



This document contains information on the following:

- Questions to ask a Franchisor
- Questions to ask a Franchisees
- Franchise Disclosure Document
- Financing Options

Questions to Ask a Franchisor

- Determine what assistance the franchisor provides. Do they assist with training, store design, location construction, site selection, and feasibility studies?
- Do they have any access to demographic studies to get an understanding of the audience within the market area?
- What types of support will the franchisor provide once your franchise has opened its doors?
- After the initial investment, will there be additional financial obligations requiring working capital?
- Does the franchisor offer any form of financing?
- Ask the franchisor how many franchises have been sold in the state you will be operating in during the last 12 months, and how many have been opened for business?
- What types of territorial restrictions and protections have been set up by the franchisor?
- Is the franchisor planning on expanding within your state? Are they focusing on any specific locations?
- What arrangements are established through the franchisor in terms of product supply?
- Ask if the franchisor has been forced to terminate any of its franchisees and detail the reasons for this decision. Have any franchisees failed or gone bankrupt?
- Are there any current lawsuits pending or past judgments against the franchisor? What steps are taken to settle disputes between the franchisor and franchisees?

Questions to Ask Franchisees

- How long have you owned your franchise?
- Is your franchise profitable?
- In which month did you reach your breakeven point?
- Have you made approximately the same profit that was shown in the disclosure document?

- Were your opening costs consistent with the original projections in the disclosure document?
- Are you satisfied with the franchisor?
- Are you satisfied with the product or service?
- Is the operations manual, clear, up-to-date and adequate?
- Are you satisfied with the marketing and promotional assistance provided by the franchisor?
- Was the initial training and ongoing support sufficient for you to operate your business?
- What was your background prior to buying your franchise and was it beneficial to your success?
- Are deliveries of goods provided by the franchisor timely and competitively priced?
- Is the franchisor fair and amicable to work with?
- Does the franchisor listen and help you with your concerns?
- Have you or other franchisees had any disputes with the franchisor? What was their nature? Were they resolved fairly?
- Do you know of any disputes between the franchisor and the government?
- Do you know of any disputes with competitors?
- Who are the major competitors?

Franchise Disclosure Document (FDD)

The federally mandated Franchise Disclosure Document (FDD) is a format for disclosing franchisor information to prospective franchisees. The purpose of the FDD is to protect the public by providing information about the franchise company.

The FDD format was approved by the Federal Trade Commission (FTC) in 1995. Its publication and annual update are mandatory.

There are 23 categories of information that must be provided by the franchisor to the prospective franchisee at least 10 business days prior to the execution of the franchise agreement. These categories include:

1. The Franchisor, Its Predecessors and Affiliates
2. Business Experience
3. Litigation
4. Bankruptcy
5. Initial Franchise Fee
6. Other Fees
7. Initial Investment
8. Restrictions on Sources of Products

9. Franchisee's Obligations
10. Financing
11. Franchisor's Obligations
12. Territory
13. Trademarks
14. Patents, Copyrights, and Proprietary Information
15. Obligation to Participate in the Actual Operation of the Franchised Business
16. Restrictions on What the Franchisee May Sell
17. Renewal, Termination, Transfer, and Dispute Resolution
18. Public Figures
19. Earnings Claims
20. List of Franchise Outlets
21. Financial Statements
22. Contracts
23. Receipt

Here is a brief summary presented by the International Franchise Association:

<https://www.franchise.org/faqs/legal/what-are-the-legal-issues-of-franchising>

Financing Options

Some new franchisees choose to limit their total investment to what is available from their own personal assets such as savings, stocks and bonds and other investments. Other franchisees elect to supplement the amount they invest from their personal assets with additional funding so that they can explore more franchises that may have greater earning potential.

Coming up with the difference between personal assets and total investment can take many forms, from home equity and unsecured loans from one's own bank to other traditional borrowing methods.

There is an alternative involving specialty firms that finance start-up businesses. These firms are reputable and use sound business practices. They favor franchises.

For example, these firms can help you not only with traditional borrowing options, but also with IRS-approved techniques to roll over qualified 401(k) and IRA funds in your new business – without early withdrawal penalties or income taxes. And you have no debt payments to make since it's your own money. These firms are experts at SBA financing as well. And they may be able to create packages that allow the new franchisee to take a salary from the outset,

which can substantially reduce the stress of starting a new business. Of course, all forms of borrowing depend on credit worthiness.

Here are several firms and websites illustrating a selection of start-up financing tools:

1. **Benetrends:** <http://www.benetrends.com/>
2. **The Finance Store:** <http://www.financestore.com/>
3. **FranFund:** <http://www.franfund.com/>
4. **Guidant Financial:** <http://www.guidantfinancial.com/>
5. **Tenet Financial Group:** <http://www.tenetfinancialgroup.com/>
6. **Pango Financial:** <https://www.pangofinancial.com/>
7. **Universal Business Advisors:** <http://www.universalbusinessadvisors.com/>
8. **The Finance Factory:** <https://thefinancefactory.com/>

Beyond looking at the websites, we urge you not to contact these firms without asking us to register you first. We may be able to save you money on their fees.

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