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Q: Disclosure Documents: Why do I need to read all of this stuff?

A: No one likes homework.

However, if you're interested in a franchise, homework is the key to ensuring that a franchise business is right for you and that your investment is protected.

There are a number of provinces which have enacted laws requiring that franchisors provide documentation disclosing pretty much everything you need to know before deciding to buy a particular franchise. Other provinces are also considering enacting such legislation.

The Canadian Franchise Association also has a Code of Ethics recommending that all franchisors provide prospective franchisees with full and accurate written disclosure of all material facts and information pertaining to the franchised business in a reasonable time prior to the franchisee executing any binding agreement relating to it.

Any prospective franchisee should require that its prospective franchisor provide disclosure in accordance with provincial requirements and, if there are none, in accordance with the CFA Code of Ethics. In addition, a prospective franchisee should have the disclosure document reviewed by a franchise lawyer and a financial advisor. These advisors can help the prospective franchisee:

1. Decide whether the investment suits their circumstances and goals;
2. Point out danger signs; and
3. Identify key issues and negotiate with the franchisor to address them.

The following are a few items that most franchisees should think about and discuss with their professional advisors before buying into a system:

1. Typically, a franchisor starts out running its own unique business. After some success, the franchisor begins to think of ways to expand and franchising is often an attractive mechanism.
2. At this point, the franchisor, whether or not aware of it, is entering into a new business. The concept of a franchise system is that the franchisor will not necessarily run the business that it initially founded, but will attempt to teach others how to do so and provide them with ongoing support to ensure their success. It is critical that a franchisor understand that it is agreeing to be a teacher and coach for its franchisees and that it has the resources to do so.
3. It is a good idea to get contact information for, and to speak with existing franchisees about their experience with the franchisor and their satisfaction with the franchise system in general.
4. Obtaining a disclosure document does not in itself ensure that your investment is safe. A franchise lawyer can assist you in determining if you have obtained the information that you require and how to respond to it.
5. Your lawyer can also help you to verify the information provided in a disclosure document.

Many franchisees think that they have to accept the deal initially presented to them. A franchisee who does the right homework will be able to identify key issues and will be in a better position to negotiate with the franchisor. 🍁