

# Making the Franchise Decision

A Due Diligence Workbook  
for Prospective Franchisees



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Congratulations on making the decision to begin looking at becoming a franchisee.

This workbook is a tool for you to use in evaluating different franchise opportunities. While it contains lots of questions you should be asking about any franchise opportunity, it does not contain all of the questions you may have or even all of the questions you will need answers to. Consider this workbook only as your starting place in conducting your due diligence of any franchise opportunity.

Before you begin, though, there are two very important questions this workbook can't answer for you, and these may be the most critical questions you really need to first address:

1. *Is becoming a franchisee truly the right decision for me?*  
and
2. *Which is the best opportunity for me?*

I can't help you in answering either of these questions, as they are both wholly personal. What is important to me may not be as important to you. Think of becoming a franchisee as a journey, and take your time. Make certain you conduct a dispassionate evaluation of every opportunity you are considering, and please don't conduct your evaluation alone. Becoming a franchisee can be a life-changing decision, and it is complicated. You are going to want to engage and pay for professional assistance from qualified franchise professionals to assist you.

Before you begin your exploration of franchising I would suggest that you become educated on the subject. There are a lot of sources of information on franchising – some good, and some that you should not rely on.

As a newcomer to franchising I would recommend you begin your education by reading ***Franchise Management for Dummies***, a book I wrote with Joyce Mazero, a well-known franchise lawyer. Franchise Management is a follow-up and replacement to the book I wrote with Dave Thomas, founder of Wendy's International, called ***Franchising for Dummies***. Both books are practical guides to understanding franchising for both franchisees and franchisors. ***Franchise Management for Dummies*** will take you into a deep dive into franchising and hopefully, as authors, we achieved our goal of making complicated issues easy for the reader to understand.

There is also a lot of information available online that you should consider. Possibly the best online material can be found on the International Franchise Association's website. There you will find online courses, research, articles, and other helpful information ([www.franchise.org](http://www.franchise.org)). The IFA's website will also provide you with a list of franchisors that are members of the association that you may want to consider. Franchise Update Media (<https://www.franchising.com/about/>) and Franchise Times (<https://www.franchisetimes.com>) also provide great information. You will also find a number of articles on my firm's website that may be interesting and informative ([www.msaworldwide.com](http://www.msaworldwide.com)).

I would avoid (or at least take with a grain of salt) the advocacy sites and articles whose primary purpose is to sell you a franchise. These are mainly written by franchise sales brokers and salespeople whose job is to sell franchises for their franchisor clients. Often these articles fail to point out the risk of becoming a franchisee, and highlight only the reasons that becoming a franchisee can be very successful. Stick with the professionally written articles and publications and you will do fine.

At some point in your exploration you will encounter a very long legal document called the Franchise Disclosure Document (FDD). Franchisors (unless they are exempt) are required to prepare an FDD and provide it to prospective franchisees well in advance of their becoming franchisees. The franchisors you are interested in will at some point give you a copy. If they don't, ask for one. If you are talking to an outside franchise sales broker that is recruiting prospective franchisees for their franchisor clients, you should also ask them for a copy of their client's FDD once they introduce you to any franchise opportunity. You really don't want to spend a lot of time discussing a franchise opportunity with any salesperson before you have had a chance to read the franchisor's FDD.

The FDD is lengthy, and at first, second and third glance can seem intimidating. It is long, but it is essential that you read it carefully and take notes on anything you do not fully understand. The purpose of the FDD is to give you a minimum level of information necessary for you to make an informed franchise investment. But, it is not designed to give you all of the information you will need.

As you read a franchisor's FDD, don't make the mistake of skipping sections, thinking that what you are reading is the same for each franchise opportunity you will be exploring. While many documents will look the same, even in the same industry the contents of an FDD and franchise agreement will be very different from one franchisor to the next. Fully understanding what is in the franchisor's offering and how one offering is different from another will be important to you.

I can't be with you while you take your journey into becoming a franchisee, and this workbook contains only some of the questions and information I would want answers to before I would be willing to join a franchise system. Consider the FDD only as your starting place when you begin to evaluate any franchise opportunity.

As you meet with different franchisors or discuss any opportunity with a franchisor's sales broker, if you find any that are not willing or not able to fully answer most of your questions, my advice is to keep looking for another opportunity. Becoming a franchisee and starting your own business is risky enough — you do not need to increase that risk by not knowing the whole story. However, even before you begin getting the answers to your questions, there are a few things to always keep in front of your mind when evaluating a franchise:

- This is likely the first time you have invested in a franchise. Remember that the franchise salesperson has been through this hundreds or even thousands of times before, and most talented franchise salespeople have a process that they use. Respect their process, but understand that they are on commission and their process is designed for two purposes – to provide you with information and to get you to invest in the franchise they are selling – and if they are good at their job – getting you to do so quickly.
- The franchise salesperson is not your consultant or advisor, regardless of what they call themselves. No matter how friendly they are, no matter what tests they ask you to fill out to determine the perfect franchise opportunity for you, and even if you pay them a small fee, remember that the franchise salesperson is paid a commission by the franchisor and their job is to sell you a franchise from one of their clients and earn a fee. Simply put, if you do not buy one of the franchises they are selling, they do not get to buy the new boat they are looking at. Franchise sales brokerages generally charge their clients 40% to 50% of the initial franchise fee you pay to the franchisor, and it is not unusual to find some franchisors paying their franchise brokers 100% or more of the initial franchise fee. Some even pay the brokerage a percentage of the continuing royalty you will be paying as a franchisee, which most professionals in franchising would find to be a very foolish practice.

This may sound odd but, investing in a franchise is mainly an emotional decision. You can get wrapped up in wanting a specific opportunity to such a level that you don't ask the right questions because you are afraid the franchisor will not accept you. Franchise salespeople are trained to use your natural emotion of not wanting to be left out of a great opportunity in selling you a franchise. Don't fall into this trap, as there are a lot of great franchises to choose from; if you get emotional in your decision making, you may miss them.

The franchise salesperson is in the business of selling franchises. They need you, so take your time and make them work hard by giving you the information you need. Get the answers to all the questions in this workbook — and then ask some more just for good measure. Write down their answers.

No matter what you may hear during the franchise sales process – franchising is a contractual relationship. It's not a family, and you and your franchisor are not going to be partners. Even if the franchise sales person is knowledgeable, and most are, remember they work for the franchisor and their guidance and advice on what franchise to invest in is not something you should ever rely upon.

If you are going to rely on anything the franchisor or its salespeople promise you, and that information is not in the written franchise agreement, understand that the franchisor may not be legally required to provide that to you later on. Make certain all the verbal promises you relied upon in making your franchise decision are included in the written franchise agreement. Yes, contrary to popular belief, there are some items in a franchise agreement that can be negotiated.

Investing in a franchise is not the time to go it alone; you need to have your own independent franchise advisor. Make certain you have a great franchisee lawyer working with you. Franchise law is a specialty; your local lawyer will generally not have a sufficient understanding of franchising to be helpful to you, and may even be harmful to a successful transaction.

There are many good sources for finding a franchisee lawyer to work with. On the International Franchise Association's website ([www.franchise.org](http://www.franchise.org)) you will find a section highlighting the IFA's Supplier Forum members and you can search for franchise lawyers to assist you there. Another source will be the American Bar Association's Forum on Franchising (<https://connect.americanbar.org/network/members/advanced-search>.) In the section marked ABA Groups, click on *Forum on Franchising* and you can search for a franchise lawyer that is local to you. Many of the lawyers listed on both the IFA and the ABA web site specialize in franchisor work and may not work with franchisees. To save you some time, we have put together a list of lawyers that have told us they represent franchisees on my firm's website (<https://www.msaworldwide.com/franchise-resources/franchisee-lawyers>). Your franchise lawyer does not have to be local, and most work throughout the United States. Meeting with them face to face, especially in the age of Zoom, is not going to be necessary.

## Making the Franchise Decision Introduction

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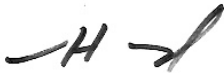
I told you earlier that one of the most important considerations you have to make is whether or not you should become a franchisee of any franchise system. *Not* choosing to become a franchisee is a viable decision you should always consider.

It is hard for some people to be good franchisees because franchisees are not true entrepreneurs, they are “formula entrepreneurs.” Understanding the difference is important. A true entrepreneur needs to make every decision for their business, while a formula entrepreneur does not get to make every decision because they have to meet the brand standards set by their franchisor. This is true even when they disagree with their franchisor’s decisions.

To be certain whether you can operate as a franchisee, stop by any local franchised business in your neighborhood and talk to the franchisee who owns that location. Ask them what it is like to own a business as a franchisee. Talk to your friends and family, and maybe even your co-workers if you are still working for a company. Let them give you their assessment of your personality. Once you understand if you can be a great franchisee, you will be ready to make your franchise decision.

Good luck in your exploration of franchising. Don’t rush, take your time, and do a thorough evaluation before you make any investment. This is an important decision for you and your family.

Best regards,



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## Making the Franchise Decision

# Section I: Questions You Should Ask Yourself

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The first person to ask questions of is yourself. Should you even be considering becoming a franchisee?

Remember, although you are investing in a business that you will own, operate, and manage on a day-to-day basis, you are joining a system that you must follow. That means that even if you don't agree with the franchisor's brand standards and policies, you will need to follow them. Also, every decision a franchisor will make may not necessarily benefit you or your business. Therefore, consider the following questions:

1. Do you always have to be right? Will you be able to follow the directions of the franchisor even when you think you know a better way? Are you prepared to accept coaching and advice from the franchisor on how you operate your location?
2. Do you have the need to experiment with your products and services? If you happen to like well-done hamburgers, will you be satisfied if the franchisor's recipe requires them to be medium-rare? If the franchisor's concept is restricted to customers coming to your location to make a purchase, do you have a burning desire to buy a truck and make deliveries to customer's homes — even if that is not part of the franchisor's concept?
3. Do you think of yourself as a great advertising genius? If the franchisor provides you with advertising material, are you going to want to change it all the time? Do you think that your market is different from everyone else's, and are you going to expect the franchisor to modify their brand message just to suit your wishes?
4. Do you play well on a team? Other franchisees will rely upon you to offer to the consumer a consistent level of service, product quality, and brand message. You are going to have to work with others in the system in making decisions. All of these decisions will have some impact on your business and you will often be required to follow directions, even when you personally do not agree with them. Will you be able to do this?
5. Franchisors are going to want you to share with them information about your business, and sometimes the information they request may seem very personal to you. They will want you to send them reports and may require copies of your tax returns. Field staff will be making periodic visits to your locations, and will be asking you questions and wanting to look at some of your records. Even when you understand that the reason they need the information is to help you operate your business better, are you prepared to provide them the information and listen to their advice?



**Making the Franchise Decision**

## **Section I: Questions You Should Ask Yourself**

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If you can't honestly answer each of the previous questions with a "yes," then you should reconsider becoming a franchisee of a strong franchise system. You simply won't be happy in the long run with your loss of control. However, if you are still in the running to be a franchisee, here are some more questions to ask yourself:

1. Why do you want to be a franchisee?

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2. How much income do you need to maintain your current standard of living?

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3. How many hours a day are you comfortable working?

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4. What skills can you bring to a business?

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5. What types of business do you think you would like to operate? Retail, service, restaurants, etc.

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**Making the Franchise Decision**

**Section I: Questions You Should Ask Yourself**

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6. What types of businesses do you think you would not want to own — no matter how much money you can make?

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7. How much cash do you have to invest in a business? How much money can you borrow if you needed to?

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8. Is your family supportive of your becoming a franchisee? Do you have a network of supportive friends and colleagues to rely on when you need emotional support?

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9. Do you have a network of professional advisors to help you evaluate a franchise opportunity?

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## Making the Franchise Decision Section II: The Franchisor

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You have done your on-line research and have identified a few industries and franchisors in each industry that interest you. It's going to get confusing later on unless you can go back and clearly understand what each franchise offered and what your impression of their management team was. Use these pages to record important information about each franchisor (make copies as needed).

1. Name of the Franchise System:

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2. Address:

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3. Website address:

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**Tip:** It's a good idea to take screenshots of all the franchisor's websites for future review and as part of your permanent file, in the event that a dispute ever arises.

4. Contact person at the franchisor and their title:

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5. Contact information for your franchisor contact:

Office telephone number: \_\_\_\_\_

Cellular telephone number: \_\_\_\_\_

Other telephone or contact info: \_\_\_\_\_

Email address: \_\_\_\_\_

Fax number: \_\_\_\_\_

6. Date of first contact with the franchisor and type of contact (in person, by telephone, at a trade show, in their offices, etc.):

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**Making the Franchise Decision**  
**Section II: The Franchisor**

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7. Were you introduced to the franchisor by a broker? If so:

Name of broker: \_\_\_\_\_

\_\_\_\_\_

Contact information for broker: \_\_\_\_\_

\_\_\_\_\_

Date you first made contact with broker: \_\_\_\_\_

Was the first contact by telephone or in person? \_\_\_\_\_

8. Description of the franchisor's business:

\_\_\_\_\_

\_\_\_\_\_

9. Date the original business was founded and began to offer the products and services:

\_\_\_\_\_

10. Date the company began offering franchises. How many locations, and in what states, did the franchisor have open when they began to offer franchises?

\_\_\_\_\_

11. Number of company-owned locations:

Now: \_\_\_\_\_

End of last year: \_\_\_\_\_

End of previous year: \_\_\_\_\_

12. Number of franchised locations:

Now: \_\_\_\_\_

End of last year: \_\_\_\_\_

End of previous year: \_\_\_\_\_

**Making the Franchise Decision**  
**Section II: The Franchisor**

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**13.** Number of units closed during the last three (3) fiscal years:

20\_\_\_\_: \_\_\_\_\_

20\_\_\_\_: \_\_\_\_\_

20\_\_\_\_: \_\_\_\_\_

**14.** Where were the closures and why did the locations close?

\_\_\_\_\_  
\_\_\_\_\_

**15.** Number of units reacquired by the franchisor during the last three (3) fiscal years:

20\_\_\_\_: \_\_\_\_\_

20\_\_\_\_: \_\_\_\_\_

20\_\_\_\_: \_\_\_\_\_

**16.** How many of these locations are still operated by the franchisor, how many were subsequently closed, and how many did they transfer to franchisees? Do you suspect that the franchisor is “churning bad locations”?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**17.** Names, addresses, and telephone numbers of franchisees who have left the system in the last three (3) fiscal years. Some of this information should be in Item 20 of the franchisor’s FDD. Ask for their names and telephone numbers including the folks that left the system since this year’s FDD was created:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Making the Franchise Decision**  
**Section II: The Franchisor**

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- 18.** Number of units in the United States (this information should be in the franchisor's FDD). Does the franchisor operate any ghost kitchens or have locations in non-traditional locations? How will these impact your business?

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- 19.** Number of units internationally and where are they located:

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You are going to want to know what resources the franchisor has available for you and your business. If they are thinly staffed and your field staff and contact people are opening units in Beijing or London, having international franchises could be a liability for you. Make sure the franchisor has the necessary resources to meet their obligations to you.

- 20.** Projected number of franchises to be established during the next fiscal year, domestically and internationally. Where will they be established?

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Is the franchisor focused on their development strategy, or are they simply selling franchises wherever and to whomever is available? You want a franchise system that will rapidly develop your market with you so that your brand will have sufficient brand recognition for you to dominate your competition.

**Making the Franchise Decision**  
**Section II: The Franchisor**

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21. Number of full-time personnel on staff: \_\_\_\_\_ in the key support areas (training, operations, field support purchasing, marketing, and merchandising):

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Duties: \_\_\_\_\_

Contact information: \_\_\_\_\_

\_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Duties: \_\_\_\_\_

Contact information: \_\_\_\_\_

\_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Duties: \_\_\_\_\_

Contact information: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Making the Franchise Decision**  
**Section II: The Franchisor**

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**22.** Is there a separate support staff in place for domestic and international franchisees? Yes \_\_\_\_\_ No \_\_\_\_\_

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**23.** Does the franchisor seem focused more on system expansion or more on franchisee performance? One way to tell is to ask them this simple question: *How's business?* If they do not immediately begin to talk about SSS — same store sales or KPIs — improvements in the key performance indicators at the local level, and go on non-stop talking about franchise sales, you will have your answer.

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**24.** Is the percentage of headquarters staff weighted toward franchisee performance or franchise sales?

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**25.** What service departments does the franchisor have?

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**Making the Franchise Decision**  
**Section II: The Franchisor**

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**26.** Is the company using the services of franchise brokers? If yes, which ones?

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You may be getting a lot of information from the broker. You need to know if they and their firm can be trusted. Talk to the broker about any lawsuits they and their brokerage firm have been involved in or settled in the past five years. Do the same about any involvement they might have had with the State or Federal franchise or securities regulator. Ask them about their other clients. Remember, each franchisor may be paying the broker a higher or lower commission on the sale. You need to be sure that the franchise they have introduced you to is not simply the one that pays them the most money for each franchise they sell. You can also ask them for the names and contact information of franchisees they have placed with the same or other franchise systems.

**27.** What is the franchisor's net worth requirement? How much liquid cash must you have to meet the franchisor's objective standards? Are the objective and subjective standards published?

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**28.** What is the background of senior management, field staff, trainers, and support personnel? Much of this information is included in the FDD (Franchise Disclosure Document) in Items 2 and 3, but probing for answers in this area is a good idea.

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**Making the Franchise Decision**  
**Section II: The Franchisor**

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**29.** In what threatened, pending, or current litigation is the company involved?

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While most of this information is in Item 3 of the FDD, ask about new matters that have come up since the FDD was created. Make sure you get the actual court cites so that your lawyer can do their research on the case. This often is critical information for you to be aware of.

**30.** In addition to the litigation disclosed in the FDD, is there any additional litigation that was not deemed to be material and therefore not included in the FDD?

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**31.** How many franchisees have defaulted on their loans (SBA and others) in each of the past five years?

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**32.** What is the bankruptcy history of the company, affiliates' management, staff, and franchisees?

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You are going to be relying on the management of the franchise system to meet their obligations. If they have a track record that shows they have not met those obligations in prior franchise systems, can you rely upon them to do so now?

**Making the Franchise Decision**  
**Section II: The Franchisor**

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**33.** Who owns the trademarks and service marks? Are the marks federally registered? Are there any disputes pending or threatened against the trademarks? If the trademarks are licensed to the franchisor, what are the terms of the license? Are there any settlements, or other agreements or superior rights that may limit the use of a trademark by a franchisee?

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**34.** Are there any discussions or plans to change the name or trademark or service mark of the franchise in the next five years? If so, who pays for the new signage, etc?

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**35.** Does the company have any current, pending, or threatened regulatory actions from the Federal Trade Commission (FTC), state regulator, or other government agency?

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**36.** Has the franchisor's application to offer franchises in any of the registration states been denied this year? Has any state required the franchisor to defer or escrow fees? If so, which states and why did the state deny their application or require them to defer or escrow fees?

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**Making the Franchise Decision**  
**Section II: The Franchisor**

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**37.** Franchise systems are bought and sold by other franchisors or groups of investors. Are there any talks about merging or selling the franchise company to anyone? How many times in the past five (5) years has the ownership of the franchise system changed?

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**38.** Are any of the senior management or key employees exiting the franchise system? If they are, who will be taking their place and what is that person's background?

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**39.** Broadly, what initial and ongoing services does the franchisor provide?

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Review the FDD with the franchisor. Understand which services they are obligated to give you and at what cost, if any, to you. If the agreement does not say you will get the service you are relying on, likely the franchisor will not be obligated to provide it to you if they choose to no longer offer that service to other franchisees. Make certain that all of the promises you are relying on in making your decision are written down in the franchise agreement. Look at the chart in Item 17 of the FDD to assist you.

**40.** Broadly, what are your obligations going to be under the agreement?

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In your review of the entire FDD, make certain you understand Items 9 and 17. Make certain that you are not committing to something you can't live with. If the franchisor agrees that you do not have to perform some obligation or meet a standard that other franchisees will be required to meet, make certain that you have that exception in the franchise agreement. However, consider — do you really want to be part of a franchise system where the franchisor negotiates on system standards just so they can make a sale? If you can do it, how many other franchisees will have had special deals that might impact the overall performance of the brand? Be careful of franchisors that negotiate too easily — especially when you seem to be winning all of the major negotiating points.

**41.** Does the franchisor have a method to protect its franchisees from poorly performing franchisees? What are the methods they use? How has the franchisor used these methods in the recent past?

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**Making the Franchise Decision**  
**Section II: The Franchisor**

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**42.** Is there an independent Franchisee Association (FA)? If yes, what is the president's name and telephone number? Is the FA included in Item 20 and are they recognized by the franchisor in the franchise agreements? What is the relationship between the franchisor and FA? Are there any disputes currently between the FA and the franchisor? Make certain you speak to representatives of the FA. It is also a good idea for your lawyer to call the lawyer representing the FA to discuss any pending matters or disputes.

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**43.** Is there a Franchise Advisory Council? If yes, what is the president's name and telephone number? What is the role of the FAC? How often do they meet? Are the members elected or appointed? How do you become a member of the FAC, and can you attend FAC meetings?

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**44.** Is the franchisor a public or privately owned company? If it's a public company, what is its symbol on the stock exchange?

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Obtain a copy of its annual report and 10-K. It likely has additional information not required to be included in the FDD the franchisor will give you.

**Making the Franchise Decision**  
**Section II: The Franchisor**

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**45.** Is the franchisor a subsidiary of another company? Do the parents or affiliated companies own any other franchise systems? Do any of them compete with you? Are all of the other franchise systems in the franchisor's network financially healthy? Is there any benefit to you from having an affiliation with the other brands (i.e., real estate, purchasing, co-branding opportunities, etc.)?

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**46.** What is the financial condition of the franchisor?

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Review the financial statements contained in FDD Item 21 with your accountant. Is the franchisor profitable? Did the auditor issue a going concern opinion? If the franchisor's sources of revenue are not broken out (franchise fee, royalties, and so on), ask for this information. It's important for you to understand how and if the company is making money. Is their income coming from continuing royalties, or is the company only profitable if it continues to sell new franchises? What happens if they do not sell any new franchises and continue to grow? Will they survive?

**47.** Running a credit check on the franchisor is always a good idea. Ask your attorney to also run a Lexus Nexus check for litigation on any franchisors that make your short list.

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**Making the Franchise Decision**  
**Section II: The Franchisor**

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**48.** Will the franchisor finance any of the costs associated with becoming a franchisee (see Item 10 of the FDD)? Do they have any relationships with third party lenders or leasing companies? Who are they?

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**49.** What terms of the franchise agreement has the franchisor negotiated with other franchisees in the last three (3) fiscal years?

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**50.** Have the key provisions of the franchise agreement been changed in the last three (3) fiscal years? What changes have been made and why?

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Make certain you discuss this also with the head of the FA and the FAC. Ask the franchisor for a list comparing or detailing the changes made to the Franchise Agreement.



**Making the Franchise Decision**  
**Section III: Franchise Costs**

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Item 7 of the franchisor’s FDD will provide you with information on your franchise investment. Items 5 and 6 will detail your initial and continuing fees. Each is usually followed by lengthy notes. Make certain you read each note carefully, as it will contain additional information not provided for elsewhere in the FDD.

1. What is the total investment required to own a franchise?

**Franchising Costs**

Initial Franchise Fee	_____
Multi-Unit Development Fees	_____
Training Fees	_____
Total Fees	_____

**Construction & Leasehold Improvements**

Construction & Leasehold Improvements	_____
Less Landlord Contribution	_____
Impact Study	_____
Professional Fees: Architect, Engineer	_____
Total Construction	_____

**Equipment and Furniture & Fixtures**

Equipment	_____
Smallwares & Other Tools	_____
Furniture	_____
Fixtures	_____
Interior Signage	_____
Exterior Signage	_____
Security System	_____
Total Equipment and Furniture & Fixtures	_____

**Vehicles**

Vehicle	_____
Vehicle Painting & Signage	_____
Shelving	_____
Total Vehicles	_____

**Making the Franchise Decision**  
**Section III: Franchise Costs**

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**Computers & Telecommunications**

Computers & Point-of-Sale	_____
Connectivity	_____
Point-of-Sale & Other Software	_____
Fax Machine	_____
Printers	_____
Telephones	_____
Mobile Phones	_____
Website	_____
Total Computers & Telecommunications	_____

**Training**

Training Fees Per Person	_____
Total Training Fees	_____
Pre-Opening Salaries Before or After Training	_____
Pre-Opening Labor (Training)	_____
Travel & Costs During Training	_____
Total Training	_____

**Making the Franchise Decision**  
**Section III: Franchise Costs**

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**Working Capital**

What is the Working Capital required for the business until you break even and are able to live off of the proceeds of the business. This is usually more than the franchisor is required to include in Item 7 of the FDD.

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Franchisors may not be able to answer this question as it can be claimed that by answering it, they are violating the rules that govern the presentation of a Financial Performance Representation in Item 19 of the FDD. Make sure you ask this question of the franchisees you call during your due diligence on the franchisor.

What is the total Capital you will personally need to feed and clothe your family and go on vacation and pay tuition until the business can pay your bills:

Total Working Capital \_\_\_\_\_

**Other Expenses & Prepayments**

Accountant \_\_\_\_\_

Legal \_\_\_\_\_

Licenses \_\_\_\_\_

Opening Inventory \_\_\_\_\_

Opening Supplies \_\_\_\_\_

Insurance \_\_\_\_\_

Market Introduction: Opening Advertising \_\_\_\_\_

Market Introduction: Opening Printing \_\_\_\_\_

Initial Printing & Stationery \_\_\_\_\_

Rent Deposits \_\_\_\_\_

Utility Deposits \_\_\_\_\_

Other Deposits & Prepayments \_\_\_\_\_

Miscellaneous & Contingency \_\_\_\_\_

Total Prepayments \_\_\_\_\_

**Total Initial Investment** \_\_\_\_\_

**Making the Franchise Decision**  
**Section III: Franchise Costs**

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Cash Portion of Investment \_\_\_\_\_  
 Amount of Loans Available \_\_\_\_\_  
 Interest Rate & Terms Available \_\_\_\_\_  
 Amount of Capital Required \_\_\_\_\_

2. How soon will you be expected to make any significant new investment into your business (i.e., new equipment, upgrades, or remodeling, etc)? Is the amount of any additional investment unlimited, or does the franchisor agree on a cap on these costs?

\_\_\_\_\_  
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3. What are your initial and ongoing financial obligations to the franchisor or required third parties, the base used for their calculation, method of payment, and frequency of payment?

Type of Fee	Rate or Amount	Base for Calculation	Frequency
Initial Franchise Fee			
Multi-Unit Development Fee			
Renewal or Successor Fee			
Transfer Fee			

**Making the Franchise Decision**  
**Section III: Franchise Costs**

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<b>Type of Fee</b>	<b>Rate or Amount</b>	<b>Base for Calculation</b>	<b>Frequency</b>
Testing and Evaluation of New Products			
Interest on Late Payments			
Post Termination and/or Post Expiration Expenses			
Audit Costs and Penalties			
Public Offering Fees			
Relocation Fees			
Costs and Attorney Fees			
Insurance			
Indemnification			
Market Introduction Costs (Grand Opening Marketing)			
Brand or Advertising Fund Contribution			
Cooperative Fund Contribution			
Local Advertising Requirement			

**Making the Franchise Decision**  
**Section III: Franchise Costs**

Type of Fee	Rate or Amount	Base for Calculation	Frequency
Initial Training			
Continuing or Advanced Training			
Software Licensing Fees			
Credit Card Processing Fees			
Convention Registration Fees			
Insurance Costs			
Franchise Advisory and/or Franchisee Association Fees			
Other			

4. What are the names and contact information for the company's suppliers/3rd party vendors you will be required to do business with as a franchisee? Review this information in Item 8 of the FDD. Does the franchisor own an interest in any of the suppliers? What is their revenue from the supplies based on your required purchases?

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**Making the Franchise Decision**  
**Section III: Franchise Costs**

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5. Is there any type of multi-unit development agreement available? What are the terms? In addition to any reduction offered in your initial franchise fee, is there also a reduction in your continuing royalties once you open up a defined number of locations?

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6. What reports are you required to provide the franchisor, and how frequently?

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7. Does the franchisor require any of the reports to be audited?

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8. Is there an advertising cooperative? Is there a purchasing cooperative? What role do the franchisees play in managing the advertising and/or the purchasing cooperative? What are the franchisee's obligations regarding advertising and purchasing co-ops?

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**Making the Franchise Decision**  
**Section III: Franchise Costs**

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9. Are there any products or services that the franchisee must purchase only from the franchisor? If yes, will the franchisor earn income on purchases? How much does the franchisor earn? How are the products distributed, and how long does it take for orders to be filled? What happens in case of a shortage of system products? How are they distributed?

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10. Does the franchisor provide income projections for existing operations (Item 19 of FDD)?

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Obtain a written copy of any Financial Performance Representations made. What is the basis for the franchisor making the Financial Performance Representations? Do they include information provided by franchisees or is it mainly prepared from company-owned operations? Discuss with the franchisor and your advisors how relevant information prepared on company-owned operations will be for your franchise. Any information on potential sales and income claims by the franchisor **MUST** be included in writing in Item 19 of the FDD. Any other information could be an improper Financial Performance Representation. Discuss this with your lawyer if it occurs. The franchisor is required to provide you with the backup information they used in developing their Financial Performance Representation. Discuss with your lawyer if you should request this information as it may contain additional information the franchisor chose not to include in its FPR.



**Making the Franchise Decision**  
**Section III: Franchise Costs**

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**11.** Is financial assistance available? How much? From whom?

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**12.** Do you lease or buy the location? Consider the length of the lease in conjunction with the term of the franchise agreement.

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**13.** Can you buy or lease equipment and fixtures from someone other than those recommended by the franchisor? Can you use used equipment? Does franchisor take a security interest in those fixtures?

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**14.** Are any existing franchises available for sale? Where are they located? Who are the franchisees and what is their contact information? If you buy an existing franchisee's business, do you get a new franchise agreement for a new term, or does the franchisee transfer the existing agreement to you for the remainder of their term? What will your transfer fees and other costs be? Why are the franchisees selling their businesses?

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**Making the Franchise Decision**  
**Section III: Franchise Costs**

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**15.** Is the layout or build-out of the location specified by the franchisor? Are architectural drawings provided? Can you change the layout?

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**16.** Does the franchisor offer any special support (training, field support, lowered fees, etc.) for women, minorities, veterans, or other categories of franchisee?

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## Site Development

Finding the right location for your business can be complicated – especially since you may have never looked at commercial real estate before. It is important for you to understand the assistance the franchisor will provide to you in finding, approving, and developing your business location.

1. Does the franchisor assist in site selection? What type of assistance does the franchisor provide? What do the site selection services provided cost you?

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2. Does the franchisor assist in lease negotiations? What type of assistance does the franchisor provide? What does it cost you? Must the franchisor approve the lease prior to signing?

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3. Does the franchisor require that each lease contain any specific language in the lease about the franchisor's rights during and after you become a franchisee? What language needs to be included in your lease?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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4. Does the franchisor sign the lease and sublet the location to the franchisee? How much does the franchisor charge over and above the rent and other costs they are paying? Is this upcharge negotiable? Can you have a right of first refusal if they own the property your franchise will be in and they decide later on to sell the property?

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5. Does the franchisor assist in site development and construction? What type of assistance does the franchisor provide? Do they have authorized or required contractors in each market? Do they sell you any type of opening package to build out and/or equip your location? Does the franchisor have to approve your build-out plans before construction starts?

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6. What licenses or permits will you need? Are there any licenses or permits that are unique to the business (i.e., liquor license)? What are their costs and will your opening be delayed while you wait for approval?

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7. How difficult is it for you to relocate your business (in or out of your current trading area) if your original site does not work out? Are there any relocation fees or requirements for relocation?

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## Consumer Research & Marketing

While it would be wonderful for you to find a long list of potential customers standing outside your door on the day you open for business, expecting that may be unrealistic. You need to understand how the franchisor is going to assist you in marketing your business.

1. What type of consumer research has the company conducted?

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2. What were the results?

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3. What type of consumer advertising and marketing does the company recommend? Who pays for this?

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4. What types of cooperative advertising programs are being used? What percent of the franchisees participate? Do the company-owned locations contribute?

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5. What percentage of sales is recommended or required for you to spend on advertising and marketing? Local? Regional?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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6. Are there any national or local advertising co-ops? How are they structured and what are the costs? What is the required contribution?

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7. Is the franchisor using the Internet for any type of e-commerce? Do you share in any of the Internet sales made by the franchisor or franchisees made to customers in your market? How much, and how do you keep track of what is owed to you? Does the franchisor maintain a website for franchisees? Can you make changes to your page on the website? Are you allowed to develop your own website or register your own URL?

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8. Who are the major direct and indirect competitors of the business? (In general, and in your local area.)

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9. What are the major trends in this business sector? Has the business been growing or shrinking recently?

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**10.** Is the business vulnerable to technological changes?

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**11.** Are there any potential regulations that may impact the business?

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### **Training & Operations Manuals**

Even if you have some experience in operating a business similar to the one the franchisor is offering, you are going to need to understand how the franchisor wants you to operate. It is important therefore that you learn about the training they are offering to you and your staff.

**1.** What are the location, duration, and additional costs of initial training?

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**2.** Who must attend training? How many people can you send to training? What is the cost of additional staff attending training?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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3. What is the training curriculum? Can you review samples of the material used in training?

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4. Who conducts the training, and what are their backgrounds and other responsibilities?

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5. Who pays for transportation, room, and living expenses for the people attending training? Who pays their salaries?

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6. What topics does the initial training program cover?

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7. How does the franchisor help you train the members of your staff who do not go through initial training with you? How do your replacement managers get trained and at what cost? Are there any certifications that the franchisor gives out upon successful completion of training?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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8. What is the length of the initial training provided – pre-training, headquarters, and classroom training, on the job training, opening training provided on site and is any of the training provided remotely.

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9. Does the franchisor provide a train-the trainer program and give you training materials for training new staff in addition to the operations manual?

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10. Does the franchisor staff provide hands-on assistance during the pre-opening, grand opening, and initial period? What type of training do they provide, what is the duration, where does the training take place, and what is the cost for them to train your personnel and management?

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11. Are there any regularly scheduled, continual training programs? What types of additional training are provided? Who can attend? What is the cost of training? Are there annual conventions? Who can/must attend? What is the cost?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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**12.** Have you been given the opportunity to review the operations manual during your due diligence? If not, why not? What does the operations manual cover?

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**13.** How often is the operations manual updated? Is the manual provided to you only in writing or does the franchisor have an electronic version accessible to you? Does the electronic version have search capabilities?

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**14.** What role does the franchisee advisory board or individual franchisees play in updating the operations manuals?

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**15.** Will the franchisor allow you to work in a company-owned or franchisee-owned location for a few days, as a test drive, to see if you like it?

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## **Continual Services**

Remember, not all franchisors provide the same types and levels of services to their franchisees. And, since franchising is not a fee for services business, understanding what the franchisor is required to provide to you is essential. Also, remember that you can also look outside the franchise system for support that the franchisor does not provide.

1. What other initial and continuing services or obligations does the franchisor provide?

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2. Are these firm obligations, or are they on request of franchisee or at the franchisor's option?

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3. Are there additional costs for continuing services?

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4. What methods does the franchisor use to communicate with the franchisees?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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5. Typical Franchisor Services:

<b>BEFORE YOU OPEN</b>			
<b>Type</b>	<b>Provided Yes/No</b>	<b>Additional Cost</b>	<b>Notes</b>
Provide site specifications			
Visit location to approve site			
Prepare or assist in site development plan			
Approve lease			
Identify or provide a list of designated or approved suppliers for equipment, fixtures, furnishings, signs, products, materials and supplies required for the operation of the franchised business			
Provide a copy of operations manual			
Provide you and your management and staff with training			
Provide information on conducting a grand opening for your business			
Provide assistance in coordinating pre-opening and opening activities			

**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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<b>AFTER YOU OPEN</b>			
<b>Type</b>	<b>Provided Yes/No</b>	<b>Additional Cost</b>	<b>Notes</b>
Frequently update the operations manual			
Provide advanced training for staff and management			
Provide training to replacement management and staff			
Provide advertising and promotional materials			
Local web page for franchisee			
Intranet site for communication and information (i.e., e-mail, company information, on-line training, chat rooms, operations manuals, vendor information and product ordering, etc.)			
Management of the system brand or advertising fund			
Research and development of new products (services, location design, etc.)			
Assistance in local advertising and promotion			
Assistance in recruiting new staff as needed			
Field support and business consulting services			
Conventions and meetings			
Internal magazine or other publications			

**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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AFTER YOU OPEN			
Type	Provided Yes/No	Additional Cost	Notes
Back of house services (i.e., accounting, bookkeeping)			

6. Are there regional or system-wide conventions or other meetings? How often do they take place? Is there a fee to attend? Who may/must attend?

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## Financial & Local Operational Issues

Unless the franchisor has included a Financial Performance Representation in Item 19 of its FDD, it may be unable to answer all your questions on unit performance. The failure to include a Financial Performance Representation is not atypical in franchising. You can address economic questions that the franchisor cannot answer to franchisees when you call them, or you can obtain the answers from other sources.

1. How many employees and management staff are recommended to staff your business properly? Are they part-time or full-time employees? What is the cost you should expect to pay to your personnel, in each position?

<b>Position</b>	<b>Full-Time (FT) or Part-Time (PT)</b>	<b>Hours per week</b>	<b>Cost per week before bonus, benefits &amp; taxes</b>
General Manager			
Managers			
Assistant Managers			
Front-of-House Manager			
Back-of-House Manager			
Openers/Closers			
Staff Trainers			
Associates/Staff			

**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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2. Is absentee ownership allowed? Or are you required to personally supervise the day-to-day operations of your franchise business?

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3. Does FDD Item 7, Estimated Initial Investment, include an assumption that the franchisee is an unpaid manager, or is there a manager's salary and compensation included?

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4. What is the breakdown of cost of sales?

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5. Is the business seasonal? If it is, how will this impact the Working Capital you will need if you open in the off season?

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6. What are typical break-even sales? What are the square foot sales that you should expect in the each of the first five years you are in business?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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7. What are typical or average unit sales in the early years? How many franchisees achieved or surpassed the average Financial Performance Representations? Remember, most FPRs provide information on the entire system which includes mature locations often in markets where critical mass has already been achieved. You need to know what the financial performance is for new locations in markets like the one you are going to be entering.

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8. What should employee costs average as a percentage of sales during each of the first five years?

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9. How much debt service can you afford based upon the expected investment and sales?

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10. What should you expect as your return on investment?

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11. What size location do you require? What type of location should you be looking for? What types of locations do best?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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**12.** What is an acceptable range of real estate costs? What is the average price per square foot for a lease?

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**13.** How long will it take before the franchise business can support you and your family?

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**14.** What are the typical licensing or zoning requirements for this type of business? Do you need to be concerned with any of these requirements?

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**15.** What are the insurance requirements and anticipated premiums?

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**16.** What is the average time from the purchase of a franchise to the location's opening? What are the typical types of delays? How can they be avoided? What happens to you as a franchisee if there are delays? (Default/Term or Extension Fee)

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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17. Are there any businesses that have a similar trade name or format that might confuse the customer and unfairly compete with you? Does the franchisor have any plans in place to deal with the confusion?

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### **Territory**

It is not uncommon today for franchisors to not provide you with an exclusive territory. You may find that other franchisees or company owned locations may share your market with you or maybe the franchisor will be selling products and services on-line into your market area. You need to understand what territory you will be granted and whether or not it is exclusive or protected in any way.

1. Is there an exclusive or protected territory? Describe it. Is it well defined?

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2. Are there any conditions under which you can lose or have your exclusive territory changed? What are they?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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3. Are there any performance criteria tied to keeping your territorial protection?

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4. Is the franchisor able to open company-owned units in your protected territory? Describe.

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5. What about servicing “national accounts”? Do you have a right of first refusal? Does the franchisor set the price to be charged? What happens if you do not want to accept a national account? If franchisor services others in your territory, do you get a percentage?

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6. Are there any types of locations within your protected territory that are excluded (malls, stadiums, arenas, and so on)? Do you have a right of first refusal on these types of locations?

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7. Does the franchisor or any affiliates or other licensees distribute the franchise system’s product or service into your territory in any alternative distribution method, under the same or different name?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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8. Can you choose the location or the territory? If not, how are they chosen?

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9. Does the franchisor conduct any market studies on the territory to ensure that it can support a franchise? Who pays for the study?

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10. What population is required to support a franchised location? How does the franchisor know it is an adequate population to support your business?

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11. If there is no protected territory, what has been the company's policy on opening new locations near existing locations? How far apart are locations generally kept?

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12. Does the franchise system have an impact policy or other mechanism to project the effect on your business if the franchisor chooses to open another location nearby? Is the franchisor's policy published? How does it work? Was it developed with the assistance of the Franchisee Advisory Board? Is it a policy that the franchisor can withdraw at any time? Are you paid an impact fee if your business is impacted by another location opening nearby?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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**13.** What are the demographics required to support a franchise?

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**14.** What are the traffic counts required to support a franchise?

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**15.** What is the company's policy regarding e-commerce and Internet sales?  
Does the company use any other alternative channels of distribution?

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**16.** Do the franchisees share in the sales made by the franchisor through e-commerce, in their market area?

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## **Marketing & Advertising**

1. How do franchisees obtain their sales leads or customers?

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2. Who are the prospects for the franchisee's products or services?

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3. What is the franchisor's national/regional advertising program?

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4. What is the national/regional advertising budget? How is the money spent each year?

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5. Do company-owned businesses contribute to the brand fund? Do they contribute on the same basis as the franchisees?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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6. What portion of the national/regional contributions is spent in the contributing market?

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7. What percentage of the national/regional advertising contribution is used for administrative/corporate/agency expenses and fees?

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8. What are the primary advertising and marketing vehicles?

Television	Magazine
Radio	Direct Mail
Outdoor Advertising	Coupons
Newspaper	Public Relations
Four Walls Marketing	SEO/Internet
Affinity Programs	Apps

9. Describe the franchise system's grand opening advertising program. Does the franchisor or its agency work with you on developing a grand opening advertising plan? What is the average cost of the program?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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**10.** What role do franchisees have in the decision on where to spend the money in the advertising fund?

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**11.** Can the franchisor spend any of the advertising fund money on company overhead? What percent of the fund went to company overhead in the last three (3) fiscal years?

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**12.** Is the franchise system's website charged to the advertising or brand fund?

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**13.** Are there local advertising cooperatives? How are they managed? What do they cost? Are you required to contribute and at what percentage?

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## Field Support

1. What are the roles and responsibilities of the field staff?

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2. How many locations does each franchise consultant work with at any given time?

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3. What is the background of the franchise consultant who will be working with you? Can you meet that person before purchasing the franchise?

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4. What are the names and telephone numbers of franchisees the field consultants have worked with?

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5. How often does the field staff visit a franchisee's location?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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6. What is the additional cost of field services if you request it or if the franchisor requires it?

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7. Do the field consultants also do inspections (policing)?

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8. What do they do when they come to your location? Do they provide training? Do they help you keep your costs under control? Do they help you analyze and improve sales?

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9. Are you guaranteed to receive a certain amount of help from the field consultants? If you request help, is the franchisor obligated to provide it?

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**Your Market or Area**

1. Has a franchise even been awarded in the area(s) you are considering?

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2. If so, is it still in operation?

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3. Names and telephone numbers of the existing franchisees in the area:

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4. What are the names and telephone numbers of former franchisees from the area you are interested in?

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5. What are the reasons they sold, transferred, or closed?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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6. Are any existing franchises available for sale in the area you are interested in? What are the names and phone numbers for the franchisees looking to sell their businesses?

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7. How many inquiries for franchises have they had in your area of interest in the three (3) fiscal years?

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8. Why were franchises not awarded, if there was interest?

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9. Has the franchisor performed a competitive analysis for the area of interest?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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**10.** If not, who will perform the analysis and at what cost?

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**11.** If yes, is it available for your review?

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**12.** What is the present population of the market? What is the anticipated growth over the next five years?

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**13.** Are there any new highways or construction planned that will affect your location?

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## Products & Services

1. What new products or services are under consideration for addition to the franchise? Which products or services are they considering removing?

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2. When are they likely to be tested and introduced?

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3. What is the estimated additional cost for adding the new products or services (i.e., marketing, equipment, etc.)?

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4. What is the demand for the system's product or service? Is it a fad, staple, or trend? Are there any technological changes that will impact the demand for your products or services?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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5. Are there any restrictions on the distribution or sale of the product?

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6. Is there a guarantee or warranty program? How is it administered, and what is the cost? Is there a gift card program? How is it administered?

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7. Are any of the company's products or services being moved on-line and how will they compete with your location?

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8. What is the company's pricing policy?

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9. How does the company determine its pricing policy? Is the pricing policy competitive? Can you set your own prices?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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**10.** Does the franchisor set maximum or minimum pricing on any of the items or services you sell? Have they done so in the past? Will they guarantee not to do so in the future?

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**11.** Does the franchisor receive consideration – fees, rebates, and favorable terms for its own locations – based on the purchases made by the franchisees?

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**12.** Are suppliers specified, or can you buy approved products or products meeting system standards from independent competitive suppliers who do not pay fees or rebates to the franchisor?

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**13.** In practice, how often are new suppliers proposed by franchisees? How long does it typically take for the franchisor to approve or disapprove a new supplier? Who pays the cost for evaluating the new supplier – the franchisor, the supplier, or the franchisee who requested the new supplier's approval?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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**14.** How is the product packaged?

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**15.** Does the product packaging meet legal guidelines?

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**16.** Is there any celebrity associated with the franchise? What would the effect be if the celebrity withdrew his or her support? What does the celebrity do for the brand?

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## Franchise Ownership

1. Are all the locations owned by franchisees?

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2. If some of the locations are company-owned or owned by management or related parties, did they start out that way or were they repurchased from franchisees? How many have been acquired during the last three (3) fiscal years? List the date and location of the most recent acquisition. What is the name and telephone number of the former franchisee?

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3. How are new development opportunities assigned to the company, existing franchisees, or prospective franchisees?

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### Other Questions

1. Is the franchisor a member of the International Franchise Association?

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2. Does the franchisor ascribe to the International Franchise Association's Code of Ethics and Statement of Guiding Principles?

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3. Do you have the right to assign the franchise? If you do, can you transfer the existing franchise agreement, or does the franchisor require the buyer of your business to sign the then-current form of agreement? How long a term of franchise will you be able to transfer to the new franchisee?

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4. Can you transfer the business to your children? Are there any restrictions or requirements?

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5. What restrictions do you have on transfer to new ownership, including heirs, in case of death? What are the fees, if any?

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6. How can you terminate the franchise?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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7. If your location just does not work out, how can you close the business and get out of your franchise obligations?

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8. How can you be terminated by the franchisor? What time, if any, is allowed to cure any defaults?

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9. How are disputes settled? Does the franchisor use arbitration or mediation in settling disputes? Where are disputes adjudicated?

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10. What are the restrictions on other businesses or investments you and/or your family have during your ownership of the franchise? What about after you are no longer a franchisee?

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**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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**11.** What are the franchisee’s post-termination restrictions and obligations?

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**12.** What is the initial term of the franchise? Can it be renewed or extended? If yes, what are the conditions and what is the cost?

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**13.** Is there an independent Franchisee Association? If yes, what role does the Franchisee Association play in:

Facility design and maintenance standards
Operational requirements
Products and services used in the business
Products or services offered to customers
Training, inspection and support
System meetings
Changes to future franchise agreements

**Making the Franchise Decision**  
**Section IV: Franchisor Services**

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**14.** Is the independent Franchisee Association recognized in the franchise agreements?

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**15.** Best question to ask an existing franchisee – If you knew then what you know now, would you invest in this franchise opportunity again?

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## Making the Franchise Decision

# Section V: Buying an Existing Franchise

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There are some significant differences and potentially some advantages to buying an existing franchise instead of starting from scratch:

- **It exists:** Instead of starting out by looking for a location, building out the site, purchasing all of the necessary furniture, equipment and signage, finding vendors and buying inventory, looking for employees to hire and train, etc. etc. etc. — the business already exists.
- **There's history:** Since the business already exists, it has a reputation in the community and existing customers. You can see how much volume the business has done historically, how much income it has earned, better determine your working capital requirements, and understand the location's seasonality and operating trends.
- **You know its cost:** When buying an existing operation, the buyer purchases the business based upon a negotiated price that may be based upon its asset base, its cash flow, or some other agreed-upon terms or conditions. The information provided by the franchisor in their FDD can only provide you, at best, an estimate of your costs to develop your new business.
- **Return on investment:** With a new location, even with an experienced franchisor providing you with guidance and even with all of the research available — it's still speculative. With a new location there is no history to rely upon.
- **Easier to finance:** Banks like the fact that they can base their lending decisions not only on the reputation of the franchise system and your background, but also on the performance of an operating location.



**Making the Franchise Decision**  
**Section V: Buying an Existing Franchise**

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Buying an existing franchise can be a great opportunity, but you still have to do your homework before you make your investment. Even if the historic information looks solid, you need to dig for more information. The following questions will help you obtain the information you need.

1. Why is the franchisee leaving the business?

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2. Will the staff and existing management be staying? What are their backgrounds? Are there any contracts or promises you should be aware of? What are their current salaries, and when was their last increase in pay?

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3. What are the trends for the business? Are they still as strong as the past history? Is the market drying up? Has the neighborhood started changing? Are there new competitors coming into the market that could affect future performance?

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**Making the Franchise Decision**  
**Section V: Buying an Existing Franchise**

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4. What is the location and the center your business is in like? Is there new road construction that will impact your location? Will there be any changes in the anchor tenants in your retail center? Is the center's management changing? If it is, what is the reputation of your new landlord?

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5. Why do you think you can do as well or better than the existing franchisee? After all, if the business has been on a decline for the past several months or years, there's no guarantee you'll be able to turn it around. Don't make the mistake of assuming that just because you think you'll work harder or smarter than the prior owner that you'll have better performance.

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**Making the Franchise Decision**  
**Section V: Buying an Existing Franchise**

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6. As a new franchisee, you might expect to receive from the franchisor a copy of the disclosure document they give to other new franchisees. This may not be the case when you purchase an existing franchise and you are assuming an existing agreement without any modification. Since the agreement you will be signing is simply a transfer of the seller's agreement, the franchisor may not be required to provide you with a pre-sale disclosure. However, if the franchise agreement the franchisor is offering you is different than the franchise agreement of the existing franchisee, you should expect to receive a copy of the franchisor's disclosure document. Read the new agreement and disclosure information carefully because it may contain fees and terms very different from the agreement signed by the seller of the business, and these changes could have a major impact on how much the business is really worth. Is it a good idea to have the business appraised by a qualified business appraiser in your area?

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7. What are the economic trends for the business? Have sales been going up, or have they been going down for some time? Get copies of the financial statements for the business for the past five years. Is there anything left out or added which needs to be adjusted?

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8. How long do you have on the existing lease? Is the lease assignable to you? Talk to the landlord; will they be offering you a renewal when the current lease is up? What will be the cost/terms of the new lease?

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**Making the Franchise Decision**  
**Section V: Buying an Existing Franchise**

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9. What is the condition of the building, the equipment, and vehicles? Are there any leases that you will have to assume? Are they assignable? What about any guarantees or warranties? Can they be assigned to you?

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10. What are the terms of the new agreement?

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11. How will the new terms impact the value of the business?

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12. Are there any fees due to the franchisor if you buy the business and if so, how much and who pays – you or the seller?

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13. Do you get a protected territory for the business?

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**Making the Franchise Decision**  
**Section V: Buying an Existing Franchise**

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**14.** How many years will you have on the current franchise agreement? How many renewal periods?

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**15.** Will you be required to make any improvements or modifications to the business? If yes, how long do you have to make the changes and what are they going to cost?

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**16.** Are there any licenses required to operate the business?

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**17.** Will you be trained by the franchisor or the franchisee? If you are going to be trained by the franchisee, how much will the training cost? Who can you bring to training?

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I have not provided you with every question you should ask. Your franchise attorney can provide you with additional questions that they think are important. Also, there are questions that may be important in specific industries that I have not included. Make certain you understand the business you are entering into and add those specific industry questions to the list I have provided to you.

There are quite a number of sources of information on franchisors that you can obtain online. Some may be independent lead generation sites, some may be tied to broker networks, some may be tied to a trade or other association, and some may be linked to a franchise-related publication. Use as many reputable sources as you can in identifying the franchisors that may be of interest to you, because each may provide you with a bit more information about the company.

In addition, you can meet many of the franchisors you might be interested in at one of the major franchise sales shows. MFV Expositions runs the largest shows and you can get information on their show schedule at <https://www.franchiseexpo.com/>

Google the companies you are interested in and see if there are any articles or additional information about the company. Two cautions, however:

- Franchisor-generated press releases and some articles you find are naturally going to have only positive information about the franchisor in most cases. Remember the source of the information. Discuss the information with the franchisor, franchisees in the system, and your franchise advisor. Keep copies of the articles or press releases you read and discuss with the franchisor.
- In every franchise system, no matter how strong the system, there will be current and former franchisees that are unhappy with the franchisor. While those blog sites may contain useful information, understand that the comments you see may not be indicative of how all of the other franchisees feel about the system. In reading some blogs, you will notice that no-one seems to be happy with any franchisor. Unfortunately “fair and balanced” or factual is not a requirement of posting to a blog. Use the information you receive from reading the blogs to develop additional questions to ask the franchisor and franchisees in the franchise systems you are interested in.

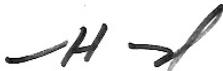
## Making the Franchise Decision Summary

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You now have a good starting place to evaluate each franchise system you are looking at. Remember, you should be making your decision based upon whether or not the franchise is right for you and not on the emotions of making a purchase. Take your time and, most importantly, get good franchise legal advice. You should never make an investment in a franchise without having a lawyer who works for you and who understands franchising at your side. And again, while the franchise sales broker may be knowledgeable and seems to have become your best friend, they work for the franchisor and are paid a commission only when they make a sale.

I wish you good fortune in making your selection of the franchise that is right for you. There are a lot of great franchise systems to choose from. Unfortunately, there are also some that look good on the surface but will not meet either the test of time or your requirements. Making “your” Franchise Decision may be the most important financial decision you will ever make. Take your time to get it right.

Good luck!



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## About MSA Worldwide

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Founded in 1987, we have established an unparalleled reputation as strategic and tactical advisors in franchising. While we will occasionally work with franchisees, our primary clients are emerging and established franchisors in the United States and Globally. Based on our recognized capabilities and performance, the International Franchise Association (“IFA”) has referred to MSA in their publications as “the leading strategic and tactical advisory firm in franchising.”

Each of MSA’s senior professional staff has earned the designation of Certified Franchise Executive (CFE) from the IFA’s Education Foundation. In addition, MSA has developed and delivered courses and material for the IFA’s CFE certification program, and we regularly lecture, domestically and internationally, for the IFA, ABA, universities, law schools and trade associations, and testify at federal, state, and international legislative and agency hearings.

Michael Seid, the author of this workbook, has been appointed an Adjunct Professor at The Ohio State University’s Fisher School of Business to develop and teach a graduate-level course on commercial and social franchising.

Our practice is not limited to franchising. We assist our clients in the structure and design of multiple downstream expansion strategies. While our core clients are emerging franchised brands, we are privileged to be the advisors to many of the world’s leading brands, both in and outside of franchising.

For emerging franchisors our principal role is in the design of their franchise offerings, the development of the tactical support elements they require for support and growth, and providing our assistance in helping them develop and implement their expansion. Long-term, we work with new franchise executives to teach them the skills they will require to manage their franchise program, and mentor them as they learn to execute their new craft in a changing marketplace.

For existing franchisors, our services fall into two main categories. For relatively new franchise systems we generally revise the terms of their franchise offerings, their franchise recruitment strategy, and any of their existing systems that were improperly structured. Because of how they were developed, new franchisors often have difficulty recruiting new franchisees; frequently, even when franchisee recruitment is robust, these franchisors remain unprofitable or have tensions with their franchisees or state regulators. Unfortunately this is a frequent occurrence in franchising, occurring most often when a franchise system is developed by one of the franchise packaging firms. Our role with these clients is to redevelop their franchise offering and provide training and support to their management.



## About MSA Worldwide

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For more established domestic and international franchisors, much of our work is in providing strategic and tactical support for domestic and international growth; change strategies to improve system performance; management, and staff evaluations; revising manuals and training programs; and working with private equity firms in mergers and acquisitions. When necessary we provide litigation support and expert witness services. We also work with our clients to prevent vicarious liability and joint employment challenges by conducting annual reviews of their systems and documentation. MSA's work with our clients is based on their particular needs and our role can be purely tactical, strictly advisory, or more hands-on where a client's internal resources are limited.

MSA has been selected by rating agencies and risk management companies to serve as back-up servicers in securities transactions. The selection of a back-up servicer is based on a professional's capabilities and record of achievement after thorough examination.

MSA is also a socially responsible company. In addition to our commercial consulting practice we are proud of our leadership in social franchising. Together with several past Chairs of the IFA, we are active social franchisors of over 200 medical clinics in rural Kenya and Rwanda. Additionally, MSA has worked on projects with the Dutch government in Ghana on a social birthing center franchise system, the development of a children's education and daycare franchise in Kenya, and serves as a member of the Global Water Institute Board of The Ohio State University in their development of a social franchise system to deliver sustainable and quality well-water delivery system for residential and agricultural uses in villages throughout Tanzania and Kenya.