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Starting a franchise business

Sweden presents ample opportunities for international franchisors. Franchising is a well established business model, especially in the retail industry.

FRANCHISING - THE BASICS

Franchising is the granting of a license by a person who runs a business (the franchisor) to another (the franchisee) which entitles the franchisee to trade under the franchisor's company name and use its business concept in exchange for some form of compensation. It can also mean granting a license to another with a right to sublicense the concept (master franchising).

Franchising often involves long-term cooperation between two business parties, who sign a franchise contract that is regulated by general Swedish contract law. Franchising can be described as a kind of sale permission and may be practised in almost any sector where products and/or services are marketed. A franchise is not a business entity but rather a way of doing business.

How franchising works

A franchise contract is between two independent parties who continue to be independent legally and economically. In the contract, the franchisor grants the franchisee the right to use a company name, a trademark and a concept. The franchisor also offers experience and know-how to the franchisee. The franchisee commits to the policy of the operation in order to strengthen the image of a group of stores with a standardized structure, quality and service. Normally the franchisee pays an "entry fee" and thereafter a royalty that is usually based on a percentage of sales.

IN BRIEF

- Strong growth in franchising in Sweden in recent years
- Franchising especially popular in retail, consulting and restaurant sectors

FRANCHISING IN SWEDEN

Sweden has well over 640 franchise chains and 24,500 franchisees, the majority of the chains with Swedish origin. These employ 102,000 people and have a total estimated sales of SEK 169 billion (2010), 5% of Swedish GDP. About half of all franchisees are active in the retail industry. Other popular sectors include consulting and restaurants.

FRANCHISE LAW

There is no specific comprehensive franchise legislation in Sweden. The only direct franchise-related legislation is a disclosure obligation for the franchisor (Law no 2006:484). Under Swedish disclosure rules, a franchisor must provide a prospective franchisee with certain information before a franchise contract is entered into. The legislation covers all franchise contracts in Sweden: domestic and foreign contracts; master franchise contracts and unit contracts; new contracts; and renewals of old contracts.

What is a franchise contract?

Swedish legislation defines a franchise contract as one by which an entrepreneur (the franchisor) agrees with another party (the franchisee) that the latter may use the franchisor's special business idea for the marketing and sale of goods or services in return for compensation.

The contract entitles and obligates the franchisee to use the franchisor's distinctive trademarks and other intellectual property rights. It also requires the franchisee to cooperate with regular checks to ensure compliance with the contract.

“In our experience, the Swedish retail market place is very lucrative and it embraces new ideas and technologies faster than any other market in Europe.”

Ingo Schroeder, Master Franchisee Scandinavia, Cartridge World

Franchisor's duty to provide information

A franchisor has a duty to provide the franchisee with the information required in respect of the implications of the contract and other conditions. The information must be in writing and be clear, understandable and provided within a reasonable time before the contract is signed.

Minimum requirements are:

- A description of the franchise activity that the franchisee is to run.
- Information on other franchisees with which the franchisor has concluded a contract within the same franchise system, and the scope of their activity.
- Information on the compensation that the franchisee is to pay the franchisor and other financial conditions for the franchise activity.
- Information on the intellectual property rights that will be granted to the franchisee.

- Information on the goods or services that the franchisee is obliged to buy or rent.
- Information on the prohibition to compete that will apply during or after the time for which the franchise contract will last.
- Information about the term of the contract, conditions for modification, extension and termination of the franchise contract, as well as the financial consequences of termination.
- Information on how a contractual dispute will be adjudicated and liability for the cost of legal proceedings.

OTHER CONSIDERATIONS WHEN SETTING UP A FRANCHISE

Franchisors and franchisees need to consider Swedish legislation in other areas prior to drawing up and signing a franchise contract. The primary areas here are: contract law, intellectual property law, agency law, competition law, commercial law and consumer protection legislation. Additionally, the content of the business operating manual should be reviewed and adjusted to Swedish regulations and business custom.

REGISTERING A COMPANY

Franchise contracts often require franchisees to operate as a legal entity. Franchisees generally choose to trade as limited liability companies (*aktiebolag*).

Starting a company is a straightforward process in Sweden. The easiest and most common way to set up a private limited liability company in Sweden is to use an “off-the-shelf” solution provided by a company agent or law firm.

USEFUL CONTACTS

Industry association

**Swedish Franchise Association
(Svenska Franchiseföreningen)**
Mässans gata 18 ♀, SE-402 24 Göteborg
+46 31 40 55 10
www.svenskafranchiseforeningen.se
Franchise systems, companies and individuals are eligible for membership.

Law Firms

**Swedish Bar Association
(Sveriges advokatsambund)**
Box 27321, SE-102 54 Stockholm
+46 8 459 03 00
www.advokatsamfundet.se
Member organization for Sweden's practising lawyers. The website contains a search engine enabling users to find lawyers based on their areas of expertise and location.

FURTHER INFORMATION

at www.investsweden.se

- Starting a business in Sweden - an introduction
- Starting a limited liability company
- Running a business in Sweden - an introduction
- Useful information sources
- Retail- opportunities in a retail growth market