1. The search for a Franchise begins with you.
   * Assess your strengths and weakness to determine if they align with the desired franchise.
   * Owning a franchise requires adherence to the franchisor’s rules.
   * Understand what you are looking for in a franchise, i.e., hours of operation, industry preference, home office versus retail location, etc.
   * Seek to gain at least 6 months experience working at the store they seek to franchise.
2. Read the ENTIRE Franchise Disclosure Document (FDD)

* Utilize one of the many free online resources, such as the Federal Trade Commission, to help guide you through the document.
* Seek to gain insight into the franchisor’s litigation history and their financial strength.
* Pay close attention to potential red flags, such as fees or hidden costs that you were not aware of.
* Determine which terms of the FDD you agree with and which you may consider negotiating.

1. Investigate the franchisor.
   * Trust the information franchisors provide, but also verify and conduct independent research.
   * Develop a list of pros and cons on the franchisor; the cons are as important as the pros. Again, there are many online resources that franchisees can use.
   * Research the franchise’s business model. Ask questions such as current market demand for this product/service, how established is the franchise brand, how are fees used to benefit franchisees, and what type of training is required.
2. Contact Current Franchisees.
   * Contact at least 10+ current or former franchisees. Contact information is contained in the FDD. Ask questions about their experience with the franchisor, their first year’s financial performance compared to now, their recommendation on owning the current franchise, etc.
3. Territory
   * Understand the terms of your territory and the potential competition due to territory overlap.
   * If there is no clearly defined territory stated in the FDD seek to negotiate a territory. If the franchisor refuses this could be a red flag and you should proceed with caution.
4. Consult a professional.
   * An accountant can help you assess your own personal financial health, the financial statements provided in the FDD, as well as the financial risks of owning a franchise.
   * Remember, any financial performance representation made in Item 19 is never a guarantee.
   * A lawyer can help ensure you understand the entirety of the contract you are signing.

**Questions to Ask & Topics to Consider**



**Be an Informed Franchisee**

Franchise Disclosure Document Guide

Provided by

Virginia State Corporation Commission

**Keep in Mind**

Continuing responsibility to pay fees. You may have to pay royalties and other fees even if you are losing money.

Business model can change. The franchise agreement may allow the franchisor to change it manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

Supplier restrictions. You may have to buy supplies from the whomever the franchisor designates. These items may be more expensive than similar items you could buy elsewhere.

Operating restrictions. The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions such as controlling your location, your access to customers, what you sell, how you market and your hours of operation.

Competition from the franchisor. Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

Renewal. Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new franchise agreement with different terms and conditions in order to continue to operate your franchise business.

When your franchise ends. The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

**Location of Information**

How much can I potentially earn? Item 19 may give you information about outlet sales, costs, profits or losses. Also seek to obtain this information from others, like current and former franchisees. You can find their names and contact information in an Exhibit in the FDD.

How much will I need to invest?

Items 5 and 6 list fees you will responsible for paying. Item 7 lists the initial investment to open and Item 8 describes the suppliers you must use.

Does the franchisor have the financial ability to provide support to my business?

Item 21 and its corresponding Exhibit includes the franchisor’s financial statements. Review these carefully.

Is the franchise system stable, growing or shrinking?

Item 20 summarizes the recent history of the number of company-owned and franchised outlets.

Will my business be the only franchise in my area?

Item 12 describes whether the franchisor and/or other franchisees can compete with you.

Does the franchisor have a troubled legal history?

Item 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.

What’s it like to be a franchisee?

Item 20’s corresonding Exhibit lists current and former franchisees. You can contact them to ask about their experience.

What else should I know?

Review all 23 Items and all Exhibits contained in the FDD to better understand the franchise opportunity.

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