

## Franchise Buying Checklist

54 questions to answer before signing a franchise agreement

FRANCHISE BRAND

DATE

YOUR NAME

ATTORNEY NAME

### 01 Financial Due Diligence

10 items

- What is the total investment to open, including working capital for at least six months? **CRITICAL**
- What do all ongoing fees add up to as a percentage of my gross sales? **CRITICAL**
- Does Item 19 of the FDD disclose actual earnings data from existing franchisees? **CRITICAL**
- Does Item 19 show net income or only gross sales? **IMPORTANT**
- Have I built my own financial model based on realistic local market assumptions? **CRITICAL**
- Has a CPA reviewed my financial projections and the franchisor's financial statements from Item 21? **IMPORTANT**
- Is the franchisor itself financially healthy based on the Item 21 financial statements? **IMPORTANT**
- What financing options are available, and what are the terms? **STANDARD**
- What is the typical time to reach breakeven for franchisees in my region? **IMPORTANT**
- Are there any required purchases from the franchisor or its affiliates, and what margin do they earn on those sales? **IMPORTANT**

## 02 Territory and Market

9 items

- Do I have an exclusive territory, and exactly how is it defined? **CRITICAL**
- Can the franchisor compete with me through online sales, apps, or alternative channels within my territory? **CRITICAL**
- How many people live in my territory, and is that population sufficient to support this concept? **IMPORTANT**
- What happens to my territory rights if the franchisor is acquired by another company? **IMPORTANT**
- Is there a performance requirement that could reduce or eliminate my territory protection? **IMPORTANT**
- Can I open additional locations within my territory in the future? **STANDARD**
- Are there any existing franchisees or company locations near the edge of my territory? **STANDARD**
- Has the brand historically honored territory agreements, or are there pattern complaints in Item 3? **IMPORTANT**
- What demographic trends are shaping my territory over the next 10 years? **STANDARD**

## 03 Training and Support

9 items

- How many hours of initial training are required, and where does it take place? **IMPORTANT**
- What is the ratio of franchise support staff to franchisees in the system? **IMPORTANT**
- Have I called at least five current franchisees from the Item 20 list to ask if the support promised in Item 11 was actually delivered? **CRITICAL**
- Have I called former franchisees listed in Item 20 to understand why they left? **CRITICAL**
- What does the national marketing fund actually spend money on, and do franchisees have any input? **IMPORTANT**
- Is there a franchisee advisory council, and does the franchisor actually listen to it? **STANDARD**
- What technology systems are required, and are they actually effective? **STANDARD**
- What ongoing training is available after the initial program? **STANDARD**
- Have I attended a Discovery Day with the franchisor and met the leadership team in person? **IMPORTANT**

#### 04 Legal and Agreement

10 items

- Have I hired a qualified franchise attorney to review the full FDD and franchise agreement? **CRITICAL**
- Does the franchisor have the right to terminate my agreement without giving me a chance to fix the problem? **CRITICAL**
- What are the exact renewal terms, and can the franchisor change the agreement at renewal? **CRITICAL**
- What does the non-compete clause say, and how does it affect my life after leaving? **CRITICAL**
- Does the agreement require mandatory arbitration, and in which state? **IMPORTANT**
- Does the agreement include a personal guarantee, and what exactly does it cover? **CRITICAL**
- What does the litigation history in Item 3 reveal, and has my attorney explained any red flags? **CRITICAL**
- Can I transfer or sell the franchise, and what approvals and fees are required? **IMPORTANT**
- Does the franchisor have the right of first refusal to buy back my franchise if I try to sell? **IMPORTANT**
- Are the trademarks federally registered, and is there any pending litigation over them? **STANDARD**

#### 05 Operations and Ownership

8 items

- Am I required to be an owner-operator, or can I hire a manager to run day to day operations? **CRITICAL**
- How many hours per week do successful franchisees in this system typically work? **IMPORTANT**
- Do I have the skills, experience, and temperament that successful franchisees in this system tend to have? **IMPORTANT**
- What are the biggest operational challenges in this business, and how are they typically handled? **STANDARD**
- Have I visited an existing franchise location during peak business hours? **IMPORTANT**
- What is the typical employee count for this business, and how difficult is staffing in my local market? **STANDARD**
- What does the operations manual cover, and can I review it before signing? **STANDARD**
- Does this business align with my long term lifestyle goals and personal values? **IMPORTANT**

- Is there an active resale market for franchises in this system, and what do they typically sell for? **IMPORTANT**
- What is my estimated exit value if the business performs as projected? **IMPORTANT**
- What happens to my franchise if I become disabled or pass away? **CRITICAL**
- Does the non-compete clause restrict what I can do after I sell or leave the system? **CRITICAL**
- Does the franchisor provide any assistance with finding a buyer when you are ready to sell? **STANDARD**
- What are the tax implications of selling a franchise in my state? **STANDARD**
- What is the minimum sale price needed to recoup my total investment, and is that realistic? **IMPORTANT**
- Have I considered building a multi-unit strategy from the beginning, and does the system support that path? **STANDARD**

#### ADDITIONAL NOTES

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