

# Franchise Buying & Due Diligence — Workbook

This workbook turns the course into a complete due-diligence run on a real franchise opportunity. Pick one franchise you are seriously considering, request its current Franchise Disclosure Document in writing, and pull prior-year versions from a state database if you can. Then work through each section as you progress: dissect the cost items, validate the Item 19 earnings claim by phone, analyze your specific territory, and assemble it all into a documented go or no-go decision. The templates are built to be filled in with this franchise's own figures and reused for any other brand you evaluate.

## The Franchise Model and the Disclosure Framework

Confirm what you are actually buying, set up your disclosure rights, and triage the 23 items so you spend your effort where the risk is.

### Exercise: Map the Economics Before You Read Further

Using the franchisor's website, brochure, and any FDD you already have, write down the core money relationship in plain numbers. The goal is to see the ten-year cost of the relationship, not just the upfront cheque.

- What is the initial franchise fee, and what is the term of the franchise agreement in years?

---

- What is the royalty rate and the advertising or brand fund rate, both as a percent of gross sales? Add them to a single combined ongoing percent.

---

- On a realistic annual sales figure for one unit, how many dollars per year does that combined percent equal, and how much is that over the full term?

---

- In one sentence, restate what you are buying: a licence to operate which system, under what brand, for how long, with what personal guarantee?

---

### Worksheet: Disclosure Rights and FDD Intake Log

Record the facts that prove your FTC Franchise Rule protections are intact and that you are working from a current document. Fill each field as you obtain the FDD.

Date you requested the FDD in writing

---

Date you actually received the complete FDD

---

FDD issuance date on the cover (must be within 120 days of franchisor fiscal year end)

---

Earliest date you may legally sign or pay (received date plus 14 calendar days)

---

Registration state, if any, and whether you pulled a prior-year FDD (source and year)

---

Number of prior-year FDDs obtained for cross-year comparison

---

Any agreement changes requested by you (and the restarted 7-day clock date)

---

Confirmation no money or signature has been given before the 14-day window closed (yes / no)

---

### Checklist: Disclosure-Framework Reading Standards

- I requested the FDD in writing and confirmed its issuance date is current
- I am counting 14 calendar days from receipt before signing or paying anything
- I understand the FTC does not approve or vouch for any franchise
- I pulled at least one prior-year FDD to compare fees, earnings claims, and litigation across years
- I triaged the 23 items and flagged 3, 5, 6, 7, 11, 12, 17, 19, 20, and 21 for the deepest review
- I treated any pressure to skip or compress the waiting period as a red flag

### Reading the Money Items: Fees and Total Investment

Total every fee from Items 5 and 6, rebuild the Item 7 investment at the high end with real working capital, and map the obligations and territory terms in Items 8 through 12.

### Worksheet: Item 6 Ongoing-Fee Tally

List every recurring and occasional fee from the Item 6 table and convert the percentage fees to annual dollars against a realistic sales figure. The combined burden, not the royalty alone, is the true cost of operating.

Royalty rate (% of gross sales) and its dollar value at your assumed annual sales

---

Advertising / brand fund rate (% of gross sales) and its dollar value

---

Combined royalty + ad fund (% and annual dollars off the top)

---

Technology / software fee (amount and frequency)

---

Required local-marketing minimum (amount and frequency)

---

Renewal fee and transfer fee (one-time-but-likely amounts)

---

Any other Item 6 fees (audit, training-for-new-staff, late payment)

---

Total combined ongoing fees as a percent of sales, and the cumulative dollar total over the full term

---

### Exercise: Rebuild the Item 7 All-In Investment

Do not accept the Item 7 total. Rebuild it for your market at the high end of every line, then replace the franchisor's short working-capital line with your own ramp-based figure.

- What is the Item 7 total range as printed, and what does the low end assume (small site, cheap market, owner doing the work)?
- Take each line at its high end and adjust construction, rent, and labor for your actual market. What is your

adjusted build-out and opening total?

---

• How many months of working capital does the Item 7 'additional funds' line cover, and is that realistic for time-to-break-even in this concept?

---

• What single all-in number, including a 10 to 20 percent contingency and a 12-month working-capital cushion, are you confident you can fund?

---

### Worksheet: Items 8 to 12 Obligations and Territory Map

Pull the operating-relationship terms into one place so you know what you must buy, what you must do, what support you are promised, and how protected your territory really is.

Item 8: required suppliers, and any rebate or markup the franchisor earns on your purchases

---

Item 9: the three obligations that most increase your risk (and the agreement sections behind them)

---

Item 10: any franchisor financing offered, its terms, and whether your debt can be assigned

---

Item 11: training duration and content, and the support the franchisor MUST (not may) provide

---

Item 12: is the territory exclusive, and how is it defined (radius, population, zip codes)?

---

Item 12: reserved rights — can the franchisor sell via company outlets, online, or wholesale into your area?

---

Item 12: is territory protection conditional on hitting sales or development quotas?

---

One-line verdict: is this territory truly protected, conditionally protected, or open to encroachment?

---

### Checklist: Money-Items Reading Standards

I totaled every pre-opening payment to the franchisor, not just the advertised initial fee

I expressed the combined royalty and ad fund as one percent of sales and as a cumulative term-long dollar figure

I rebuilt Item 7 at the high end of every line and adjusted for my actual market

I replaced the franchisor's working-capital line with my own 12-month ramp estimate plus contingency

I identified every required supplier and any rebate the franchisor earns on my spending

I separated what the franchisor MUST provide in Item 11 from what it merely MAY provide

I read Item 12 reserved rights and know exactly how exposed my territory is to encroachment

### Validating Earnings and Reading the Red-Flag Items

Decode the Item 19 earnings claim, scan Items 3, 4, 20, and 21 for distress, and run structured validation calls that test whether the numbers are real.

### Exercise: Dissect the Item 19 Earnings Claim

If the FDD has an Item 19, read exactly what it measures and how honestly it is framed. If it has none, document that and note where your numbers will instead come from.

• Does an Item 19 exist? If not, why might the franchisor stay silent, and are salespeople nonetheless hinting at earnings (a red flag)?

---

• What does the claim measure: average gross sales, gross profit, or actual unit-level net profit? Does it

count owner labor?

---

• Are both the median and the average given, and what subset of units is included (all units, mature only, company-owned, top performers)?

---

• What percentage of units actually met or exceeded the headline figure, and what does that say about whether it is a forecast or a stretch goal?

---

### Worksheet: Red-Flag Item Scan: Items 3, 4, 20, 21

Record the distress signals from the litigation, bankruptcy, outlet, and financial-statement items. Compute churn from the Item 20 tables rather than reading only the net change.

Item 3: number and nature of lawsuits — are franchisees suing the franchisor for misrepresentation or encroachment?

---

Item 4: any bankruptcy of the franchisor or key executives (near-disqualifying if recent)

---

Item 20: outlets opened vs. closed vs. terminated over three years (compute the closure rate)

---

Item 20: number of transfers (owners exiting) and direction of company-owned vs. franchised counts

---

Item 21: is the franchisor profitable, or losing money and surviving on new franchise-sale fees?

---

Item 21: positive or negative net worth, and share of revenue from franchise fees vs. royalties

---

Independent search results (court records, brand + 'lawsuit'/franchisee complaints', forums)

---

Overall red-flag verdict: clean, watch, or disqualifying

---

### Exercise: Run the Validation Calls

Work systematically through the Item 20 franchisee contact list, deliberately including underperformers and former owners. Ask every owner the same questions so you can tally the answers.

• Which 10 to 20 franchisees will you call, and how many are former owners or recent transfers (the most candid sources)?

---

• For each: actual first-year and current sales vs. the Item 19 claim, and actual time and cash needed to reach break-even?

---

• For each: true all-in opening cost vs. Item 7, and did the franchisor deliver the training, marketing, and support promised in Item 11?

---

• For each: knowing what they know now, would they buy this franchise again? What is the overall pattern across all your calls?

---

### Checklist: Validation and Red-Flag Standards

[ ] I confirmed every earnings number I rely on appears in writing inside Item 19, not from a salesperson

[ ] I distinguished average gross sales from unit-level net profit and found the percent of units that hit the figure

- [ ] I computed closure and termination rates from Item 20, not just the net unit change
- [ ] I read Item 21 to judge whether the franchisor profits from franchisee success or merely from selling units
- [ ] I called a meaningful sample including former franchisees, using a fixed question set
- [ ] I weighted the pattern across many calls over any single dramatic story
- [ ] I asked every franchisee whether they would buy it again and tallied the answers

## Territory, Modeling, and the Decision

Judge whether your specific market can support the unit, build a ramp-aware investment and break-even model, stress-test it, and convert everything into a documented decision with professional review.

### Worksheet: Territory and Saturation Assessment

Assess the actual market around your proposed site. Match the demographics to the brand's customer profile and ground your sales estimate in comparable units, not the system-wide average.

Same-brand and competitor units already operating near the site (count and approximate distances)

---

Encroachment exposure from Item 12 reserved rights (company outlets / online / wholesale)

---

Trade-area population, median household income, and age mix (from Census / ACS)

---

Daytime workforce or other demand driver relevant to this concept

---

Franchisor's stated minimum population or income, and whether your market clears it with margin

---

Comparable units in comparable markets you identified and their approximate sales

---

Validation-call input on local competition and the franchisor's encroachment track record

---

Grounded annual sales estimate for THIS location (your model's revenue assumption)

---

### Exercise: Build and Stress-Test the Model

Assemble the cost side (rebuilt Item 7 + Item 6 fees) and the revenue side (your territory-anchored estimate) into a ramp-aware projection, then break the deal on purpose.

- Ramping monthly revenue from a low opening level to your steady-state estimate over year one, in which month does the unit break even monthly?

---

- What is the maximum cumulative cash shortfall during the ramp (your true working-capital need), and can you fund it beyond the build-out?

---

- Dividing total all-in investment by steady-state annual unit profit, what is the payback period in years (attractive ~3-4, marginal 5-6)?

---

- Rerun with sales 15 to 20 percent lower, a slower ramp, and high-end rent and labor — does the deal still pay back, and does your capital still cover the deeper cash hole?

---

## Worksheet: Go / No-Go Decision Memo

Convert all four modules of analysis into a one-page, evidence-based verdict you can defend. Fill each field from your own work, not the sales pitch.

Franchise name, unit type, and total all-in investment (your rebuilt figure)

---

Disclosure verdict: any disqualifying litigation, franchisor insolvency risk, or excessive unit churn?

---

Earnings verdict: does validation corroborate or contradict the Item 19 claim?

---

Territory verdict: can this market deliver the model's sales, and how exposed is it to encroachment?

---

Capital verdict: can you fund the all-in cost plus the stress-tested worst-case cash hole to break-even?

---

Professional review: attorney and accountant findings and any terms worth negotiating

---

Payback period and worst-case payback under the pessimistic scenario

---

Final decision (GO / NO-GO) and the single most important reason

---

## Checklist: Decision-Readiness Checklist

- I anchored revenue to validated comparable units, not the franchisor's Item 19 average
- I modeled the ramp explicitly and found the break-even month and the maximum cash shortfall
- I stress-tested with lower sales, a slower ramp, and higher costs, and the deal still survived
- I confirmed I can fund the all-in investment plus the worst-case cash hole to break-even
- A franchise attorney reviewed the agreement and FDD, and an accountant reviewed my model and Item 21
- I wrote a one-page decision memo with the numbers, the risks, and a clear verdict
- I gave myself explicit permission to walk away from a deal the analysis does not support

## Your Action Plan

1. Request the current FDD in writing, log its issuance and receipt dates, and start the 14-day clock; pull a prior-year FDD from a state database to compare.
2. Triage the 23 items and read Items 3, 5, 6, 7, 11, 12, 17, 19, 20, and 21 first and hardest.
3. Tally every Item 6 ongoing fee into a single percent of sales and a cumulative term-long dollar figure.
4. Rebuild the Item 7 investment at the high end for your market and replace the working-capital line with your own 12-month ramp estimate plus contingency.
5. Decode the Item 19 earnings claim: identify whether it is sales or profit, find the median, and find the percent of units that actually hit it.
6. Scan Items 3, 4, 20, and 21 for litigation patterns, bankruptcy, unit churn, and a franchisor that survives on franchise-sale fees rather than royalties.
7. Call 10 to 20 current and former franchisees from the Item 20 list with a fixed question set, including the 'would you do it again' question.
8. Analyze your specific territory: saturation, encroachment from Item 12 reserved rights, and whether the demographics support the sales your model needs.
9. Build a ramp-aware investment and break-even model, then stress-test it with lower sales, a

slower ramp, and higher costs.

10. Have a franchise attorney and an accountant review the agreement, the FDD, and your model, then write a one-page go or no-go decision memo.













