

The IFA Just Released Guidelines to Combat an Industry-Wide Problem. Here's What it Means For Businesses.

In a nod to its growing responsible franchising initiative – and the accompanying grassroots movement in the industry – the International Franchise Association released recommendations to enhance and strengthen franchising through increased transparency on all sides of the sales process.

“Robust pre-sale disclosure is the bedrock of responsible franchising and critical in setting clear expectations at the outset of a long-term relationship between brands and franchisees,” IFA president and CEO Matthew Haller said in a statement. “These policy recommendations would modernize current disclosure requirements.”

Read the complete list of responsible franchising principles and recommendations below.

Related: Considering franchise ownership? Get started now to find your personalized list of franchises that match your lifestyle, interests and budget.

Recommendations for franchisors

A franchise disclosure document (FDD) is a legal document consisting of 23 items that franchisors must provide to prospective U.S. franchisees. The Federal Trade Commission (FTC) regulates the use of FDDs through the Franchise Rule. The FDD contains detailed information about the franchisor and

the franchise opportunity, helping prospective franchisees make informed decisions about investing in the franchise.

Despite its importance, many investors are baffled by the FDD's complexity. In fact, a recent U.S. Government Accounting Office study showed that many entrepreneurs fail to read the FDD before investing.

The IFA's FDD recommendations for franchisors include:

- Shifting to a conversational, Q&A style of disclosure
- Adding an executive summary to help compare franchise opportunities within an industry
- Replacing tables with illustrative examples and explanatory text
- Presenting information such as initial investment (Item 7), financial performance representation (Item 19), franchisee information (Item 20) and financial statements (Item 21) to better show franchise system health
- Using multimedia to modernize the presentation

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Recommendations for franchisees

Due diligence is key when making any investment, and franchising is no exception. The IFA recommends franchisees focus their pre-investment due diligence on multiple factors, including:

- Protecting their potential investment by comparing multiple brands, reading the FDD and retaining a franchise attorney
- Validating any opportunity (as well as the franchise seller presenting the franchise opportunity, as further discussed below) through interviews with existing

franchisees

- Understanding the risks of business ownership generally and the obligations they will have to suppliers, landlords and lenders

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Recommendations for third-party sellers

The IFA defines “third-party sellers” as “individuals or companies that are engaged (whether directly or indirectly) in the business of offering franchises on behalf of a franchisor.”

These sellers have various titles, including brokers, franchise brokers, broker organizations, franchise sales organizations, business coaches, advisors, franchise experts and sales consultants.

The IFA recommends that all third-party sellers disclose the following information:

- Their recent professional experience
- Their litigation history
- The services they perform on behalf of franchises – and the compensation they receive
- The industries they represent – and the number of brands they represent within each industry
- The franchisees to whom they sold franchises during the prior calendar year
- Information about the different categories of third-party franchise sellers and questions a prudent prospective franchisee would ask their third-party franchise seller

According to the IFA, franchisors, franchisees and third-party sellers must actively adhere to these principles to practice responsible franchising. Adherence to these guidelines will secure the integrity of the franchise model, ensure access to more entrepreneurs and safeguard the financial well-being of the parties involved.

“By providing more accessible information at the very beginning of the franchise sales process, we can better ensure both the franchisor and franchisee are set up for success,” said David Humphrey, Planet Fitness franchisee and past IFA chair, in a statement.

<https://www.entrepreneur.com/franchises/ifa-releases-responsible-franchising-guidelines/473799>