



Franchise Businesses from www.SBA.gov

Want to be your own boss, but not willing to take on the risk of starting your own business from scratch? Franchising can be a great alternative if you want to have some guidance in the start-up phase of the business.

What is Franchising?

A franchise is a business model that involves one business owner licensing trademarks and methods to an independent entrepreneur. Sometimes, franchises are referred to as chains.

There are two primary forms of franchising:

- **Product/trade name franchising:** Franchisor owns the right to the name or trademark and sells that right to a franchise
- **Business format franchising:** Franchisor and franchisee have an ongoing relationship, and the franchisor often provides a full range of services, including site selection, training, product supply, marketing plans and even assistance in obtaining financing

Before Investing in a Franchise

Before you decide to franchise, you need to do your research. You could lose a significant amount of money if you do not investigate a business carefully before you buy. By law, franchise sellers must disclose certain information about their business to potential buyers. Make sure you get all the information you need first before entering into this form of business.

To learn more about franchising opportunities, visit [Federal Trade Commission Bureau of Consumer Protection](#). The decision to purchase a franchise involves many factors. To help you explore if franchising is right for you, consider the following questions:

- **Do you know how much you can invest?**
- **What are your abilities?**
- **What are your goals?**

Franchising Strategy

You need a strategy before investing in a franchise. Doing your homework about the franchise first will help you gain a solid understanding of what to expect as well as the risks that could be involved.

- **Be a Detective** In addition to the routine investigation that should be conducted prior to any business purchase, you should be able to contact other franchisees before deciding to invest. You can obtain a Uniform Franchise Offering Circular (UFOC), which contains vital details about the franchise's legal, financial, and personnel history, before you sign a contract.
- **Know What You are Getting Into** Before entering into any contract as a franchisee, you should make sure that you would have the right to use the franchise name and trademark, receive training and management assistance from the franchisor, use the franchisor's expertise in marketing, advertising, facility design, layouts, displays and fixtures and do

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business in an area protected from other competing franchisees.

- **Watch Out for Possible Pitfalls:** The contract between the two parties usually benefits the franchisor far more than the franchisee. The franchisee is generally subject to meeting sales quotas and is required to purchase equipment, supplies and inventory exclusively from the franchisor.
- **Seek Professional Help** The tax rules surrounding franchises are often complex, and an attorney, preferably a specialist in franchise law, should assist you to evaluate the franchise package and tax considerations. An accountant may be needed to determine the full costs of purchasing and operating the business as well as to assess the potential profit to the franchisee.

Get More Information

If you are considering purchasing a franchise, FTC's Bureau of Consumer Protection [has a wide range of resources and guides](#) to help you buy a franchise avoid franchise taboos.

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