

Clifford R. Ennico, Esq.
2490 Black Rock Turnpike, # 354
Fairfield, Connecticut 06825-2400
Phone: (203) 254-1727
Fax: (203) 254-8195
E-Mail: crennico@gmail.com
Web: www.cliffennico.com

“My wife and I are thinking about a franchise. We’ve met with the franchise executives at their ‘Discovery Day,’ and they seem like nice people.

They’re encouraging us to talk to some of their franchisees to understand exactly what goes on in the franchised business, but I confess I don’t know what sorts of questions to ask. We’ve never owned a business before.

What information do I need to get from these franchisees so I can decide whether or not this franchise is worth buying?”

A franchise company (called the “franchisor”) is required by law to give you a Franchise Disclosure Document (FDD) before you buy a franchise territory. The FDD contains two sections that are especially helpful in finding out how the franchise’s current franchisees are doing.

Item 19 of the FDD contains performance statistics for the franchise’s current franchisees, but there are two problems with Item 19. First, the Federal Trade Commission (which regulates franchises) does not require franchisors to fill out Item 19, so many don’t. Second, franchisors have a lot of leeway to present their statistics any way they like, so many franchisors omit information about their new franchisees (less than two years in business) – precisely the people you want to know about.

The more helpful part of the FDD appears at the very end of the document: a list of all current and former franchisees with telephone numbers so you can reach out to them and ask them about your experience. You should take advantage of that. In fact, you should speak to at least 10 of them (including all who are close to your proposed franchise territory), and don’t be afraid to ask the same questions over and over again. In my experience, it’s often the 9th or 10th person who will tell you a slightly different story than the others will.

Here are some of the questions I recommend my clients ask:

For current franchisees:

1. How long did it take you to start the business and land your first customer?
2. How useful was the franchisor’s training program?
3. Did you need additional training once you opened your doors and started dealing with customers?
4. How long did it take to find a suitable location for the business and negotiate a lease with the landlord (for “brick and mortar” franchises).
5. Were you able to find quality employees who were willing to work within your budget?
6. Which marketing methods recommended by the franchise worked best for you?

7. Were there any marketing methods recommended by the franchisor that didn't work for you?
8. What was your actual budget for local marketing and advertising?
9. How much time each week do you spend purely on marketing activities?
10. Is the franchisor's pricing of its products and services competitive in your territory?
11. Does the franchisor allow you to adjust your prices if necessary?
12. Did you receive any benefit from the franchisor's National Marketing Fund?
13. If so, what support did you get from the fund?
14. Were you able to deal with the competition?
15. Was the startup budget detailed in Item 7 of the FDD (summary of expenses) accurate?
16. Did you incur any significant costs that were not listed in Item 7 of the FDD?
17. How long did it take you to "break even" and start earning a profit?
18. Is the franchisor's management team responsive when you need them?
19. Are you getting the support you need from the franchisor's authorized vendors?
20. Has the franchise model changed since you purchased your territory?
21. If so, how much did it cost to upgrade your business to the franchisor's new requirements?
22. What was your biggest challenge in starting the franchised business?
23. What was the biggest surprise (positive or negative) you had during your first year in business?
24. Are you happy with the amount of time you are spending in running the business?
25. If you had to do it all over again, would you buy this franchise?

Here are some additional questions for former franchisees:

1. Why did you leave the franchise?
2. How difficult was it to find a buyer for your franchise territory?
3. Did the franchise assist you in finding a buyer for your franchise?
4. [If the franchisee sold his franchise to a successor franchisee]: did you make or lose money on the sale?
5. [If the franchisee left the franchise system without selling to a successor]: did the franchisor make it easy for you to leave the system?
6. Did the franchisor charge any sort of "early termination fee" for leaving the franchise?

Keep in mind that both current and former franchisees have signed a "non-disparagement agreement" with the franchisor which will prevent them from being too candid about their experience. However, by listening closely to their responses, and paying attention not just to what they're saying but how they're saying it (do they sound enthusiastic, energetic and gung-ho?, or are they nervous or matter-of-fact in their responses?), you should be able to figure out if they are sincerely happy with their franchise experience or are merely "toeing the party line" in order to avoid a lawsuit.