



AUSTRALIAN COMPETITION
& CONSUMER COMMISSION

Quick guide to a franchise disclosure document

November 2021

What is a disclosure document?

In franchising, a franchisor must tell you some key things about the franchise system before you buy. They must tell you these things even if it causes you to change your mind and not buy the franchise. Some of this information will be in the **disclosure document** given to you by the franchisor.

You will also receive a key facts sheet with your disclosure document. The purpose of the key facts sheet is to draw your attention to some critical information in the disclosure document. It is not enough to just read the key facts sheet on its own – you still need to read your disclosure document.

When do I get one?

You must receive the disclosure document at least 14 days before you enter into a franchise agreement or make a non-refundable payment. At the same time, the franchisor should also provide you with a copy of the key facts sheet.

If a franchisor is rushing you too much or you receive important information at the last minute, stop and reconsider whether you should be buying the franchise.

The disclosure document must also come with a copy of a franchise agreement in final form (i.e. ready to sign) and a copy of the Franchising Code. If relevant, you should also receive leasing and earnings information and, if they are available, other agreements that the franchisor requires that you enter into.

All of this material must be provided at least 14 days before you enter into the franchise agreement.

If an existing franchisee is proposing to transfer their agreement to you, the franchisor must give you the pre-entry documentation (including a copy of their franchise agreement, and any transfer documents you're being asked to sign) at least 14 days before the franchisor approves the transfer.

Who can I show it to?

You should take these documents to a professional who specialises in giving advice to franchisees, such as a lawyer, accountant and business advisor who is independent from the franchisor and has franchising experience. You need an expert to help you identify risks, and guide you through those risks.

About this guide

If you find the disclosure document long and confusing, you are not alone. This guide can help you read and understand your disclosure document.

It contains questions you should ask yourself when considering buying a franchise. It guides you to information in your disclosure document to help you work out the answers to these questions.

This guide also helps you identify warning signs. Buying a franchise can be a serious investment – you may risk losing your house or other assets that you borrowed against. You will need to take any warning signs seriously, as they may be a good indicator of why you should not buy the franchise.

This guide does not cover everything. It is important to read and understand all parts of your disclosure document.

Remember to do your independent research and seek professional advice to decide whether the franchise or franchising is for you.

The material in this guide is not and should not be regarded as legal advice. Readers should seek their own legal advice where appropriate.

What you need to know	Where to find it in your disclosure document	How to use this information
Franchise history How long has the franchise been operating? How much experience do the people who manage the franchise have?	Items 2 and 3 tell you: <ul style="list-style-type: none">■ how much experience the franchisor and its officers have■ about other companies and people and their relationship with the franchise system. Item 4 tells you: <ul style="list-style-type: none">■ how many franchisees were in a dispute with the franchisor.	Search the business and the people running it. A great start is a simple online search. Check what other businesses the franchisor officers have been involved in. Talk to other franchisees if you notice that many of them have been, or are, in a dispute with the franchisor. They may not be able to discuss their dispute with you, but they may be able to give you valuable insights into how the franchise system operates and how well it is managed. Warning signs <ul style="list-style-type: none">■ There are gaps in work history.■ The franchisor has little experience in running a franchise business.■ There is a high level of disputes in the franchise system.
Litigation Do the franchisors and directors have a history of not complying with the law or being in financial distress?	Item 4 alerts you: <ul style="list-style-type: none">■ if the franchisor and its directors have been involved in legal proceedings and whether they were insolvent, bankrupt or even convicted of a crime.	Check this information — it may be online. You should ask your lawyer to check the information carefully. Warning signs <ul style="list-style-type: none">■ The franchisor is in legal proceedings against franchisees.■ The franchisor or its directors have gone bust.■ The franchisor was, or is, in legal trouble but doesn't say so.
Former franchisees Why did someone decide to leave the business?	Item 6 gives you: <ul style="list-style-type: none">■ the contact details for franchisees who are no longer in the franchise and the reasons they left.	Ask these ex-franchisees questions such as how long they were in the business, why they left and what advice they would give. Keep a written copy of what you've talked about and bring any new questions you might have about the business to the franchisor. Warning signs <ul style="list-style-type: none">■ They don't want to talk, or have been told not to talk.■ The franchisor doesn't provide contact details – such as personal emails and mobile phone numbers – so you can easily get in touch with former franchisees.

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<p>Goods and services</p> <p>Where can you purchase goods and services to set up and run the business?</p>	<p>Item 10 tells you:</p> <ul style="list-style-type: none"> ■ if you can buy goods and services to run your franchise from anywhere, or if the franchisor nominates a business you have to buy from ■ about the financial benefit (rebates) the franchisor gets from these supply arrangements. 	<p>Be sure to talk to current franchisees about any supply restrictions to find out how they work in practice.</p> <p>Rebates from nominated suppliers can be significant. Consider who is benefiting from these rebates – is it just the franchisor or do franchisees share in them?</p> <p>Ask the franchisor and other franchisees questions to understand how the rebates the franchisor receives affect your bottom line.</p> <p>Warning signs</p> <ul style="list-style-type: none"> ■ You have to buy supplies from a certain business, but you can't work out what you have to buy from them. ■ You can buy the same services or products much more cheaply elsewhere. ■ You can't understand which suppliers are paying rebates, the nature of these rebates and whether franchisees benefit from the rebates.
<p>Sites or territories</p> <p>Where can you run the business?</p> <p>Who ran a business there before you?</p> <p>Does the franchisor have an interest in your lease?</p>	<p>Item 13 tells you:</p> <ul style="list-style-type: none"> ■ if your franchise is in a new site or territory, or an existing one ■ about other franchises that have operated in the past 10 years in the site or territory you're thinking of buying in and why they stopped operating ■ whether the franchisor or their associate has an interest in a lease for a premises used in your franchised business. 	<p>If it's an existing site or territory, contact the previous owners and ask them why they left.</p> <p>If their details haven't been provided, ask the franchisor for them.</p> <p>Carefully read and understand any information that you receive from the franchisor about your lease or occupancy. Make sure that the terms are acceptable to you.</p> <p>Warning signs</p> <ul style="list-style-type: none"> ■ You can't easily talk to former franchisees, or the franchisor says you shouldn't talk to them. ■ The franchisor doesn't provide a site or territory history with the disclosure document.

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<p>Payments and costs</p> <p>How much does it cost?</p> <p>Can you afford it?</p> <p>Can you make a living?</p>	<p>Item 14 tells you:</p> <ul style="list-style-type: none"> ■ the costs to start up and run the business ■ details about any capital expenses that are disclosed such as their timing and nature, and the reason and justification of these expenses. <p>Item 20 tells you:</p> <ul style="list-style-type: none"> ■ about historical or possible future earnings for a franchise. 	<p>The franchisor has to discuss with you any significant costs (significant capital expenditure) listed in your disclosure document. This is an opportunity for you to ask questions about large expenses that you will be paying for, such as new branding or refurbishment requirements. While a franchisor must not require you to undertake any significant capital expenditure, there are instances where a franchisor can require you to incur such expenses including where it is considered necessary to comply with the law, where the majority of franchisees approve the spending or where it was disclosed in the disclosure document before signing.</p> <p>Ask questions and speak to other franchisees to understand the costs of running the day-to-day business. Also ask if they were required to pay unexpected significant one-off costs and the circumstances of those payments. Seek expert advice from an accountant and business advisor, and ask them if you'll make money after expenses.</p> <p>If you'll work for the franchise, see if you can afford to pay yourself a wage.</p> <p>Warning signs</p> <ul style="list-style-type: none"> ■ No amounts are listed for wages, rent or inventory. ■ You can't work out the costs of setting up and running the business. ■ You're told how much money you can make from the business by the franchisor, but they can't back it up with reliable evidence. ■ The franchisor doesn't discuss significant capital expenditure that is listed in the disclosure document with you or tells you not to record your discussions in a file note.

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<p>Marketing</p> <p>How much does marketing cost?</p>	<p>Item 15 tells you:</p> <ul style="list-style-type: none"> ■ if there's a 'marketing fund' and what it's used for. <p>Note: Not all franchise systems have a marketing fund.</p>	<p>Ask to see a recent marketing fund statement.</p> <p>Check whether money is being spent on marketing activities.</p> <p>Consider whether the marketing fund statement gives you enough detail to understand how marketing activities are funded, and how the funds are spent. Think about how your business will and will not benefit from these marketing activities.</p> <p>Warning signs</p> <ul style="list-style-type: none"> ■ The franchisor businesses don't contribute to the fund on the same basis as other franchisees. ■ It isn't clear from this statement exactly what marketing was done. ■ If the franchisor doesn't spend the fees to directly benefit your specific business and you are not okay with this, consider whether this franchise is right for you.
<p>End of agreement</p> <p>What happens when the agreement is finished?</p>	<p>Item 18 tells you:</p> <ul style="list-style-type: none"> ■ the term of your agreement ■ what happens after the franchise agreement ends ■ whether you have an option to renew or enter into an agreement for a further term ■ whether you can extend your franchise agreement ■ whether you can sell your franchise business after the agreement ends ■ whether you have any rights to goodwill ■ whether the agreement imposes any restraint of trade terms on you. 	<p>Check if you can meet any pre-conditions for a further term.</p> <p>Make a plan for what you want after the term ends and create an exit plan. Take into account how any restraint of trade conditions might affect these plans.</p> <p>Warning signs</p> <ul style="list-style-type: none"> ■ The pre-conditions for a further term are vague. For example, it's unclear whether you must spend a lot of money to renovate the business in order to get another term. ■ Terms that limit where or how you can work after your agreement ends are unreasonable. They might try to limit the geographical area where you can work, and for a long time.
<p>Franchisor financial details</p> <p>What is the franchisor's financial situation?</p>	<p>Item 21 includes:</p> <ul style="list-style-type: none"> ■ a statement and reports that tell you about the financial stability of the business. 	<p>Show any financial statements to your accountant or business advisor.</p> <p>Warning signs</p> <ul style="list-style-type: none"> ■ You aren't provided with a financial report. ■ The report shows the business is struggling.
<p>Dispute resolution</p>	<p>Item 17A tells you:</p> <ul style="list-style-type: none"> ■ whether your agreement says that you can resolve your disputes by arbitration. 	<p>Arbitration is voluntary and requires agreement of both the franchisor and franchisee in writing to resolve a dispute this way.</p> <p>Warning signs</p> <ul style="list-style-type: none"> ■ You prefer to have the option of binding arbitration in the event of a dispute, but the franchisor does not agree to it.

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Terminating your agreement	<p>Item 17B tells you:</p> <ul style="list-style-type: none"> ■ when you can terminate your agreement before it ends ■ when the franchisor can terminate your agreement before it ends. 	<p>Consider whether it is acceptable to you if you don't have any right to terminate your agreement (other than in the 'cooling off' period), but the franchisor can terminate for a number of reasons.</p> <p>Consider what will happen if the franchisor decides to terminate in any of these circumstances. You need to be prepared if your franchise agreement ends before its term expires.</p> <p>Warning signs</p> <p>The franchise agreement contains many reasons for which your agreement can be terminated, including for minor breaches of your agreement. This increases the risk that your agreement can be terminated early.</p>
Earnings information	<p>If the franchisor has given you any earnings information before you commit to buying a franchise, at item 20 you will find:</p> <ul style="list-style-type: none"> ■ a statement about the accuracy of any earnings information that you were given. 	<p>Show the earnings information that you received with the disclosure document to a business advisor and/or accountant. They will help you understand if it is reliable and whether it is actually useful information for assessing the viability of the business that you are buying.</p> <p>Do not only rely on any earnings information given to you by a franchisor. You should do your own research and due diligence on the financial viability of the franchised business you are considering buying.</p> <p>Warning signs</p> <p>The earnings information provided by the franchisor is based on data that is outdated or based on assumptions that aren't relevant to your business (e.g. the information is for a city-based location, but you are buying a business in a regional location).</p> <p>The earnings information you receive is not accompanied by a statement that, to the best of the franchisor's knowledge, the earnings information is accurate other than particular information that they know it is not accurate and have specified in the document.</p>

What next?

As well as your disclosure document and the related key facts sheet, you should also read and understand your franchise agreement, lease/occupancy agreement and other documents from the franchisor.

You might be told something by a franchisor that makes you more likely to buy the franchise, but be wary of accepting claims without doing your own research. Ask the franchisor on what basis they're making the statement or claim, and get it all in writing.

More information

Buying a franchise? Know the risks website:

www.accc.gov.au/update/buying-a-franchise

Our free online franchising education program.

It will help you to understand what is involved with franchising. You can access the program at www.accc.gov.au/ccaeducation.

Subscribe to our dedicated franchising email alert network at: www.accc.gov.au/fin.

General information is [available online](#) from the ACCC website and from [State based Small Business commissioners and the ASBEFO](#).

ACCC small business helpline: 1300 302 502