate</b>	—	6.5% / 5 years
<b>Monthly note payment</b>	—	\$995
<b>Annual note payment</b>	—	\$11,940
<b>Seller total proceeds</b>	\$240,000	\$306,700*
<b>Buyer cash saved at closing</b>	—	\$36,000

\*Including interest over the 5-year note term

## Strategy 5: Negotiating with the Franchisor

The franchisor is a third party to your purchase negotiation, but they have significant leverage — their approval is required for the deal to close. Approach the franchisor's development or resale team early, before you finalize your offer.

Items that are sometimes negotiable with franchisors:

- Transfer fee reduction — especially for a demonstrably strong buyer or a struggling unit the franchisor wants to stabilize
- Remodel timeline — you may be able to negotiate a 6–12 month window post-closing rather than completing before transfer
- Reduced or waived marketing fund contributions during a transition period
- Extended training or additional field support for the first 90 days

Items that are almost never negotiable with franchisors:

- Royalty rates — the franchise agreement is a standardized document; individual rate exceptions are extremely rare
- Territory boundaries — already defined and locked
- Core brand standards and operating requirements

### Timing Matters

*The best time to have the franchisor conversation is before you finalize your LOI price — not after. Knowing the remodel requirement, transfer fee, and any other conditions before you submit your offer means you can accurately calculate your all-in cost and price your offer accordingly.*

## Strategy 6: The Non-Compete and Transition

Two items that buyers sometimes treat as afterthoughts — but that significantly affect the value of what you are buying:

### The Non-Compete Agreement

A seller who walks out the door and opens a competing business across the street six months later destroys the customer base you paid for. Every purchase agreement must include a non-compete that is: (1) reasonable in scope — the same type of business, not all business activity; (2) reasonable in geography — your actual trade area; (3) reasonable in time — 2–5 years; and (4) enforceable under your state's law. Have

your attorney draft or review this clause specifically.

### **The Transition Period**

Negotiate a minimum of 2–4 weeks of on-site seller involvement after closing. For relationship-based businesses, 30–60 days is appropriate. Specify this in the purchase agreement with consequences if the seller fails to show up. The seller introduction to key employees, suppliers, and regular customers is often worth more than any single line item in the deal.

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