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Franchise Connectors

A GUIDE FOR BUYERS

Franchise 101

What to read before you sign anything.

The disclosure document in plain language, what Item 19 does and doesn't tell you, how to run validation calls that give you the truth, and what it really costs to open.

Franchise resales and buyer representation
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What you're actually buying

A franchise is a license. You pay for the right to run a business under someone else's brand, using their system, in a defined territory, for a defined number of years.

That's the whole idea. You're not buying a brand. You're renting the right to use one, and agreeing to run your business their way while you do.

What you get: a name customers may already know, an operating system that has been tested somewhere else, training, suppliers, marketing, and someone to call when something breaks.

What you give up: a royalty on every dollar of revenue, and a long list of decisions you no longer get to make. Pricing, suppliers, the look of the place, the software, sometimes the hours. If the idea of being told how to run your own business bothers you, that feeling will not improve after you sign.

The three ways in

Most first-time buyers only know about the first one.

A new territory. You buy the right to open in an area where the brand isn't yet. You find the site, build it out, hire everyone and open the doors. Lowest entry cost of the three, and the longest wait before there's any money.

A resale. You buy a location that's already open. Staff, customers and revenue come with it, and so does whatever the previous owner did well or badly. You see this specific location's real numbers rather than brand averages. Costs more up front. The franchisor has to approve you, and you inherit the remaining years on the agreement rather than starting a fresh term.

A multi-unit or area development deal. You commit to opening several locations on a schedule. Better economics per unit if it works. Much more capital, and a contractual obligation to keep opening whether or not the first one went well. This is not a first purchase.

Which one fits you

	New territory	Resale	Multi-unit
Money coming in on day one	No	Yes	No
Numbers you can verify	Brand averages only	This location's history	Brand averages only
Entry cost	Lowest	Higher	Highest
Time until it's a real business	12–18 months, typically	Immediately	Years
You pick the location	Yes	No	Yes
Someone else's mistakes to fix	No	Possibly	No
Right for a first purchase	Often	Often	Rarely

If you need the business to pay you within the first year, a resale is usually the honest answer. If you have other income and want to build something exactly your way, a new territory can be the better one.

The FDD, in plain language

Before a brand can sell you a franchise, federal law requires it to hand you a **Franchise Disclosure Document** and then wait at least 14 days before taking your money or your signature.

That waiting period exists for you. Use it.

The FDD is long — often 200 pages with the exhibits — and it's organized into 23 numbered Items, the same 23 for every brand. That sameness is the useful part: once you know where to look, you can compare two brands in an afternoon.

Six Items carry most of what you need.

Item 3 — Litigation. Every lawsuit the brand and its officers have been in. One or two over a long history is normal. A pattern of the brand suing its own franchisees, or franchisees suing the brand over the same thing, is worth understanding before you sign.

Item 5 — Initial fees. The franchise fee and anything else due at signing.

Item 6 — Other fees. The long one. Royalty, marketing fund, technology fee, training fee, transfer fee, renewal fee, audit fee, late fee. Read every line. This is what you'll pay for as long as you own the business.

Item 7 — Estimated initial investment. A table of what it costs to open, from the franchise fee to the cash you should have on hand before revenue starts. It's an estimate and it's usually optimistic, but it's the brand's own number and you can hold them to it.

Item 19 — Financial performance representations. The section everyone turns to first. Here's what matters about it: **a brand is not required to include one.** If Item 19 says the brand makes no representation, that is legal and common, and it means they've told you nothing about what you might earn. When there is an Item 19, read exactly which locations it covers — brands may report on their top quartile, or on company-owned stores, or on units open more than three years. The figures are real, but they describe whoever the brand chose to describe. They are not a projection for your location.

Item 20 — Outlets and franchisee information. The one most buyers skip and the one that tells the truth. It shows how many locations opened, closed, were transferred or were taken back by the brand over the last three years. A system where locations close or get transferred at a high rate is telling you something that no brochure will.

Item 20 also contains the contact list of current franchisees, and the list of everyone who left in the past year. Both lists are for you to call. See the section on validation calls.

> Have a franchise attorney read the FDD and the franchise agreement before you sign. Not a general business attorney — one who does franchising. It's a few hundred to a few thousand dollars against a purchase that will cost you far more, and it's the single best money you'll spend in this process.

The money

What you pay to get in

The franchise fee. A one-time payment for the license. Across the industry it commonly runs from the low tens of thousands into six figures, depending on the brand and the territory. It buys you the right and the training. It does not build anything.

Build-out and equipment. Usually the largest line, and it varies enormously. A service business run from a van or a home office is a different order of magnitude from a restaurant with a dining room.

Opening inventory and supplies.

Working capital. The money that carries the business until it pays for itself. Item 7 of the FDD gives the brand's estimate. Treat it as a floor, not a target.

Your own living expenses. Not in anyone's Item 7, and the thing that sinks the most first-time owners. Budget for however many months you'll go without taking a salary, and then add a few.

What you pay every month, forever

Royalty. A percentage of gross revenue — note *gross*, not profit. You pay it in the months you make money and in the months you don't.

Marketing or brand fund. Another percentage, usually smaller, pooled nationally. It funds campaigns you don't control and that may or may not reach your market.

Technology and other recurring fees. Point of sale, scheduling software, call center, required software. Item 6 lists them all.

Add those percentages together before you look at any other number. They come off the top of every dollar, and they're the reason a franchise and an independent business with identical revenue are not equally profitable.

How people pay for it

Cash. Simplest. Also the slowest to accumulate and it concentrates all your risk in one place.

An SBA loan. The most common route for franchise purchases in the United States. The Small Business Administration guarantees part of the loan, which makes banks willing to lend against a business rather than only against property. Most brands are listed on the SBA Franchise Directory, which speeds up approval. Expect to put down a meaningful share yourself and to sign a personal guarantee — meaning if the business fails, the debt is still yours.

ROBS. Rollover as Business Startup. A structure that lets you use retirement funds to capitalize a business without an early withdrawal penalty. It's legal and it's established, and it is genuinely complicated: it requires a C corporation, a retirement plan and ongoing compliance. It also puts your retirement savings into one business. People do it successfully every day. Nobody should do it without talking to a specialist and an accountant.

Seller financing. Mostly in resales. The seller takes part of the price over time. It lowers what you need at closing and it tells you something useful: a seller willing to be paid out of the business's future earnings believes there will be some.

> A note on the numbers in this section: ranges describe the industry broadly, not any specific brand, and not what you will pay or earn. Every brand's real figures are in its own FDD. We don't publish earnings estimates, and you should be careful with anyone who does.

Validation calls

This is the highest-value work you will do, and it's free.

A validation call is a conversation with someone who already owns the franchise you're considering. Item 20 of the FDD gives you the contact list. You don't need the brand's permission and you don't need to tell them who you called.

How many

Fifteen. Not three.

Three calls gets you the three owners the brand suggested, and those three were suggested for a reason. Fifteen gets you a distribution: the ones doing well, the ones struggling, and the ones in the middle where most of the truth lives.

Call across the range deliberately. Someone in their first year and someone in their tenth. Someone in a market like yours and someone in a market nothing like it. Someone in a big metro and someone in a small town.

The list that leaves

Item 20 also lists franchisees who left the system in the last year, with contact details where the brand has them.

Call them. People who have exited have nothing to sell you and nothing to protect. Some left happy, having sold at a profit. Some left unhappy. Both conversations are worth more than an hour with the brand's development team.

What to ask

Open-ended, and then stay quiet. The silence is where the real answer arrives.

- Walk me through a normal week. What do you actually do all day?
- What surprised you most in the first year?
- What did the build-out really cost against what Item 7 said?
- How long until you took a salary? How long until it felt stable?
- What do you get from the royalty and the marketing fund, concretely?
- How does the franchisor behave when something goes wrong?
- Have the rules changed since you signed? Required remodels, new fees, new software?
- How is your territory protected, and has that held?
- Knowing everything you know now, would you buy this again?

- If you were me, what would you be asking that I haven't?

That last question is the most productive one in the list. Ask it every time.

What to listen for

Hesitation before a positive answer. "Would you buy it again?" followed by a pause and then "yes" is a different answer from an immediate yes.

The same complaint from unconnected owners. One person's frustration is their situation. Five people's identical frustration is the system.

Vagueness about money. Owners talk about money fairly readily once they trust you're not a competitor. Consistent vagueness across many calls is its own signal.

Enthusiasm with no specifics. "It's been great" from someone who can't tell you what a Tuesday looks like is not a data point.

Five expensive mistakes

Choosing the brand you like as a customer. The business you'd enjoy visiting and the business you can profitably run are different questions. Loving coffee is not a qualification for running a coffee shop at six in the morning, seven days a week, with two people who called in sick.

Reading Item 19 as a forecast. It describes locations the brand selected, in markets that aren't yours, run by people who aren't you. It is the beginning of a question, not the end of one.

Underestimating working capital. The most common reason a franchise fails isn't a bad concept. It's an owner who ran out of money three months before the business would have turned. Item 7's estimate is a starting point. Add your own living expenses and a real reserve.

Skipping the franchise attorney. People spend six figures on a business and won't spend four on having a specialist read the contract. The franchise agreement is written by the brand's lawyers, for the brand. Some terms are negotiable and you will not know which ones.

Letting the brand set the pace. Development teams are compensated on signed deals, and discovery days are designed to create momentum. Any brand worth joining will still be there in three weeks. "I need more time" is a complete sentence, and a brand that reacts badly to it has told you something.

Before you sign

- [ ] I've read the whole FDD, including Items 3, 6, 7, 19 and 20.
- [ ] A franchise attorney has reviewed the FDD and the franchise agreement.
- [ ] I've spoken with at least 15 current franchisees, chosen across markets and tenure.
- [ ] I've spoken with franchisees who left the system in the last year.
- [ ] I've added up every recurring fee as a share of revenue.
- [ ] I know my total cost to open, including working capital and my own living expenses.
- [ ] I know how many months I can go without taking a salary.
- [ ] My financing is arranged, not assumed.
- [ ] I understand my territory rights and what happens if the brand puts a location nearby.
- [ ] I know the term, what renewal costs and what happens when I want to sell.
- [ ] I know what the brand requires of me if I ever want to transfer the business.
- [ ] I can describe a normal Tuesday in this business without guessing.

If any box is unticked, you are not ready to sign. That's not caution for its own sake — every one of those lines represents money that a buyer somewhere has already lost by skipping it.

One more thing

The question almost nobody asks before buying is how they'll eventually get out.

Franchise agreements have terms. They end. When you want to sell, the brand has to approve your buyer, there's a transfer fee, and your buyer takes on a new agreement rather than the remainder of yours. The owners who do best on the way out are the ones who read those clauses on the way in.

We sell franchises for owners every week. That's how we know which clauses matter.

When you're ready

We represent buyers across 700+ franchise brands and we sell resales for owners. That means when we tell you a brand isn't right for you, we're not losing a sale — we're doing the job.

If you want to talk through where you are, book a call. Thirty minutes, no cost, and we'll be honest with you about whether now is the right time.

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This guide is general information for people considering a franchise purchase. It is not legal, tax, financial or investment advice, and it does not describe any particular brand. Franchise Connectors does not make representations about the financial performance of any franchise; each brand's own figures, if it publishes any, appear in Item 19 of its Franchise Disclosure Document. Consult a franchise attorney and an accountant before signing anything.