

# Guidelines for starting a franchise business

*Franchising has been a well-established concept in Sweden since McDonald's first arrived in the 1970's to spread throughout the country.*

## **What is Franchising**

Franchising means that someone who has started his own company and has managed to achieve a successful business will let one or more company owners use the company name and the business concept in exchange for some form of compensation. It is a long-term cooperation between two business partners. The cooperation is regulated by the franchising law and by a franchising agreement signed by the two parties. Franchising can be described as a sort of sale permission and it may be practiced almost within any sector where products and/or services are being marketed. Therefore franchising is not a business entity but rather a way of doing business.

## **Characteristics**

- The franchise agreement is set up between two independent parties, who will continue to be independent legally and economically.
- In the agreement the franchisor will grant the franchisee the right to use a company name, a trademark and a system. The experience and know-how of the franchisor is often also offered to the franchisee's disposal.
- The franchisee will commit himself to the policy of the operation in order to strengthen the picture of a group of stores with a standardized structure, quality and service.
- Normally the franchisee pays an "entry fee" and after that a royalty that is usually based on a percentage of the turnover.

## **Franchising in Sweden**

At the beginning of 2006, the estimated number of franchising chains in Sweden

was approximately 300, the majority of which is of Swedish origin. Comprising some 15,000 franchise units, employing 100,000 persons, the total turnover of Swedish franchising is approximately USD 12 billion (2006). About half of the franchisees are active in retailing, however consulting and restaurants are also common fields of business.

## **Top ten franchising systems in Sweden**

Company	Number of franchise units
Posten Sverige AB	2,800
Svenska Turistföreningen	309
Svenska McDonald's	235
Sibylla/Nordic fastfood	229
JCA Aktiebolag	217
AB Svenska Pressbyrå	160
Elkedjan	156
Färgtema	132
Gröna Konsum	122
Tema Sportia AB	110
Electrolux Home Svenska AB	106
Däckteam	100

Source: Swedish Franchise Association

A large majority of franchising systems has started since 1990, and the number is expected to increase in coming years.

## **The franchising law**

As of October 1, 2006 there is a specific Swedish franchise disclosure law. The law contains provisions on the obligation of a franchisor to give a prospective franchisee certain information before a franchise agreement is entered into. The law covers all franchise agreements in Sweden, both domestic and foreign, both Master Franchise Agreements and Unit Agreements, both new agreements and renewal of old agreements.

Please note that the contents of this fact sheet should be regarded as an overview of current conditions in Sweden. These may change and thereby render descriptions of laws and other frameworks inaccurate. In all individual cases we request that advice always be sought with relevant authorities, organizations and businesses on specific issues.

### Definition of franchise agreement

A franchise agreement is according to this law an agreement by which an entrepreneur (the franchisor) agrees with someone else (the franchisee) that the latter against compensation paid to the franchisor shall use the special business idea of the franchisor for the marketing and sale of goods or services. As further conditions for an agreement to be considered a franchise agreement according to this law, is that the franchisee under agreement shall use the distinctive trade marks and other intellectual property rights of the franchisor, as well as cooperate on the occasion of recurrent controls of the observance of the agreement.

### Obligation of the franchisor to inform

In reasonable time before a franchise agreement is entered into, a franchisor shall in writing give the franchisee the information that is needed in consideration of the circumstances with respect to the implications of the agreement and other conditions. The information shall be clear and understandable. It shall at least contain:

1. A description of the franchise activity that the franchisee is to run.
2. Information on other franchisees with which the franchisor has concluded an agreement within the same franchise system and the scope of their activity.
3. Information on the compensation that the franchisee shall pay the franchisor and other economic conditions for the franchise activity.
4. Information on the intellectual property rights that will be granted the franchisee.
5. Information on the goods or services that the franchisee is obliged to buy or rent.
6. Information on the prohibition to compete that will apply during or after the time for which the franchise agreement will last.

7. Information about the term of the agreement, conditions for modification, prolongation and termination of the franchise agreement, as well as the economic consequences of termination.
8. Information on how a dispute as to the agreement shall be tried and what shall apply as to the liability for the cost of such a trial.

### Other laws to be taken into consideration when setting up a franchising business:

- The contract act
- Intellectual property legislation
- The agency act
- The competition act

### Registration of a company

In order to carry out the franchising business the franchisee has to register a company. The legal company form, such as limited liability company or trading company is often stipulated in the agreement. The procedures for starting a company are the same for the franchisee as for others.

For more detailed information please contact:

#### Swedish Franchise Association

(Svenska Franchiseföreningen)  
Sofierogatan 3A, SE-412 54 Göteborg  
Phone: + 46 31 40 55 10, Fax: + 46 31 81 10 72  
info@franchiseforeningen.se  
www.franchiseforeningen.se

The Swedish Franchise Association promotes the franchising business concept and has approximately 100 member companies.

#### Effectum Franchise Consulting

Vasagatan 11, SE-111 20 Stockholm  
Phone: +46 8 652 12 00, Fax: +46 156 17572  
info@effectumsweden.se  
www.effectumsweden.se

Effectum is experienced in helping companies and organizations to develop their franchising business.

#### Franchise Group AB

Danderydsgatan 11, SE-114 26 Stockholm  
Phone: +46 8 464 75 00, Fax: +46 8 349 325  
info@franchisegroup.se  
www.franchisegroup.se

Franchise Group is Sweden's leading consulting firm within franchising.

#### FranchiseNet i Skandinavien AB

Sofierogatan 3A, SE-412 51 Göteborg  
Phone: +46 31 40 72 00  
info@franchisenet.net  
www.franchisenet.net

FranchiseNet is a link between franchisors and franchisees. The website contains information about franchise-related issues.

#### Advizor

Kungsgatan 50, SE-111 35 Stockholm  
Phone: +46 8 410 646 00  
info@advizor.se  
www.advizor.se

Advizor has experienced consultants assisting business chains in the retail and service sectors.

#### Advokatfirman NOVA

Contact: Anders Fernlund  
Grev Turegatan 14, SE-114 46 Stockholm  
Phone +46 8 566 366 00  
anders.fernlund@nova.se  
www.nova.se

#### MAQS Law Firm

Contact: Mango Kask  
Box 7009  
SE-103 86 Stockholm  
Phone +46 8 407 09 00  
mango.kask@se.maqs.com  
www.maqs.com