

What is the Franchise Disclosure Document?

Once you decide to learn more about a specific franchise opportunity, you will be provided with a **Franchise Disclosure Document (FDD)** at least 14 days before paying franchise fees or signing any contracts. The FDD outlines the important information regarding the roles and responsibilities of both parties (the franchisee and franchisor) when carrying out the purchase of a franchise. The FDD provides you with an honest and comprehensive view of the brand prior to making a decision to invest in the franchise.

After receiving the FDD from the franchisor, you will be asked to sign the Acknowledgement of Receipt. This states that you have read and understood the document in its entirety. You may wish to hire an attorney to help you with this process.

Your Ultimate Guide to the Franchise Disclosure Document

This guide will walk you through the 23 items of the FDD and give you a brief overview of the information provided in each section. We hope it helps you navigate the franchising process more easily and creates a more enjoyable and stress-free experience.

Item 1: The Franchisor and Any Parents, Predecessors, and Affiliates

The first item of the FDD provides an overview of the franchise's background, including how long they have been in business, their parent or affiliate companies (if any), predecessors, franchising experience, potential competitors, and industry-specific laws or regulations. It also outlines what products and services you will be authorized to provide as a franchisee.

Item 2: Business Experience

This section of the FDD will discuss the business experience and qualifications of the franchise leadership team, including the Chief Executive Officer, President, Chief Operating Officer, and Chief Financial Officer.

Item 3: Litigation

Any litigations against the franchisor or any affiliates (listed in item 2) should be disclosed here. These may include resolved or pending lawsuits between the franchisor and a franchisee or administrative action against the franchisor.

Item 4: Bankruptcy

This section reveals if the franchisor or any affiliates have filed for bankruptcy. If any of the franchisor's executives have a history of bankruptcy, it must also be disclosed here.

Item 5: Initial Fees

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This item details fees including the initial franchise fee, initial training fee, and development fee that will be due upon signing the franchise agreement. It may also include costs of initial inventory, signage, and necessary equipment or supplies. This section should provide a brief explanation of what each of these fees covers.

Item 6: Other Fees

Any other relevant fees will be included in this section, including royalty fees, brand development fund contributions, local advertising, technology fees, advertising and cooperative fees, additional training fees, renewal fees, relocation fees, and insurance. This includes fees paid to the franchisor and its affiliates or fees collected by the franchisor on behalf of third-party vendors.

Item 7: Estimated Initial Investment

Franchisees will be provided with an estimate of their initial investment. This should include the capital needed to open a franchise location and cover the first three months of operation. These expenses will usually be provided as a range due to the many variables that can affect the total cost. This section of the FDD breaks down the estimated initial investment into specific expenditures and provides a low and high estimate for each.

Item 8: Restrictions on Sources of Products and Services

This section details the approved suppliers and permitted products for purchasing. This ensures all purchases meet the franchise's standards. This section also discloses the amount of revenue the franchisor and its affiliates receive from franchisee product purchases and third-party vendors.

Item 9: Franchisee's Obligation

In this section, you will find an inclusive list of your obligations as a franchisee. This will cross-reference other items within the FDD and sections of the franchise agreement where more information on each topic can be found.

Item 10: Financing

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If the franchisor offers any direct or indirect financing programs, they will be listed in this section.

Item 11: Franchisor's Assistance, Advertising, Computer Systems, and Training

This section lists obligations of the franchisor to you, the franchisee, including pre-opening assistance, initial training, site selection, advertising, and ongoing assistance after opening. It will also specify computer system requirements set forth by the franchisor.

Item 12: Territory

This section discloses potential areas where franchisees can build or purchase real estate for their franchise location and discusses territorial protections provided by the franchisor. The franchisor should lay out any potential conflicts with other brands that may arise. It should also disclose any businesses operated by the franchisor that may offer similar products or services.

Item 13: Trademarks

Item 13 discusses the principal trademarks you will be using when operating your franchise and define authorized and unauthorized uses.

Item 14: Patents, Copyrights, and Proprietary Information

Any key patents, copyrights, or proprietary information that you will be authorized to use as a franchisee will be included in this section.

Item 15: Obligation to Participate in the Actual Operation of the Franchise Business

This portion of the FDD explains the level of involvement the franchisor requires you to have in the franchise location. It will indicate whether hiring a designated manager to operate the business on your behalf is permitted and the training requirements for such a designee.

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Item 16: Restrictions on What the Franchisee May Sell

The franchisor may restrict what goods and services a franchisee is allowed to provide. The franchisor will likely prohibit the sale of goods or services outside of the scope of the business or provided by suppliers that are not approved.

Item 17: Renewal, Termination, Transfer, and Dispute Resolution

This item will describe the franchise agreement terms, renewal, termination, repurchasing, modification, and transfer options. It will also establish how any disputes between franchisor and franchisee will be handled.

Item 18: Public Figures

Any public figures who are associated with the franchise or promote the products and services offered by the franchise will be listed here.

Item 19: Financial Performance Representations

In this section, the franchisor may choose to disclose any information on sales, earnings, or expenses. All financial claims must be backed by evidence or reasonable explanations in order to be included in the FDD.

Item 20: Outlets and Franchisee Information

The franchisor will provide a table to summarize the number of franchises opened, terminated, closed, and transferred over the past three years in the franchise disclosure document. As a franchisee, you'll be entitled to contact information for all other franchises in the system that are currently operating or have operated within the past fiscal year. If you are purchasing a franchise location directly from the franchisor, you are also entitled to receive a list of that location's previous owners for the past five years.

Item 21: Financial Statements

Audited financial statements will be provided in the FDD for the last three years of

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franchising, if applicable. It may be advisable to have an accountant review this section with you to help you understand it better.

Item 22: Contracts

This section lists the contracts required in order for a prospective franchisee to move forward with the franchise process. This includes the franchise agreement, development agreement, and state-specific addenda. Additional items may be included depending on the franchise.

Item 23: Receipts

This final section is where you will record the date you received the FDD and certify that you acknowledge all the information contained within. Once this is completed and you have been approved to become a franchise partner, you will be able to move forward with your franchise purchase!

We hope this helps simplify the franchising process. We are just a phone call away if you have any questions or concerns.

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