

## Due Diligence for the Franchise Buyer – Beyond the UFOC – Part 1

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*This article is the first in a series discussing the due diligence process for prospective franchisees.*

A thorough review of the UFOC will leave many unanswered questions for the prospective franchisee. The due diligence process must go far beyond acceptance of the mandatory disclosures found in the UFOC. This article will attempt to provide a basic overview of one (and perhaps the most important) area of inquiry for the prospective franchisee that goes beyond the “four corners” of the UFOC, namely, the nature of the goods or services to be offered by the franchised business.

Although you may be impressed by the catchy Trade Mark or Service Mark, logo, or slick collateral marketing materials of the franchisor, you must take an objective view of the goods or services that you will sell as a franchisee. Remember, you will commit to an average initial franchise term of anywhere from 5 to 15 years, and you expect to make a profit. Much can happen within that time frame, including changes in consumer taste, buying patterns, and advances in technology, to name a few. Although the franchisor will have the right to modify the system, (and the franchisees must comply with those modifications) you can assume that the core business of the franchise will likely remain the same.

You should ask yourself, (and do the research required to answer) the following non-exhaustive list of questions:

- Would you buy the goods or services?
- Are the goods or services seasonal in nature?
- Are the goods or services a necessity or a luxury?
- Are the goods or services a fad, is there an established market?
- What is the market trend for these goods or services? Is it on the rise, or has demand already peaked?
- Is the need for the goods or services dependent on technology that is likely to change?
- Is the demand for the goods or services dependent on a particular demographic that will inherently change over the term of the franchise agreement?

You should visit several locations of the franchise and observe the décor and condition of the units, both older units and the newest “state of the art” locations. The goodwill (or lack thereof) created by those units will have a direct impact on your franchise. This will also give you some idea of the degree to which the franchisor polices its own system.

- Are the units well maintained?
- Is the unit franchised or company owned?

- What is the quality of the goods or products?
- How is the service?
- Are there different types of locations, i.e. strip centers vs. free standing?
- Who are the customers?
- Are there customers?
- What are the customers buying? What appears to be the “per ticket” purchase?

Due diligence prior to the purchase of a franchise is no less important than in the purchase of an existing business. In fact, since the franchise agreement may restrict your business activities after termination or expiration of the agreement, thorough due diligence may be more important in a franchise purchase. You should seek the help of financial professionals and legal counsel who possess specialized expertise in franchise matters.