

Franchising: Buying & Operating a Franchise — Workbook

This workbook turns the course into a buyer's due-diligence kit. You will dissect a real Franchise Disclosure Document, validate the earnings claim against live franchisee calls, model your true cost-to-open and breakeven, and plan your first 90 days as an operator. Work it with an actual FDD in hand for a brand you are seriously considering.

How Franchising Actually Works

Decide whether franchising fits you and map the full money flow before you fall in love with a brand.

Exercise: Define why you want to own

Write honest answers before you look at any brand. Your motivation determines whether the rule-bound franchise model will satisfy or frustrate you.

- Why do you want to own a business: income, autonomy, a job you control, or an asset to sell later?

- Are you genuinely comfortable executing someone else's system exactly, or do you need creative control over product and pricing?

- How many hours a week can you personally work in the unit during the first year?

- What is the maximum cash you can lose without endangering your household?

Worksheet: Total royalty load calculator

Pull the royalty and ad fund percentages from FDD Item 6 for your target brand, then compute the annual dollars that leave the business at a realistic sales level before any operating expense.

Brand name

Royalty rate (percent of gross sales)

Advertising / brand fund rate (percent of gross sales)

Technology and other recurring fees (monthly dollars)

Total royalty load (royalty plus ad fund, percent)

Assumed annual gross sales (dollars)

Annual fees paid to franchisor (dollars)

Checklist: Path-fit gut check

- I have compared franchise vs independent startup vs buying an existing business on cost, control, and risk
- I understand the royalty is charged on revenue, not profit
- I have confirmed I am willing to follow an operations manual the franchisor can change
- I have a realistic number for cash I can lose without harm
- I have decided single-unit first rather than committing to multi-unit development

Reading the Franchise Disclosure Document

Read the FDD like an adversary: map all 23 Items, validate Item 19, and surface the red flags in Items 3, 11, and 20.

Checklist: FDD receipt and review timeline

- I received the full FDD at least 14 calendar days before any signing or payment
- I confirmed the franchisor is registered in my state if my state requires it
- I read all 23 Items once for orientation and a second time forensically
- I engaged a franchise-experienced attorney to review the FDD and franchise agreement
- I cross-referenced Item 7 costs against Item 19 earnings and Item 20 closures

Worksheet: Item 20 unit-churn table

Copy the franchised-unit figures from Item 20 for each of the last three years. If closures and transfers outpace openings, treat that as the most important fact in the FDD.

Year

Units at start of year

Units opened

Units closed / terminated

Units transferred (sold by owners)

Units at end of year

Net change (end minus start)

Exercise: Validate Item 19 by phone

Call at least 8 to 10 current franchisees and several who left, using the contacts in Item 20. Record answers and compare every figure back to the Item 19 disclosure.

- What did your unit gross in year one, and what does it gross now?

- How many months until you reached breakeven, and how much working capital did that consume?

- What do you actually pay yourself after all fees and expenses?

- If you left the system, why, and what would you do differently?

Checklist: Red-flag scan: Items 3, 11, 20, 21

- Item 3 shows no pattern of franchisor-versus-franchisee suits over fees or misrepresentation
- Item 11 specifies concrete training days, field visits, and required systems, not vague support
- Item 20 shows the franchised-unit count steadily growing on its own units
- Item 20 former-franchisee list is small relative to current franchisees
- Item 21 audited financials show the franchisor can survive my contract term

The Money: Costs, Funding, and Returns

Translate the FDD into a financial plan: model the true cash-to-open, assemble the capital stack, and find breakeven.

Worksheet: Item 7 cash-to-open model

Use the HIGH end of every Item 7 range, then add contingency and personal living expenses. This is the honest number you must fund before opening.

Initial franchise fee (dollars)

Leasehold improvements and buildout, high end (dollars)

Equipment, fixtures, and signage, high end (dollars)

Opening inventory and supplies (dollars)

Additional funds / working capital for 3 months, high end (dollars)

Contingency at 10 to 20 percent (dollars)

Six months personal living expenses (dollars)

Total cash-to-open (dollars)

Worksheet: Financing stack and equity injection

Assemble how you will fund the cash-to-open total. Lenders expect 20 to 30 percent owner equity; confirm the brand is on the SBA Franchise Directory to speed approval.

Total cash-to-open from model (dollars)

Owner equity injection (dollars and percent of total)

SBA 7(a) or 504 loan amount (dollars)

Equipment financing or lease (dollars)

Line of credit for seasonality (dollars)

Brand listed on SBA Franchise Directory? (yes / no)

Estimated monthly debt-service payment (dollars)

Exercise: One-page unit economics

Build the unit's profit on one page from realistic numbers drawn from Item 19 and your franchisee calls. Then compute breakeven sales.

- What annual gross sales will you assume, and is it conservative versus the franchisee calls?
- What are cost of goods sold and labor as a percent of sales, and what is your prime cost?
- After the 6 to 8 percent royalty load, rent, and fixed costs, what is owner profit before debt service?
- At what sales level does the unit break even (fixed costs divided by contribution margin)?

Checklist: Capital and viability gate

- I funded the high-case Item 7 total plus contingency, not the brochure midpoint
- I set aside three months of working capital plus six months of personal living expenses
- My equity injection is at least 20 percent of total project cost
- Conservative first-year revenue still covers my monthly debt-service payment
- I can state my breakeven sales number from memory

Territory, Contract, and Daily Operations

Lock down territory, understand the decade-long contract, and build the first-90-days operating plan.

Worksheet: Territory and carve-out map

Record exactly how Item 12 defines your territory and every channel through which the franchisor can still reach customers in your area.

Territory definition (radius, population, or zip codes)

Is the territory exclusive / protected? (yes / no)

Online and e-commerce carve-out? (yes / no)

Delivery-app and alternative-venue carve-outs (list)

National-accounts and catering carve-out? (yes / no)

Is protection contingent on hitting sales quotas? (yes / no)

Closest another same-brand unit could be placed

Checklist: Franchise agreement clause review

- I know the term length and exactly what renewal requires and costs
- I understand the transfer clause: approval, buyer qualification, and transfer fee to sell later
- I have listed every termination trigger and what happens to my investment if terminated

- I have measured the post-term non-compete scope, area, and duration
- I understand the franchisor can amend the operations manual and I must comply
- I know whether a personal guarantee makes me personally liable

Exercise: Build your first-90-days plan

Lay out the opening sequence against the course timeline. Be specific about dates, people, and the royalty-reporting rhythm you will live by.

- What are your training dates and who is certified on the point-of-sale and operations manual?

- What is your hiring and scheduling plan, and what is your target labor percent of sales?

- When is the grand opening and which franchisor marketing plays will you run?

- On what schedule will you report gross sales and remit royalty and ad fund, and how will you reconcile point-of-sale to royalty statements?

Checklist: Operator readiness

- My staffing and scheduling system is built before opening
- I will follow the operations manual precisely during ramp-up
- I have introduced myself to my field consultant and the franchisee community
- I will reconcile point-of-sale sales to royalty statements every period
- I will track prime cost weekly from day one

Your Action Plan

1. Write your ownership motivation and confirm you are willing to run a fixed system before contacting any brand
2. Request the full FDD and start the 14-day clock; do not sign or pay anything during it
3. Read all 23 Items twice and engage a franchise-experienced attorney to review the FDD and agreement
4. Build the Item 20 unit-churn table and reject the brand if the system is shrinking on its own units
5. Call 8 to 10 current franchisees plus several who left, and reconcile their numbers against Item 19
6. Build the Item 7 cash-to-open model at the high end plus contingency and personal living expenses
7. Get pre-qualified with an SBA-preferred lender and confirm the brand is on the SBA Franchise Directory
8. Model one-page unit economics and breakeven, and stress-test debt service against conservative revenue
9. Map the Item 12 territory and every carve-out, and review term, transfer, termination, and non-compete clauses
10. Build the first-90-days plan covering training, hiring, grand opening, and the royalty-reporting rhythm

