

FRANCHISE RESEARCH · SERIES 03

Salon Franchise Agreement Due- Diligence Checklist

12 must-ask questions across 5 contract sections · sample contract language · red-flag indicators · attorney review prep template.

Prepared by — YLG Salon Chennai · Franchise Office

Edition — April 2026 · Version 1.0

Pages — 20

12 questions

ACROSS 5 CONTRACT
SECTIONS

6 red flags

DISQUALIFYING CONTRACT
CLAUSES

₹15-40k

LAWYER REVIEW FEE — NON-
OPTIONAL

Contents

i	How to Use This Checklist	3
A	Territory & Exclusivity (Q1-2)	5
B	Fees & Royalty Calculation (Q3-5)	7
C	Operations & Brand Standards (Q6-8)	10
D	Exit & Transferability (Q9-10)	13
E	Default, IP & Disputes (Q11-12)	15
F	Six Walk-Away Red Flags	17
G	Attorney Review Worksheet (tear-out)	19

I · INTRODUCTION

How to use this checklist

A salon franchise agreement is typically 25-50 pages of dense legal language. Most first-time franchisees skim it, sign, and discover the hard clauses years later. This checklist is the structured prep — the questions to bring to your franchise attorney's review.

⚠ THIS IS NOT LEGAL ADVICE

This checklist guides preparation. It does not replace an experienced franchise attorney reviewing your specific contract. Budget ₹15,000-40,000 for that review. It is the cheapest insurance you'll buy in this process.

How to work through this

1. **Round 1 – Self-prep (1-2 hours):** Read this checklist in full. Mark questions where you don't know the answer for the franchisor in front of you.
2. **Round 2 – NDA discussion (90 min):** Bring this checklist printed. Walk through Q1-12 with the franchise office. Get written answers, not verbal.
3. **Round 3 – Attorney review (3-5 days):** Hand the printed checklist + their written answers + the actual contract to your attorney. Get their red-flag report.
4. **Round 4 – Negotiation (1-2 weeks):** Negotiate flagged clauses. Many are negotiable; agreement is a starting point, not a final.

SECTION A · TERRITORY

Territory & exclusivity (Q1-2)

The clause most investors don't read carefully. Without territory exclusivity, the franchisor can open a second outlet 800 metres from yours. With it, you get a protected catchment.

Q1 — How is my territory defined, exactly?

What good looks like:

"Within a 2.5 km radius of [outlet address], measured from the principal entrance, the Franchisor shall not establish or franchise another outlet under any of its brands during the Term."

Red flags:

- "First right of refusal" without exclusivity – franchisor can open near you, just offers you the outlet first
- Ambiguous radius like "as determined by the Franchisor"
- Territory definitions that exclude shopping malls, hotels, transit hubs (loopholes for the brand)
- "Any of its brands" missing – important if franchisor operates multiple brands
- Radius measured from "outlet boundary" instead of "principal entrance" (exposes you to creative interpretation)

Q2 — Are there geographic carve-outs?

Some brands exclude commercial complexes, hotel chains, airport retail, and corporate-tied outlets from territory exclusivity (so they can do hotel deals without compensating you).

Confirm in writing what's IN your protected zone and what's OUT. If there's a carve-out, get an explicit list – vague carve-outs become disputes.

What to negotiate

- Increase the radius (premium tier: 1.5-3 km is standard, push for 3+)
- Get the carve-out list in writing with named exceptions only
- Add penalty clause: if franchisor opens another outlet inside protected zone, you get a refund + extended exclusivity

SECTION B · FEES

Fees & royalty calculation (Q3-5)

Q3 — Exactly how is royalty calculated?

What good looks like:

"Royalty = 8% of Net Service Revenue, where Net Service Revenue means gross billings to customers excluding GST, less invoice-level discounts and returns. Retail product sales attract a separate 4% royalty. Both calculated monthly, payable by the 10th of the following month."

Red flags:

- "% of revenue" with no definition (GST-inclusive vs exclusive can swing royalty by 18%)
- Royalty applied on retail at the same % as services (kills retail margin)
- Royalty payable in advance vs arrears
- No clear cap on what counts (some brands include vendor rebates, gift card sales, etc.)
- Late-payment penalty > 2% per month (oppressive)

Q4 — What does the Marketing Fee actually fund?

Marketing fee (typically 1.5-3% of revenue) should fund national brand marketing — TV, digital campaigns, brand-level seasonal promotions. The contract should specify:

- How the fund is reported to franchisees
- What it can and cannot be spent on
- Who controls allocation
- Quarterly utilisation reporting

Red flag: marketing fund pooled with general operating account at the franchisor — your fee subsidises franchisor overhead. Demand quarterly reporting on marketing-fund utilisation.

Q5 — What's the renewal fee?

The "Hyderabad ₹18L" story: their agreement said "renewal at then-prevailing brand fee" — at year-5, that fee had moved from ₹8L to ₹26L. They paid the full delta.

What good looks like:

"Renewal fee = 50% of original brand fee, payable 60 days before term expiry, with a 6-month notice from Franchisor. Royalty rate continues at then-current contract."

Fixed multiplier removes future surprise. Always pin renewal economics down upfront — it's negotiable when you have leverage (pre-signing), not when you have none (mid-term).

SECTION C · OPERATIONS

Operations & brand standards (Q6-8)

Q6 — What operating SOPs am I bound to?

Brand standards are normal and largely good — they protect customer experience consistency. The clause to inspect: **how SOPs change over time**.

Most agreements give the Franchisor unilateral right to update SOPs. The question: do changes that materially impact your cost base (mandatory new product range, mandatory equipment upgrade) require:

- Notice period (good: 90 days; bad: immediate)
- Consent or just acknowledgement (negotiate consent)
- Cost-share if the change impacts existing investment (premium brands often share)

Q7 — Am I locked into specific suppliers?

Most premium salon franchises require buying from a panel of approved suppliers — this is how they enforce product consistency.

Confirm:

- Whether the panel offers genuine procurement savings vs market price
- Whether you can substitute equivalent products from your own sourcing if cheaper
- What happens if a panel supplier fails to deliver (you can't be left without product)
- Whether panel pricing is reviewed annually
- Right to audit panel pricing vs market

Q8 — How do brand audits work?

Audits ensure brand consistency. Look for:

- **Notice period:** 24-48 hr is fair; surprise audits are a red flag
- **Scope:** operations + financials are normal; surprise inventory checks are aggressive
- **Frequency:** quarterly for premium tier; annual for express; monthly is excessive
- **Consequences:** cure period to remediate vs immediate penalty

- **Cost:** who pays for the audit? (Franchisor should)

SECTION D · EXIT

Exit & transferability (Q9-10)

Q9 — Can I sell my franchise to a third party?

Most salon franchise agreements include "Right of First Refusal" (ROFR) — the Franchisor can buy your outlet at the price you've offered to a third party. After the ROFR period (typically 30-60 days), if the Franchisor declines, you can sell.

What to negotiate

- **Transfer fee:** typical 25-50% of current brand fee, paid by buyer or seller
- **Approval criteria for new franchisee:** must be objective ("net worth \geq X, salon experience \geq Y") not subjective ("approval at Franchisor's sole discretion")
- **Time-limit on Franchisor's response:** if they don't respond within 30 days, your sale proceeds
- **Family transfer carve-out:** transfer to spouse / children / siblings should be exempt from transfer fee

Q10 — What happens if I want to exit early?

Most agreements don't allow voluntary early termination — you're committed for the term. But two cases worth pinning down:

(a) Force majeure exit

Event beyond your control — death, prolonged illness (180+ days), regulatory shutdown of your locality, partner separation. Should release you from the agreement with mutual deposit return.

(b) Brand failure exit

If Franchisor goes into insolvency or fails to deliver contracted services for 90+ days. You should have right to terminate, recover unspent advances, and de-brand without penalty.

What your security deposit covers

Confirm in writing: on voluntary exit (term completed), you get full deposit back. On involuntary termination (default), franchisor can deduct up to X% as penalty. Cap the penalty (good: 25%; bad: "as determined").

SECTION E · DEFAULT + IP

Default, IP & dispute resolution (Q11-12)

Q11 — What constitutes default and what's the cure period?

Standard defaults

- Missing royalty payment for 30+ days
- Failing brand audit twice consecutively
- Breach of brand standards (non-cure within 14 days of notice)
- Bankruptcy filing
- Material breach of confidentiality / IP clauses

What good looks like

- **30-day cure period** for monetary defaults
- **14-day cure period** for non-monetary defaults
- **Written notice required** before termination triggers
- **Opportunity to remedy** before consequences
- **Escalating penalties** (1-2% of overdue per month is fair)

Red flags

- Termination "for any breach" without cure period (allows nuclear response to minor errors)
- Cross-default clauses (default on this contract = default on other contracts)
- Personal guarantees that survive termination
- Working-capital deposit forfeit on termination

Q12 — IP, branding, and dispute resolution

IP — three items to verify

1. Brand IP licensed to you for the term — you can use the name, logo, signage
2. You own customer data (subject to brand sharing for marketing, with privacy compliance)

3. On termination, you de-brand within X days but keep customer relationships you built

Dispute resolution

Prefer arbitration in your home city (not the Franchisor's home city).

Standard good: single arbitrator under Indian Arbitration & Conciliation Act 1996, seat at [your city], language English, panel from Mumbai Centre for International Arbitration or similar.

Avoid: mandatory ICC arbitration (expensive and slow for individual operators), seat in foreign jurisdiction, multi-tier dispute clauses that delay resolution by 6+ months.

SECTION F · RED FLAGS

Six walk-away red flags

If you see any of these in the contract and they can't be negotiated out, walk away.

1. **No territory exclusivity at all.** Franchisor can open next door. Disqualifying for premium tier.
2. **Royalty payable on revenue including GST.** Adds 18% to your effective royalty rate. Common in older agreements; demand it be net.
3. **Renewal at "then-prevailing brand fee".** Open-ended liability. Demand a fixed multiplier.
4. **Termination "for any breach" with no cure period.** Brand can terminate over a paint colour mismatch.
5. **Mandatory franchisor-controlled accounting.** They control your books; you can't dispute a royalty calculation.
6. **Disputes resolved at franchisor's home city.** Asymmetric — they have local lawyers, you fly in. Demand neutral seat.

WHEN TO WALK AWAY VS NEGOTIATE

If 1-2 of the above appear, negotiate first. Most franchisors have flexibility on these clauses for serious investors. If 3+ appear AND the franchisor won't move on any of them, that's a structural mismatch — walk away.

SECTION G · WORKSHEET

Attorney review prep worksheet

Print this. Get the franchisor to fill in their answers. Hand it (with the actual contract) to your attorney.

Section A — Territory

QUESTION	FRANCHISOR ANSWER	ATTORNEY COMMENT
Q1 Territory radius	_____ km	_____
Q1 Measurement reference point	_____	_____
Q1 Multi-brand language	YES / NO	_____
Q2 Geographic carve-outs	_____	_____

Section B — Fees

QUESTION	FRANCHISOR ANSWER	ATTORNEY COMMENT
Q3 Brand fee (₹L)	_____	_____
Q3 Royalty % (services)	_____	_____
Q3 Royalty % (retail)	_____	_____
Q3 Net or gross of GST?	NET / GROSS	_____
Q4 Marketing fee %	_____	_____
Q4 Marketing fee reporting frequency	_____	_____
Q5 Renewal fee multiplier	_____	_____

Section C — Operations

QUESTION	FRANCHISOR ANSWER	ATTORNEY COMMENT
Q6 SOP change notice period	_____	_____
Q6 Cost-share on material changes	YES / NO	_____
Q7 Supplier panel exclusivity	_____	_____
Q7 Substitute right	YES / NO	_____
Q8 Audit notice period	_____	_____
Q8 Audit frequency	_____	_____

Section D – Exit

QUESTION	FRANCHISOR ANSWER	ATTORNEY COMMENT
Q9 Transfer fee	_____	_____
Q9 Approval criteria objective?	YES / NO	_____
Q10 Force majeure exit	YES / NO	_____
Q10 Brand failure exit	YES / NO	_____
Q10 Deposit return on voluntary exit	_____	_____

Section E – Default + Disputes

QUESTION	FRANCHISOR ANSWER	ATTORNEY COMMENT
Q11 Monetary cure period	_____	_____
Q11 Non-monetary cure period	_____	_____
Q11 Cross-default clauses	YES / NO	_____
Q12 Customer data ownership	_____	_____
Q12 Arbitration seat	_____	_____
Q12 Arbitration body	_____	_____

Red flag check

- Territory exclusivity present
- Royalty net of GST
- Renewal at fixed multiplier
- Default has cure period
- Independent accounting allowed
- Disputes resolved at neutral seat

YLG Franchise Office

Bring this checklist to your discovery call. We'll walk through Q1-12 with written answers.

+91 90712 34323 · franchise@ylgchennai.in · ylgchennai.in/franchise

This checklist is provided for informational purposes only and does not constitute legal advice. Sample contract language is illustrative – your specific contract will differ. Always engage an experienced franchise attorney to review the actual agreement before signing. Sources: Indian Franchise Association, SIDBI franchise financing guidelines, Indian Arbitration & Conciliation Act 1996. © 2026 YLG Salon Chennai · LS Enterprises.