

Washington DFI Warns Potential Franchise Investors

Local News

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Olympia — The Washington State Department of Financial Institutions (DFI) is encouraging Washington residents contemplating participation in a franchise agreement to make sure they have fully researched the proposal — and clearly understand the risks involved — before finalizing any agreements. The uncertainty of today's job market may encourage would-be entrepreneurs to take their futures in their own hands by opening a small business. Investing in an established franchise can be an attractive path to becoming your own boss, but DFI cautions investors to be mindful of the risks and the realities of franchising. "If you're thinking of investing in a franchise, you should educate yourself before you buy in," DFI Director of Securities Bill Beatty warns. DFI has issued an advisory for potential franchisees to alert them to important considerations before investing in a franchise.

<http://dfi.wa.gov/consumers/pdf/franchise-advisory.pdf>

"The first step before investing your money in any security or business venture is to do your homework," Beatty advises. "For franchise investors, this means, at a minimum, reviewing the franchise disclosure document and getting in touch with current and former franchisees. You should be very skeptical if earnings for existing franchises are not disclosed and if experienced franchisees are unhappy or unreachable." Washington DFI also encourages franchise investors to retain legal counsel to help them understand the terms and conditions of their franchise agreement, which is drafted by the franchisor's attorney and almost always gives the franchisor the advantage. Potential pitfalls for franchisees include no automatic right to renew the franchise after an initial term, liability for "future royalties" should the franchisee terminate the agreement early, and requirements that disputes with the franchisor be resolved in the state where the franchisor is located, which may be inconvenient and expensive. "If the franchisor makes any verbal promises or guarantees, make sure you get those in writing, too," Beatty adds. "Even if you have researched the franchisor and spoken with a number of successful franchisees, you need to protect yourself should your venture not take off as planned." Several states, including Washington, regulate the sale of franchises to provide greater protections to prospective franchisees and prevent fraud in the sale of franchise offerings. Beatty recommends that prospective investors contact the DFI to make sure the franchisor is registered and has not been the subject of franchisee complaints.

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