



# THE FRANCHISE DISCLOSURE DOCUMENT

# The Franchise Disclosure Document

As you talk to potential franchisors about your interest in buying a franchise and narrow the field, you will inevitably be provided a Franchise Disclosure Document (FDD). But what is an FDD?

The FDD is a document that includes crucial information about the franchisor you are considering. The Federal Trade Commission requires franchisors to provide the FDD to prospective buyers at least 14 days before a contract is signed or any payment is made. The FDD contains 23 specific items of information about the franchise, its officers and its franchisees. You will need to carefully review all of the items, but here are several to pay extra attention to.

**“If they have three or four pages of litigation, you may want to go somewhere else.”**

**– Gordon Logan**  
*Founder and CEO*  
Sport Clips

## **Business Experience and Litigation**

Item 2 identifies the executive team of the franchise, providing biographical and professional information about its officers, directors and executives. Item 3 details any pending actions, material actions and prior actions against the franchise.



“If they have three or four pages of litigation, you may want to go somewhere else,” says Gordon Logan, founder and CEO of Sport Clips. An Air Force veteran, Logan founded his franchise in 1993. Today there are more than 1,850 Sport Clips locations.

### **Financial Performance**

Item 19 is an optional opportunity for a franchisor to provide a range for a franchise’s potential financial performance. Austin Meek, broker relationship for Neighborly’s 17 franchise concepts, says this is an important item.

“It behooves all of us to have a totally transparent process. There are some less scrupulous franchises out there, but I think if you are looking at a franchise opportunity and they don’t have an Item 19, that would be a big red flag for me. You need to have validation. You need to be able to prove, ‘Hey, this is what I can make.’ There’s not going to be specific numbers, but for instance, what our FDDs show at Neighborly is the top 10% of franchise owners grossed X amount. The bottom 10% grossed Y amount. The average franchise owner grossed C amount.”

## **Current Franchisees**

Logan and Meek agree that Item 20 provides important information, including a list of current franchisees, growth and turnover within a franchise system. Compare how many franchisees the system had three years ago compared to today. If the system added 100 new franchises over three years but 50 closed, that should be a red flag.

Both Logan and Meek urge veterans considering a franchise to speak to current franchisees in the system. Most are willing to provide financial information and other crucial insight.

“Franchisors cannot give you any more information about profit and loss than what is in Item 19,” Logan says. “But existing franchisees are usually quite open and willing to discuss and give you a lot more information than the franchisor can. So networking with the existing franchisees, who are listed in Item 20 of a Franchise Disclosure Document, that is essential to the process and very, very important to understand what a day in the life of a franchisee is like.”

They also urge veterans who are seriously considering a franchise to visit [VetFran.org](http://VetFran.org), an International Franchise Association initiative that offers resources and identifies franchises that offer discounts and incentives to veterans.

## **Bankruptcy**

Item 4 discloses whether the franchisor or its predecessors, affiliates or executives have been involved in a bankruptcy.

## **Cost**

Items 5, 6 and 7 describe the costs to buy the franchise, including the initial investment and ongoing costs royalties and other fees. “There may be advertising funds, there may be technology fees, maybe recruiting fund fees,” Logan said.

