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FRANCHISE

Before You Buy a Franchise: 7 Questions That Separate Winners From Cautionary Tales

By Scott Tischler · July 28, 2026 · 11 min read

The most expensive decision people make on a feeling

I've watched people spend more time comparing two TVs than they spend evaluating a business that will consume the next decade of their life and most of their savings. A slick discovery day, a charismatic founder, a booth at a franchise expo — and suddenly a six-figure decision feels like destiny.

A franchise can be a genuinely great vehicle. You're buying a proven system, brand recognition, and a shortcut past a lot of the mistakes a solo founder makes. But "proven system" is doing a lot of work in that sentence, and the gap between the franchises that build real wealth and the ones that quietly bankrupt good people almost always traces back to questions the buyer never asked.

I run a company built on helping people make better-informed decisions, so I'm biased toward diligence. But you don't need to be an analyst to do this well. You need to ask seven questions and refuse to move forward until each one has an honest answer — ideally in writing, ideally from more than one source.

One disclaimer before we start, and I mean it: **I am not your financial or legal advisor.** Nothing here is investment or legal advice. Every franchise gives you a Franchise Disclosure Document (FDD), and you should review it with a franchise attorney and an accountant who read these for a living. This article is the framework I'd use to know ***what*** to have them dig into. It is not a substitute for them.

Question 1: Is there validated demand where I'd actually operate?

Why it matters. A brand can be thriving nationally and still fail on your corner. Demand is local. The franchisor's success in Texas suburbs tells you very little about your dense urban neighborhood or your rural county with a third of the foot traffic.

The trap is that the pitch is always national. Beautiful aggregate numbers, a map full of pins, a growth story. None of that is ***your*** market.

How to check. Go stand in the actual trade area you'd operate in. Count cars. Watch the competing businesses at 8am and 6pm. Talk to people who live there about whether they'd use this. Then pressure-test the demographics the franchisor claims you need — income, age, density, daytime population — against your specific site, not the national average.

Red flags: a franchisor that can't articulate the exact customer profile that makes a unit work, that waves off local competition, or that seems more interested in selling you a territory than in whether the territory can support the business.

Question 2: Do the unit economics actually work — after everything?

Why it matters. This is the question that separates winners from cautionary tales more than any other. A business can have strong revenue and still lose money every month once you subtract rent, labor, cost of goods, royalties, marketing fund contributions, insurance, and debt service. "Busy" and "profitable" are different words for a reason.

Royalties and mandatory marketing contributions are the part people underestimate. They come off the top, off gross revenue, whether or not you had a good month.

How to check. Build a simple bottom-up model for a single unit. Start with a realistic revenue estimate for ***your*** market (not the best-performing units). Subtract every cost line you can identify. Explicitly subtract royalty and ad-fund percentages. Then subtract a market-rate salary for yourself if you'll work in the business, and debt service if you're borrowing. What's left is the real answer.

Do it three times: a conservative case, a middle case, and an optimistic case. If only the optimistic case survives, you don't have a business — you have a hope.

Red flags: anyone who tells you costs "vary too much to estimate" while happily estimating your revenue. Costs and revenue are equally knowable. Selective vagueness is a tell.

Question 3: What does the franchisor actually do for me after I sign?

Why it matters. You're not just buying a logo. You're buying ongoing support — training, supply chain, marketing systems, operational guidance, help when a unit is struggling. The value of the royalty you pay forever is entirely in whether that support is real. Some franchisors are true partners. Some collect the check and disappear the day your training ends.

How to check. Ask specifically: What does onboarding look like? Who do I call when something breaks? How many field support staff exist per franchisee? What happens when a location underperforms — do you intervene, or do I fail alone? Then go verify the answers with people who've lived them.

Which brings me to the single most valuable diligence step in this entire article.

Question 4: What do current AND former franchisees actually say?

Why it matters. The FDD is legally required to list franchisees — including those who left the system. Current franchisees will tell you what it's like to operate. ***Former*** franchisees will tell you why it didn't work. You need both, and the second group is the one franchisors would rather you skip.

How to check. Call a healthy sample, not the two "reference" franchisees the franchisor hands you (those are pre-selected to say nice things). Call ten. Call the ones who left. Ask concrete questions: Did your real costs match what you were shown? How long until you were cash-flow positive? Would you do it again? What surprised you? Where does the franchisor actually help versus just collect?

Red flags: a high number of transfers or closures in the FDD's turnover tables. A franchisor that discourages you from talking to specific franchisees, or that has an unusual amount of litigation ***with its own franchisees.*** Systems at war with their operators are telling you exactly what your future relationship looks like.

Question 5: What am I really being sold on the territory?

Why it matters. "Protected territory" can mean almost anything or almost nothing. Some grants give you genuine exclusivity. Others let the franchisor sell online into your area, open a second unit nearby once you've proven the market, or define "territory" so loosely it protects nothing. Territory also cuts both ways: too small and you can't grow; carved up badly and you're cannibalized by the brand itself.

How to check. Read the exact territory language in the franchise agreement — the ***words***, not the salesperson's summary. Does exclusivity cover online and delivery orders originating in your area? Can they place a new unit at the edge of your zone? What are your rights if they do? What happens to your territory if you want to sell the business later?

Red flags: vague territory definitions, reserved rights that let the franchisor compete with you through other channels, and any reluctance to put territorial promises in writing. If it's not in the agreement, it doesn't exist — no matter how sincerely it was said over coffee.

Question 6: Do I have enough capital — including working capital I haven't planned for?

Why it matters. More franchises die of undercapitalization than of a bad concept. The initial investment number in the brochure is the cost to ***open the doors.*** It is not the cost to survive the months before the business supports itself. New units almost always lose money before they make money, and the operator has to fund that gap — payroll, rent, inventory, and their own living expenses — out of reserves.

Running out of cash three months before you would have turned the corner is the most heartbreaking way to fail, and it's common.

How to check. The FDD's Item 7 gives a range for initial investment and usually includes a line for working capital — but treat that line as a floor, not a ceiling. Ask franchisees the question that actually matters: ***How many months until you were cash-flow positive, and how much did you burn getting there?*** Then make sure you have enough runway to survive well past that, plus a cushion for the surprise that always comes.

Red flags: thin or hand-wavy working-capital guidance, pressure to move fast before you've verified your reserves, and any framing that treats the opening cost as the whole cost.

Question 7: The FDD and Item 19 reality — what am I allowed to know, and what am I choosing to believe?

Why it matters. The FDD is the most honest document you'll get, and most buyers skim it. It contains the franchisor's litigation history, bankruptcy history, fees, obligations, turnover data, and — critically — **Item 19, the Financial Performance Representations.**

Here's the reality about Item 19: franchisors are ***not required to make one.*** If a franchisor provides no Item 19, that itself is information — it means they've chosen not to disclose performance figures under the rules that would govern such a claim. And when an Item 19 ***is*** provided, you have to read exactly what it measures. "Average unit revenue" is not profit. An average that includes the flagship locations can be dragged upward by a handful of stars while the median operator does far worse. Averages hide the distribution, and the distribution is where you actually live.

How to check. Read the entire FDD — all 23 items — with a franchise attorney. Have your accountant model the economics from Item 7 and any Item 19 figures. For Item 19 specifically: Is it revenue or profit? What's the sample — all units or a cherry-picked top tier? Is there a median alongside the average? What percentage of units ***achieved*** the stated figure?

Red flags: significant litigation patterns, a churn of executives, frequent system-wide changes to fees, and Item 19 figures that don't reconcile with what actual franchisees tell you on the phone. When the document and the operators disagree, believe the operators.

The question underneath all the others: founder-market fit

You can nail all seven and still choose wrong if the business isn't a fit for ***you.*** Franchises don't run themselves; the "passive investment" version is mostly a myth for the first few years. If the day-to-day work is managing hourly staff at 6am, and you hate managing hourly staff at 6am, no unit economics will save you.

Be honest about the life the business requires versus the life you want. The winners I've seen tend to genuinely like the actual work — or they've built a realistic plan and reserve to hire someone who does. The cautionary tales bought a spreadsheet and inherited a job they resented.

This kind of structured, unemotional evaluation is exactly the philosophy behind our own model at AIrecommend.ai — and our own franchise opportunity is built to be evaluated with the same seven questions above. Hold everyone to that standard, including us.

The bottom line

A good franchise decision is boring on purpose. It's phone calls to strangers, a spreadsheet you built three ways, an attorney reading fine print, and the discipline to walk away when the numbers only work in the optimistic case. The excitement should come ***after*** the diligence, not instead of it.

Ask the seven questions. Insist on real answers. And remember that the franchisor's job is to sell franchises — protecting your capital is your job, and now you know how to do it.

Key takeaways

- Demand is local: validate your specific site, not the national average, before anything else.
- Model unit economics three ways (conservative, middle, optimistic) and subtract everything — royalties, ad fund, your salary, debt service. If only the optimistic case survives, walk.
- Call current *and former* franchisees from the FDD — not the two hand-picked references. The people who left tell you the most.
- Undercapitalization kills more franchises than bad concepts; budget working capital and runway well past the point franchisees say they turned cash-flow positive.
- Read the whole FDD with professionals; scrutinize Item 19 for median vs. average and sample — and treat no Item 19 as information, not reassurance.
- Founder-market fit is the silent decider: buy work you can actually stand doing, or fund someone who can.

Frequently asked questions

What's the single most important document to review before buying a franchise?

The Franchise Disclosure Document (FDD). It contains the franchisor's litigation and bankruptcy history, all fees and obligations, franchisee turnover data, the current and former franchisee list, and any financial performance figures in Item 19. Read all 23 items with a franchise attorney and an accountant — do not skim it.

What is Item 19 and why does it matter so much?

Item 19 is the Financial Performance Representations section of the FDD, where a franchisor may disclose figures like average unit revenue. It's optional. When present, read exactly what it measures: revenue is not profit, and an average can be inflated by a few top units. Look for a median and the percentage of units that actually achieved the figure, and reconcile it against what real franchisees tell you.

How much money should I have beyond the initial investment?

More than the brochure suggests. The initial investment (FDD Item 7) covers opening the doors, not surviving the ramp. New units typically lose money before they're profitable, so you need working capital plus a cushion to cover operating costs and your own living expenses well past the point current franchisees say they became cash-flow positive.

About the author. Scott Tischler is the Founder & Chairman of AIrecommend.ai and a practitioner-authority on AI search and Answer Engine Optimization. With 20+ years in marketing technology — including American Express, MetLife, and UBS — and executive study at Wharton, Harvard, Yale, and Oxford, he helps businesses become the ones AI recommends.