

Thinking About Buying a Franchise?



Buying a franchise is a major financial investment and a serious personal commitment. Understanding your abilities and goals is one step toward deciding whether a franchise is right for you.

Being a Franchisee

When you buy a franchise, you get to operate a business and sell goods or services with name recognition. You buy a format or system developed by the franchisor, and training and support. But investing in a franchise, like all investments, involves financial risk. Franchisees must commit money and time, and must operate by the franchisor's playbook.

The Franchisor's Responsibilities

Franchisors also have legal responsibilities, which are spelled out in the Franchise Rule. For example, franchisors must give potential franchisees important information in a Franchise Disclosure Document (FDD) at least 14 days before a contract is signed or any payment is made. In addition, some states require a franchisor to submit its FDD to state examiners for review before it can lawfully sell the franchise in the state. The Federal Trade Commission, the nation's consumer protection agency, enforces the Franchise Rule.

5 Factors to Consider

If you're thinking about investing in a franchise, consider:

1 Your financial situation

Buying into a franchise is a major investment. How much do you have to safely invest? Can you afford to lose your entire investment? Will you invest on your own or with partners? Do you need financing? Where will you get it?

2 Your need for income

Do you need a specific minimum annual income? It can take years for an investment in a franchise to become profitable; some franchises never make it. Do you have savings or another source of income to support yourself and your family until the franchise can?

3 Your abilities and goals

Consider your experience as a business owner or manager. What special skills do you have? Do you want a franchise that requires technical experience, or specialized training or education, like auto repair, home or office decorating, or tax preparation? What kind of work environment and routines do you prefer? Will you run the business yourself or hire a manager?



4 Your timetable

Is a multi-year commitment right for you? Franchise agreements generally are for several years, often 5 or 10. It can be difficult to end an agreement early. Once you commit to a franchise contract, you have to stay with it until the term ends, even if you're not making as much money as you expected, or making a profit at all. How long do you want to stay in one location and engaged in one business?

5 Your comfort working under a franchisor's control

As a franchisee, you are a business owner, but you don't operate independently. You're part of a network and you must follow rules that call for uniformity. A franchisor may limit your choices about sales area, training, suppliers, or the merchandise you sell. You may pay advertising fees and buy or lease from suppliers the franchisor chooses. If exercising creativity is important to you, think about whether you would be comfortable working with a franchisor's controls.

Guide for Buyers

If you decide you want to check out a specific franchise, read [Buying a Franchise: A Consumer Guide](#) at business.ftc.gov and ask a lawyer, accountant or experienced advisor who represents your interests to work with you.

To learn more about state franchise resources, visit the website of the North American Securities Administrators Association at: www.nasaa.org/industry-resources/corporation-finance/franchise-resources/

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