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TENNESSEE

# THE FDD & YOUR DUE DILIGENCE

## LESSON TOPICS

### 1. What is a FDD?

FDD stands for federal disclosure documents, which are documents required by all franchisors who are trying to sell their concept. Franchises are federally regulated. This is a large document that will be provided to someone who is interested in buying into a franchise.

### 2. Franchisor Information

Time in Business, Business experience, Bankruptcies, Litigation

### 3. Total Investment

This portion of the document has to list everything needed with average costs listed, low, median, and high. Costs to consider are property fees, signage, equipment, working capital, and advertising. Also, consider employee salaries and how long do you need to calculate these into your budget and of course the franchise royalties.

### 4. Contract Information

This document will have a the exact contract attached if you decide to go through with the franchise agreement. The contract will have, in detail, what the franchisor will be providing for you over a ten year period. Will the franchise have a protected territory? This can be determined by size or population of the area. Can the territory change or be altered if the area grows? One of the most important parts of the contract will be the list of past and current franchisees. With this list, you will do your due diligence and call as many as you can with the contact information provided. After speaking with a variety of owners from low to high success rates, you can get a good understanding of the satisfaction of

franchisees. You can also get an understanding of how and if you will succeed with your expertise based on the other franchisees' expertise levels. Another area of information the a possible franchisee would want to know, would be the possible income of the business. This is not disclosed in the contract but earnings claims will be. This section is called the Item 19, which will have all the franchisees separated into categories like location or time in the franchise. Item 19 will provide average gross incomes of the categories they are separated into. A net income can not be provided because it depends on the franchisee and how hard they are willing to work and be successful.

### 5. Financials

The contract will also include information about the franchisor's financial statements. You will be able to see if they are making or losing money and will they be around for the next ten years. Bank balance will also be shared in order for you to see if they have sufficient cash.

### 6. Policies

Managers, Renewal, Termination, Transfer

### 7. Important Questions to Ask

It is imperative for you to ask questions to the current and past franchisees, they will be the key in predicting the success rate of your future in the franchise. You will want to ask them what does a day in the life of a franchisee look like? Would you do it again? Have you made the money you expected? Has the franchisor provided support? How do you feel about the franchise?