Keeping It in the Family:

What Every Franchisee Should Know Before Bringing the Next Generation into the Business

Franchise ownership has quietly become part of a larger conversation happening across generations.

After years of pursuing traditional career tracks, many young professionals find themselves disconnected from their work, constrained by limited control over their future or simply unenthusiastic about spending the next 20 years climbing someone else's ladder. They find themselves asking a question that goes beyond compensation or job title: Is there a better path than this?

Increasingly, this group is looking for something more meaningful that provides greater autonomy, a clearer connection between effort and reward, and the opportunity to build equity in something they actually own. Not surprisingly, franchise ownership has become an attractive option with millennial franchise ownership reportedly increasing nearly 50% between 2023 and 2024.

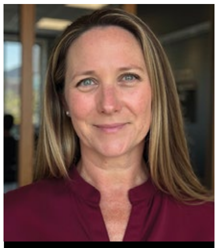
At the same time, many established franchisees are confronting a very different question. After years of building successful businesses, creating jobs and investing substantial capital into their franchises, they are beginning to think about what comes next. The business they spent years building often represents a significant portion of their family's wealth – and they want to protect it.

For some families, these questions lead to the same place … an adult child who is looking for greater ownership and purpose may also be the person best positioned to carry the franchise business into its next chapter. Done thoughtfully, bringing the next generation into the business can create continuity for the franchise, preserve family wealth and provide a meaningful opportunity for future ownership.

But this is where many franchisees encounter an unexpected reality: Family succession is not simply an estate planning decision. Nor is it simply a business decision. One of the most common misconceptions that franchisees hold is that family succession is somehow exempt from the rules that apply to every other ownership transfer contemplated by their franchise agreement. The intersection between franchise operations and estate planning is complex and requires alignment across multiple legal frameworks (tax, trusts and estates, corporate law, franchise law, etc.), as well as alignment with financial and accounting advisors.

And overlying all that complexity is family dynamics, which can be quite complicated in their own right.

All these factors need to be considered carefully long before retirement is on the horizon.



by Kristin A. Blackman

Why Start Planning Now?

Most franchisees understand they should have a succession plan. Yet according to a recent J.P. Morgan Chase study, approximately 60% of business owners do not have a formal succession plan in place. The same study found that between 70% and 80% of businesses brought to market never sell.

Many franchisees also underestimate how long a successful transition can take. Family-business consultants frequently estimate that a well-executed generational transfer requires 10-15 years of planning and preparation.

The franchisees who navigate this process most successfully tend to have one thing in common: They started planning long before they needed to.

Part of the challenge is recognizing that transferring a business to a child is fundamentally different from most traditional estate-planning decisions. Deciding who inherits a valuable operating business is not the same as deciding who receives a family heirloom or investment account. A franchise business comes with employees, contractual obligations, operational responsibilities and relationships with lenders, landlords and the franchisor. The decision is as much about leadership, governance and long-term viability as it is about inheritance.

That is why the most effective succession plans are built around governance, training, legal structure and an honest assessment of both current family dynamics and future family risks. The least effective plans are built on the assumption that everything will work out itself because everyone is family.

The First Question: What Do Your Agreements Actually Say?

Many franchisees assume succession planning begins with an estate-planning attorney. In reality, it begins with the franchise agreement.

Before deciding whether, when or how to bring a child into the business, franchisees should understand a fundamental reality: The franchisor has a significant say in what a future transition can look like.

For Planet Fitness® franchisees, both the Franchise Agreement and the Area Development Agreement contain detailed provisions governing ownership changes, transfers, management responsibilities, approval rights and succession-related events. Those provisions can significantly influence the timing, structure and viability of a family transition.

The most important takeaway is simple: Family transfers are still transfers.

Many franchisees are surprised to learn that there is no blanket exemption simply because ownership is being transferred to a child or other family member. In most circumstances, ownership changes require Planet Fitness's prior written approval, and the requirements applicable to a third-party buyer do not simply disappear because the transfer is occurring within the family.

That does not mean a family transition cannot be accomplished. Quite the opposite. The agreements contain planning opportunities for franchisees who start early and approach the process strategically. The challenge is that those opportunities depend on details such as ownership percentages, voting control, entity structure and timing – issues that are easy to overlook until a transition is already underway.

Preparing the Next Generation for Ownership

One of the biggest mistakes families make is assuming that success breeds success – that just because a parent built a thriving franchise business, a child will be equally prepared to run that franchise business.

A Planet Fitness franchise is not simply an asset to be inherited; it is an operating business that requires leadership, operational knowledge, financial responsibility and compliance with franchise system requirements.

Ownership comes with obligations, not just benefits. New owners may be required to execute guaranties, confidentiality agreements and restrictive covenant agreements. More importantly, Planet Fitness evaluates prospective owners based on their own qualifications, operational capabilities and financial resources (not on their genetics or family tree).

For franchisees considering a family succession plan, one of the best investments is developing the next generation well before any ownership transfer occurs. Meaningful operational and leadership experience helps prepare a child for ownership while demonstrating to the franchisor that they are capable of succeeding in the role.

Ideally, by the time ownership discussions begin, the successor is already a known and trusted participant in the business, not someone being introduced to it for the first time.

The Events That Derail Succession Plans

Many franchisees think of succession planning as something that happens when retirement approaches. In practice, the most successful succession plans are designed to address other types of events as well that may force ownership transitions to happen sooner than expected.

Family-business advisors often refer to these risks as the "Five D's:" death, disability, divorce, disagreement and distress. Each has the potential to disrupt a carefully planned family transition if the appropriate legal and governance structures are not already in place.

Divorce can introduce unexpected ownership and transfer issues, particularly where a child's ownership interest becomes part of a marital estate. Death or disability can trigger deadlines under franchise agreements and create immediate operational challenges if a successor has not already been identified and prepared.

Disagreement – often unrelated to the business itself – may be the most underestimated risk as it is often cited as a leading reason why less than 30% of family businesses successfully transition from the first to the second generation and just 12% make it to the third. A structure that works on paper can fail if it assumes family dynamics will remain stable over time.

The goal of succession planning is not simply to determine who receives ownership. It is to create a governance structure that allows the business to continue operating successfully when one of these inevitable life events occurs.

Structuring the Transition Correctly

Certain transfers involving estate-planning entities and non-controlling family interests may receive different treatment than traditional third-party transfers.

The challenge is that the details matter.

A transfer that appears straightforward from a business perspective can have very different consequences depending on ownership percentages, voting rights and entity structure.

Franchise counsel and estate-planning counsel should be working together to ensure the transition aligns with both family goals and franchisor requirements.

The Value of Early Communication

Successful succession plans rarely come together at the last minute.

Franchisors want stable, capable operators running successful sustainable businesses. Franchisees who communicate openly about long-term succession plans, introduce the next generation early and build credibility over time are often in a stronger position than those seeking approval after all decisions have already been made.

The families that navigate generational transitions most successfully are rarely the ones who show up with completed paperwork and ask for a signature.

They are the ones who have been having the conversation for years.

A Practical Starting Point

The business you built deserves a future as carefully constructed as its foundation. If you are considering bringing a child or other family member into your Planet Fitness business, the first step is understanding what your existing agreements allow, what risks may exist and what structure best supports your long-term goals.

For some families, working through the analysis will confirm this is the right path. For others, it will surface complications worth understanding before commitments are made. Either way, you will be better positioned to protect what you have built.

Start the conversations now, while you still have time to do it right.

This article is for informational purposes only and does not constitute legal advice. Consult qualified legal counsel before implementing any ownership transfer, succession or estate-planning strategy.

Kristin Blackman *is a franchise and compliance attorney at Klein Fournaris Bleiman. She can be contacted at kristin@kfblawfirm.com.*