



FRANCHISE DISCOVERY ROADMAP

While you may find some variation from one franchise company to another, due diligence will commonly include the steps below.

Step 1 - General Information

The representative of the franchise company (franchisor) will provide an overview of the business. This information may include written materials and/or videos. The franchisor will also ask you to provide information about yourself. They will evaluate you for the general characteristics that they are looking for. They will often ask you to fill out a questionnaire or complete a survey on-line. Many franchisors ask candidates to complete personality profiles. If both parties remain interested, you will proceed to the next step.

Step 2 - The Franchise Disclosure Document (FDD)

The Federal Trade Commission (FTC) requires every franchisor to produce an FDD. The structure of this document is standardized and includes information on a variety of topics. Major subject areas include:

- The history of the franchise and its officers and directors (Items 1 & 2)
- Litigation the company may be involved in (Item 3)
- All costs and fees under the agreement (Items 5, 6 & 7)
- Franchisee obligations during the term of the agreement (Item 9)
- Franchisor assistance and training programs (Item 11)
- How the franchisor defines territories (Item 12)
- The franchisor may provide franchisee financial performance data. These financial performance representations are optional and may take many forms (Item 19)
- A table of outlets that have opened, closed or changed hands in the last three years (Item 20)
- Audited financial statements for the franchise company for the last three years (Item 21)
- A list of the existing franchisees attached as an exhibit to the FDD
- A copy of the Franchise Agreement attached as an exhibit to the FDD

Carefully review the FDD and note any questions for further discussion with the franchisor.

Step 3 - Franchisee Calls and Visits

Existing franchisees provide some of the most valuable information on any franchise system. We encourage you to contact several franchisees as part of your validation process. If it is practical, you may want to visit or shadow a franchisee for part of a day. Such a visit can provide insight into the day-to-day operation of the business. Contact enough franchisees to ensure you have a sense of the prevailing attitudes of the group.



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It is encouraging to find that most franchisees are happy and supportive of the franchisor. It is also helpful to find an unhappy franchisee during your investigation. When you do, try to determine what makes this franchisee different from the rest. If you identify with the positive ones, then that is a sign that you may be happy in this franchise as well. If you find that you are more like the person who is unhappy, this business may not be the right fit for you.

Some areas to discuss with current franchisees include:

Training Programs - How well did the initial training prepare the franchisees for opening and operating the business?

Opening Support - Does support include site selection and lease negotiation? Does the franchisor offer financing help? Does the business need special permits or licensing? Does the franchisor help with permit or license applications?

Ongoing Support - How effective are the ongoing support services? How does the franchisor troubleshoot challenges that arise?

Marketing Programs - How effective are the franchisor's marketing materials? Are franchisees happy with the franchisor's use of Advertising Fund dollars?

Purchasing Power - Does the franchisor secure discounts on supplies and inventory?

Franchisor/Franchisee Relations - Is the franchisor supportive and focused on franchisee success? Is the franchisor responsive, effective, organized, and trustworthy? *Self-examination:* Do the franchisor's values seem consistent with your own?

Investment - Item 7 of the FDD will give you a wide range for the initial investment required in the business. Use the franchisee discussions to determine a reasonable estimate of the capital you will need to be successful.

Earnings - It is critical that you have a strong sense of earnings at the unit level. Some questions for franchisees may include:

- ✓ When did you project you would breakeven? When did you actually breakeven?
- ✓ Would you share with me your monthly expenses (rent, marketing, payroll, etc.)?
- ✓ What are your approximate monthly revenues?
- ✓ What is your best estimate of your annual growth?
- ✓ How do your earnings compare with your original business plan?

Note: Franchisees may be reluctant to discuss their income with strangers. You may find that franchisees are more willing to discuss financial information after you have spent some time with them. Be patient and respectful when asking about financial performance.



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Step 4 - Review the System Documentation

The franchise company will have manuals that cover systems, operations and marketing programs. The franchisor is unlikely to give you a copy of the actual manuals, as these materials are proprietary. However, they can provide you with the table of contents or index of their support manuals. You will find the Table of Contents of the Operating Manual in Item 11 of the FDD. Ask the franchisor about any other manuals available to franchisees. These other manuals show the full scope of support in all components of the business.

Step 5 - Meet the Franchisor

We encourage you to have personal meetings with the leaders of the franchise company. This might be possible in your local market, or you may need to travel to the headquarters of the franchisor. Many franchisors meet this need by holding structured events known as Discovery Days. These meetings include all key franchise personnel.

Take time to get to know the executives. These are the individuals who will work with you to build your business. Ask who will provide the operational support and training to you and assess their competence. Address any remaining questions or issues you may have at this meeting.

Step 6 - Make a Decision

You now have the information necessary to determine if this franchise is right for you. Ask the franchisor their timeline for hearing your decision, as they will withdraw the offer after a period of time.

If it's a match, inform franchisor that you wish to move forward, and they will prepare a Franchise Agreement. We encourage you to engage a franchise attorney to review the agreement. *Note:* We provide legal referrals as needed.

If it's not a match, inform the franchisor without delay. We will work with you to find the franchise brand that does fit your goals.