



Initial Franchise Research

Checklist 1 of 10 · 18 items · 3 sections

SELF-ASSESSMENT

- Define your personal goals, lifestyle expectations, and income requirements
- Assess your relevant skills, experience, and industry background
- Determine your total available investment capital (including reserves)
- Identify geographic markets and territory availability
- Clarify how many hours per week you can commit and your preferred role (owner-operator vs. semi-absentee)

BRAND VETTING

- Research the brand's history, founding story, and market reputation
- Read independent franchisee reviews on Franchise Business Review and similar sites
- Search for news coverage, lawsuits, or regulatory actions involving the franchisor
- Confirm the brand is registered to sell franchises in your state
- Verify the brand's social media presence and customer reputation

MARKET FIT

- Analyze local demand for the product or service
- Identify direct competitors already operating in your target area
- Confirm the territory population and demographics match the brand's ideal profile
- Research any saturation risk within the system's existing franchisee base
- Verify that your target location has available, unprotected territory
- Check that the concept fits local consumer spending habits and income levels
- Research seasonal demand fluctuations for this type of business
- Confirm the brand has a track record of success in markets like yours



FDD Review Checklist

Checklist 2 of 10 · 19 items · 4 sections

FRANCHISOR BACKGROUND (ITEMS 1–4)

- Item 1 – Confirm franchisor's legal name, state of incorporation, and years in business
- Item 2 – Review executives' backgrounds; look for prior bankruptcies or litigation history
- Item 3 – Catalog all pending, settled, or active litigation involving the franchisor
- Item 4 – Note any bankruptcies filed by the franchisor or its principals in the past 10 years

FEES & OBLIGATIONS (ITEMS 5–9)

- Item 5 – Record all initial fees and confirm what they cover
- Item 6 – List every ongoing fee: royalty, marketing fund, technology, training, etc.
- Item 7 – Build a complete estimated initial investment table with high/low ranges
- Item 8 – Identify all required vendors and any sourcing restrictions
- Item 9 – Understand franchisee obligations: hours, staffing, reporting requirements

TERRITORY & IP (ITEMS 10–14)

- Item 10 – Confirm whether territory protection is exclusive or non-exclusive
- Item 11 – Understand all obligations the franchisor must fulfill to you
- Item 12 – Verify trademark registrations and any ownership disputes
- Item 13 – Review patent and trade secret disclosures
- Item 14 – Confirm copyright protections covering brand materials

PERFORMANCE & FINANCIALS (ITEMS 19–21)

- Item 19 – Review any financial performance representations; note what is excluded
- Item 20 – Count unit openings, closures, and transfers over the last 3 years
- Item 21 – Obtain and review the most recent 3 years of audited financials
- Item 22 – Review and compare the franchise agreement to FDD disclosures
- Item 23 – Confirm receipt of all required exhibits and addenda



Financial Due Diligence

Checklist 3 of 10 · 15 items · 3 sections

INVESTMENT ANALYSIS

- Calculate the full investment range from Item 7 of the FDD, including working capital
- Identify your funding sources: cash, SBA loan, ROBS, home equity, investors
- Model a conservative, base, and optimistic break-even scenario
- Determine how many months of personal living expenses you can cover without franchise income
- Get a lender pre-qualification letter before making a final decision

UNIT ECONOMICS

- Request average gross revenue data for franchisees in similar markets
- Understand the royalty impact on net margin at various revenue levels
- Model your monthly cash flow with realistic ramp-up assumptions (6–18 months)
- Calculate the payback period on your total investment
- Compare economics of buying an existing franchisee unit vs. starting new

FINANCIAL STATEMENTS

- Review 3 years of franchisor audited financial statements (Item 21)
- Assess franchisor's liquidity, debt load, and trend in revenues
- Have a CPA experienced in franchising review all financials
- Request Item 19 data in raw form and model it with your own assumptions
- Confirm working capital reserve covers at least 6 months of operations



Franchisee Validation Calls

Checklist 4 of 10 · 16 items · 3 sections

WHO TO CALL

- Contact at least 10–15 franchisees, not just those provided by the franchisor
- Speak with both high-performing and average-performing franchisees
- Seek out franchisees who have exited or transferred their units
- Target operators in markets similar to yours in size and demographics
- Find franchisees who opened in their first 1–3 years for ramp-up insights

QUESTIONS TO ASK

- 'Knowing what you know now, would you buy this franchise again?'
- 'How accurate was the franchisor's initial investment estimate?'
- 'How responsive is the franchisor when you have an operational problem?'
- 'Are your actual revenues and margins in line with what you expected?'
- 'What do you wish you had known before signing?'
- 'How strong is the franchisee community and peer support network?'
- 'How has your relationship with the franchisor evolved over time?'

RED FLAGS TO NOTE

- Franchisees reluctant to speak candidly or only recite positive talking points
- Multiple franchisees reporting the same unresolved operational problem
- Widespread dissatisfaction with the marketing fund's ROI
- High turnover or closures in markets similar to yours



Legal Review Checklist

Checklist 5 of 10 · 14 items · 3 sections

FRANCHISE AGREEMENT

- Confirm the term length and renewal conditions
- Review transfer rights: fees, conditions, and right of first refusal
- Understand termination clauses — what can trigger termination and cure periods
- Assess post-termination non-compete scope (geography, duration, activities)
- Review dispute resolution process: arbitration vs. litigation, and governing state

TERRITORY PROTECTIONS

- Confirm whether your territory is exclusive, protected, or merely preferred
- Understand encroachment provisions: can the franchisor open nearby units?
- Review digital/e-commerce exclusions that may carve out your territory
- Confirm right-of-first-refusal on adjacent territories if they become available

OBLIGATIONS & COMPLIANCE

- Review all franchisee reporting and audit rights granted to the franchisor
- Understand personal guarantee requirements and spousal consent provisions
- Confirm your right to form an entity (LLC/Corp) to own the franchise
- Have your attorney note any non-standard clauses vs. industry norms
- Verify any state-specific addendum requirements in your home state



Site Selection & Location

Checklist 6 of 10 · 16 items · 3 sections

MARKET ANALYSIS

- Confirm target trade area demographics match the brand's ideal customer profile
- Analyze daytime vs. residential population ratios for your concept type
- Map proximity to key traffic drivers: employers, schools, retail anchors
- Research local competition density within a 3-mile and 5-mile radius
- Review local economic health: unemployment rate, income trends, growth projections

REAL ESTATE EVALUATION

- Confirm lease terms are within franchisor-approved parameters
- Negotiate co-tenancy clauses, kick-out rights, and personal guarantee terms
- Obtain a lease review from both your attorney and the franchisor's real estate team
- Understand all tenant improvement allowances and who controls the build-out
- Verify zoning permits your intended use before signing

SITE-SPECIFIC FACTORS

- Count daily vehicle and pedestrian traffic at the exact site
- Assess parking adequacy, visibility, and ease of ingress/egress
- Review the co-tenancy mix and anchor tenant quality
- Understand signage rights granted under the lease
- Confirm utilities, infrastructure, and ADA compliance for the space
- Verify no exclusivity restrictions from neighboring tenants block your concept



Franchisor Support Assessment

Checklist 7 of 10 · 15 items · 3 sections

TRAINING PROGRAM

- Confirm total training hours and the mix of classroom vs. in-field instruction
- Understand what topics are covered and what is left to self-learning
- Ask how long it typically takes to feel operationally confident post-training
- Review what ongoing training and refreshers are provided
- Confirm whether key employees can also attend training at no extra cost

ONGOING SUPPORT

- Identify your dedicated field support contact and their typical response time
- Understand how frequently a field consultant will visit your location
- Review the franchisor's technology stack: POS, reporting, scheduling, CRM
- Assess the quality and frequency of marketing support and national campaigns
- Ask what a typical franchisor support call or visit covers

COMMUNITY & CULTURE

- Review the franchisee advisory council structure and influence it has
- Confirm whether an annual convention or regional conference is held
- Assess the quality of the franchisee intranet, manuals, and knowledge base
- Ask what percentage of the marketing fund is spent on local vs. national initiatives
- Confirm peer mentorship or buddy programs are available for new franchisees



Pre-Opening Preparation

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BUSINESS SETUP

- Form your business entity (LLC or S-Corp) and obtain an EIN
- Open a dedicated business checking account
- Secure all required business licenses and permits
- Obtain a Certificate of Occupancy after build-out completion
- Set up your payroll system and confirm compliance with local wage laws

OPERATIONS READINESS

- Complete all franchisor-required training programs
- Hire and train your opening team before your target launch date
- Complete full equipment installation and technology setup
- Run a soft-open or mock-service day to identify gaps
- Confirm all inventory and supplier accounts are active and ready
- Verify your POS system, payment processing, and reporting are fully operational

MARKETING LAUNCH

- Execute a pre-opening marketing plan per franchisor guidelines
- Set up local social media profiles and claim your Google Business listing
- Plan a grand opening event and confirm any franchisor promotional support
- Build a local PR outreach list: media, community leaders, neighboring businesses
- Confirm grand opening marketing budget and co-op funding availability



Ongoing Operations

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FINANCIAL MANAGEMENT

- Review weekly P&L versus budget and prior-year actuals
- Monitor food, labor, and occupancy costs against franchisor benchmarks
- Reconcile royalty and marketing fund payments monthly
- Maintain a cash reserve of at least 2–3 months of fixed operating expenses
- Conduct a formal quarterly financial review with your accountant

COMPLIANCE & STANDARDS

- Complete all required franchisor reporting on schedule
- Conduct monthly self-audits against the operations manual standards
- Address field consultant findings promptly and document corrective actions
- Stay current on all required product and service updates from the franchisor
- Ensure staff certifications and training completions are logged and up-to-date

GROWTH & ENGAGEMENT

- Participate in franchisee advisory council meetings and surveys
- Attend the annual franchise convention or regional conference
- Mentor newer franchisees in your system when invited
- Evaluate multi-unit expansion options once your first unit is stabilized
- Track customer satisfaction metrics and respond to all online reviews



Exit Strategy Planning

Checklist 10 of 10 · 14 items · 3 sections

VALUATION FUNDAMENTALS

- Understand what EBITDA multiple is typical for your franchise brand and sector
- Maintain clean, accrual-basis financial statements from year one
- Track and document all owner add-backs that a buyer would add to earnings
- Keep your franchise agreement, lease, and supplier contracts current and transferable
- Avoid personal expenses or non-standard transactions that cloud your financials

TRANSFER PROCESS

- Review the transfer fee and franchisor approval requirements in your agreement
- Understand the training obligations you may have toward the buyer
- Know the franchisor's right of first refusal on any sale
- Work with a franchise-experienced business broker for valuation and marketing
- Confirm your lease has an assignment provision and confirm the landlord's role

TIMING CONSIDERATIONS

- Target a sale when revenues are growing, not declining, for maximum multiple
- Begin preparing 12–24 months before your intended exit date
- Assess whether selling to an existing franchisee in the system simplifies the process
- Factor in capital gains tax treatment and structure the deal accordingly with your CPA