A PRACTICAL GUIDE FOR PROSPECTIVE OWNERS

Before You Buy a Franchise

Understand the business, the money and the owner's role before you commit.

Your next chapter deserves more than a familiar logo.

You want your hard work to build something of your own, without trading one demanding job for another.

This guide explains what franchise ownership involves and what to investigate, so you can begin your search with a clearer view of the business and life you want to build.

INSIDE

The business model · Costs beyond the franchise fee · The FDD · Earnings information · The owner's work · Your next step

01 / UNDERSTAND THE BUSINESS

A system to build with. A business to lead.

A franchise can give you a developed way of doing business. It does not remove the work or responsibility of ownership.

You receive the right to operate a business associated with a franchisor's brand, alongside a contractual relationship involving significant control or assistance and a required payment. In practical terms, you are buying into a system, with both support and rules. [1, 2]

What the system may provide

A brand, training, operating methods, marketing resources and help getting started. The exact support, its quality and any extra costs differ by franchise.

What you still need to build

Customer demand, a capable team, reliable operations and control of your cash. A recognizable name is not a guarantee that a particular location or market will work.

More structure also means less freedom in some decisions.

The agreement may restrict your suppliers, products, services, territory, advertising, hours or operating methods. The question is not whether rules exist, but whether this system's rules and support work for the business you want to run. [1, 5]

THE USEFUL STARTING POINT

> Compare the owner's job and the economics, not just the product you enjoy buying.

Franchising includes service businesses as well as stores and restaurants. Look at how a business wins customers and uses your strengths before deciding that a familiar brand is the right fit. [1]

02 / UNDERSTAND THE MONEY

The franchise fee is not the whole budget.

Separate what it takes to open, what it takes to operate and what your household needs while the business develops.

1 **Initial fees and opening costs**

Item 5 covers initial fees. Item 7 estimates the initial investment, which may include premises, equipment, inventory, training-related costs and other opening expenses. Read the footnotes, not just the total. [1, 5]

2 **Ongoing fees and operating expenses**

Item 6 discloses other required fees, such as royalties or advertising contributions. Build a broader operating budget too: payroll, rent, supplies, insurance, local marketing and professional help are not all captured by one fee line. [1, 5]

3 **Cash to keep the business operating**

Item 7 includes an “Additional funds” estimate for an initial period. That is not a promise that the business will support itself when that period ends. Test opening delays, slower sales and higher expenses with your accountant. [1, 5]

4 **A separate household plan**

Your living costs, debt payments, taxes and any interruption in employment income need their own plan. Do not assume the business’s opening budget also protects your family’s day-to-day finances. [1]

LOOK BEYOND APPROVAL

A lender’s willingness to finance the purchase does not establish that the business is a good investment or fits your household. [1]

03 / READ THE RIGHT DOCUMENTS

The FDD explains the offer. The contracts govern it.

The Franchise Disclosure Document, or FDD, has 23 numbered Items plus exhibits. It provides standardized pre-sale information and summarizes selected agreement terms. It is essential reading, but it does not replace the contracts or mean that a government agency verified the information. [1, 4]

14 calendar days

For a sale covered by the FTC Franchise Rule, the franchisor must furnish the current FDD at least this long before you sign a binding agreement with, or pay, the franchisor or an affiliate. This is a minimum review period, not a deadline to buy. [3]

A starting map, not a reading limit

LOOK FOR	FDD ITEMS	WHAT TO UNDERSTAND
Background	**1–4**	The business, leadership, disclosed litigation and bankruptcy history.
Money	**5–7, 19**	Fees, estimated initial investment and any financial performance representations.
Work and support	**8, 11, 15**	Supplier restrictions, assistance and training, and required participation in operations.
Territory	**12**	What protection exists and what sales channels or competing rights are retained.
Exit and renewal	**17**	Term, renewal, transfer, termination, restrictions and dispute provisions.
The system	**20–21**	Outlet changes and franchisee contacts; the franchisor’s financial statements.
Your obligations	**22**	The actual proposed franchise and related agreements.

Read all Items and attachments. A transfer or closure is a reason to investigate context, not automatic proof of failure. Discuss agreements with a franchise-experienced attorney and financial information with an accountant. [1, 4, 5]

Federal exemptions and specific agreement-revision rules exist. State laws may add requirements. [3, 4]

04 / INTERPRET THE NUMBERS

Revenue is not your take-home pay.

A sales figure can be useful. It cannot tell you, by itself, what you will earn as an owner.

Item 19 is where a franchisor may provide financial performance representations. These can concern sales, income or profit. The important distinction is what the particular figure actually measures, not simply whether a number appears. [1, 2, 5]

Sales or revenue	Money generated from sales, before the expenses that a sales-only figure leaves out.
Profit	What remains after the expenses included in that particular profit measure. Check whether owner compensation, rent, royalties and other relevant costs are included.
Cash available to your household	A separate question involving how you are paid, debt payments, taxes, reinvestment and the cash the business must retain.

Read the context around the headline.

Check the dates, locations, outlet ages, sample size, exclusions and the number or percentage of outlets reaching the stated result. An average can hide a wide range. Company-owned and franchised outlets may have different cost structures. [1, 5]

Ask the franchisor for written substantiation and have your accountant examine the assumptions. If Item 19 does not provide a financial performance representation, do not fill the gap with an informal promise or a generic franchise earnings average. [1, 5]

KEEP THE DISTINCTION CLEAR

A supported historical result is evidence to examine, not a promise about your future business.

05 / PICTURE THE OWNER'S WORK

Understand an ordinary Tuesday before you buy.

The business should use your strengths and support the life you want. Its day-to-day demands are part of the purchase.

An owner-operated business and a manager-led business can ask very different things of you. Do not treat "manager-led" as a promise of passive income. Clarify who sells, hires, supervises, handles problems and steps in when someone leaves. Check the required owner involvement in Item 15 and the agreement. [1, 5]

Learn from people doing the work.

Use Item 20 to contact a thoughtful mix of current and former franchisees, not only a handpicked reference list. Include newer and established operators where possible. Ask about their own experience, rather than asking them to predict yours. [1, 5]

The owner's week

What fills your calendar? How did that change after opening?

People and coverage

Which roles are hardest to hire? What happens when your manager is out?

Customers and sales

How do customers find you? What selling does the owner personally do?

Support in practice

What help has been useful? Where have you needed outside help?

Money and surprises

What costs or cash needs differed from your opening expectations?

Looking back

What would you investigate more carefully before buying again?

These conversations add context; they are not a representative survey or a substitute for the documents. Some current or former franchisees may have restrictions on what they can discuss. A single enthusiastic or unhappy account is not the whole system. [1, 5]

06 / TURN INTEREST INTO A SERIOUS SEARCH

A clearer path to becoming an owner.

1 **Define the business and life you want.**

Clarify your strengths, owner role, geography, financial boundaries and family priorities before narrowing the options.

2 **Compare, investigate and prepare.**

Meet franchisors, review the current FDD and contracts, speak with franchisees, and investigate demand, staffing, costs and support. Work through financing and independent legal and accounting review. [1, 3, 4]

3 **Make the decision and build.**

Resolve material questions before committing. When the business fits and you choose to proceed, complete the purchase and prepare to operate. If the evidence points elsewhere, change direction rather than force the fit.

AUSTIN OLSON, J.D.

You bring the ambition. I help you find the business.

I start with your strengths, finances and family priorities, then help you compare franchises and investigate what ownership would ask of you. My training in psychology, school counseling and law helps me listen closely and question assumptions.

Book a Free Consultation

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Consultations and franchise advisory services are at no cost to you. If you buy a franchise I introduce, the franchisor may compensate me. Franchise purchase and startup costs are separate. OFA does not provide legal representation, tax advice or a financing guarantee.

KEEP THIS FOR REFERENCE

Useful terms. Reliable sources.

Franchisor

The business granting the franchise and participating in the franchise relationship.

Franchisee

The person or entity granted the franchise.

Royalty

An ongoing franchise fee defined by the agreement. It may be tied to sales rather than profit.

Estimated initial investment

Item 7's estimate of specified startup and initial-period expenses, not a guarantee of your final costs.

Financial performance representation

A statement about actual or potential sales, income or profit. Its measure, basis and limitations matter.

Read the underlying sources

The numbered references throughout this guide point to these public sources. The FTC guide explains the buyer's investigation; the federal rule supplies the disclosure requirements.

1. **FTC: A Consumer's Guide to Buying a Franchise**
   Business model, costs, franchisee conversations, financial interpretation and professional review.
2. **16 CFR § 436.1: Definitions**
   Franchise definition and financial performance representations.
3. **16 CFR § 436.2: Obligation to furnish documents**
   Federal disclosure timing and covered transactions.
4. **16 CFR § 436.3: FDD cover page**
   FDD purpose, contract distinction, professional review and state-law notice.
5. **16 CFR § 436.5: Disclosure Items**
   Fees, estimated initial investment, support, territory, relationship terms, earnings, outlets, financial statements and contracts.

Scope

This is general education, not legal, tax, investment or personal financial advice. Franchise terms and state requirements vary. Consult qualified professionals about your specific transaction. Sources reviewed September 10, 2026.