

## Tips for Maximizing the Franchise “Discovery Day” Experience

By: Eric C. Perkins, Esq.<sup>1</sup>

For a prospective franchisee, “discovery day” is often the critical moment when the ultimate decision is made to enter into a franchise relationship. Both franchisor and prospect evaluate each other during a full day (sometimes longer) of meetings, interviews, meet-and-greets, office tours, and other activities.

Most franchise systems conduct discovery day events in a very structured manner. These programs usually take place at the franchisor’s headquarters and, whenever possible, are scheduled to accommodate a group of prospects. Prospects should expect to pay their own travel and lodging expenses---this is just one of many ways a franchisor tests a prospect’s level of commitment to the system and desire to become a franchisee.

Candidates should also understand that the discovery day experience is meant to be an interactive process in which the parties learn about one another and assess whether a long term business relationship (most franchise agreements have initial terms of at least ten years, not to mention renewal options) makes sense. As franchising insiders like to say, franchises are not “bought,” they are “awarded.”

For both franchisors and prospective franchisees, the stakes are very high given the long term nature of the franchise relationship and the considerable investment of money and resources that go into recruiting and cultivating franchise relationships. Accordingly, candidates should approach the discovery day experience in a businesslike fashion. The following tips may help prospects maximize the value their discovery day experience.

1. Do Your Homework on the Franchisor. Be sure to have studied the Franchise Disclosure Document (“FDD”) and have a list of follow-up questions ready. Discovery day usually presents a great opportunity to meet face-to-face with senior executives of the franchisor, so do not squander the opportunity by not being familiar with the bios of senior management or by not having any pertinent questions to ask.

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2. What to Ask? Prospects should ask questions that demonstrate their genuine interest in becoming a franchisee of the system. Ask about:

- the franchisor's immediate growth plans (organic growth through franchising or strategic growth through mergers and acquisitions);
- the franchisor's national and regional marketing plans (e.g., how advertising royalties have historically been spent);
- any existing franchisee associations and how they interact with the franchisor;
- the franchisor's typical methods of communicating with its franchisees (conference calls, site visits, extranet, meetings, workshops, etc.);
- the franchisor's philosophy of dealing with underperforming franchisees;
- the franchisor's long term strategic goals (e.g., where will the franchise system be in five years); and
- the franchisor's assessment of its competition and what it perceives its competitive advantages to be over the competition.

3. Assess the Corporate Culture of the Franchisor. Try to assess the culture of the franchisor as reflected by its leaders and employees. Ask yourself whether you believe these are people of integrity, whether they seem organized and competent at what they do, and whether you would enjoy working with them for years to come. Try to get a sense of their commitment to franchising in general and their franchise system in particular.

4. Have Your Own Ducks in a Row Before You Go. Before attending a discovery day event, try to have completed at least a draft business plan (including a pro forma budget) that incorporates relevant information gleaned from the FDD and be able to demonstrate the manner in which you are prepared to finance the initial fees and start-up costs of this franchised business (if you are awarded one). Have your attorney and accountant in place and up-to-speed on what you are

planning—ideally they will have already provided their feedback on the FDD and your initial plans before you arrive at discovery day. It is not unheard of for franchisors to conclude their discovery day programs at the closing table with the parties executing a franchise agreement.

Under no circumstances should you succumb to salesmanship or an emotional urge to sign a franchise agreement before you are ready. A franchise agreement is possibly the most important contract you will ever sign, so the more you can approach the process in a businesslike fashion, the more informed your decisions will be and the greater your chances of long term success. Bon voyage.