

FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and Business Education

Buying a Janitorial Services Franchise: Making a Clean Sweep

Washington, D.C. — So you want to be your own boss, but you have only a small amount of money to invest. You may be considering a janitorial services franchise. For a fee, a janitorial service company typically provides you with customers and marketing, billing and collection services.

In a typical janitorial cleaning franchise arrangement, you pay the franchisor a fee for a “package” of cleaning accounts. The fee usually is about half the gross income the accounts are supposed to generate in a year. For example, for a fee of \$10,000, you’ll get accounts worth \$20,000. You also may have to pay ongoing royalty or management fees.

By law, a franchisor must give you a detailed disclosure document. *It is different from the franchise agreement or contract.* The disclosure document outlines the general franchise offering, including background information about the franchisor, a summary of the franchise agreement, and a list of current franchisees. The franchise agreement or contract is the written document that spells out the legally binding obligations between you and the franchisor.

The disclosure document should include:

- the total number of franchises, and the number of franchises that were terminated or not renewed during the past year;
- evidence for any claims about potential earnings or the earnings of existing franchisees;
- the cost of starting and maintaining the business;
- the names, addresses and telephone numbers of at least 10 franchisees who live closest to you;
- the background and experience of the franchisor’s key executives;
- a fully audited financial statement of the franchisor;
- any lawsuits against the franchisor or its directors by franchisees; and
- the responsibilities you and the franchisor have to each other once you’ve purchased the franchise.

You should receive the disclosure document at least 10 business days *before* you pay any money or legally commit yourself to buying a franchise.

Buying a franchise is a big decision. Before you spend your money:

- *Read the company’s disclosure document.* Review it carefully to learn more about your obligations, the litigation history of the franchisor and failure rates.
- *Talk to other franchisees.* Don’t rely only on the information the franchisor gives you. Talk to current and former franchisees about their experiences with the franchisor.
- *Contact your state franchise administrator.* You can find the name of your state franchise administrator by calling the North American Securities Administrators Association at (202) 737-0900 or by visiting www.nasaa.org. You also may contact your state Attorney General (www.naag.org) or Better Business Bureau for more information.

- *Get all promises in writing.* If a salesperson tells you that the franchisor will give you accounts near your home, but the written agreement defines the geographic area more broadly, it's what's in the written agreement that counts. If a provision in the agreement is different from anything you discussed with the salesperson, demand that the written agreement be changed to match the promises made.
- *Review the franchise agreement carefully.* It's important to understand all the conditions of the agreement. It controls your relationship with the franchisor.
- *Understand your obligations.* As a franchisee, you may have to pay royalties and other fees. Find out exactly what fees you'll have to pay, how much you'll pay and how often.
- *Investigate claims about potential earnings.* The estimated value of the package of accounts you buy may not reflect the income you'll earn from servicing the accounts. Find out how the company assigns a value to the accounts. Ask how many franchisees made the represented income and where those franchisees are located.
- *Be cautious when financing.* While financing your purchase through the franchisor may seem appealing, the terms of the financing agreement may not be the best deal for you.
- *Consider getting professional advice.* Ask a lawyer, accountant or business advisor to review both the disclosure document and franchise agreement. The money and time you spend on professional help may save you from a bad investment.

For more information, call the FTC toll-free, 1-877-FTC-HELP, and ask for the publication, *Buying a Janitorial Services Franchise*.

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint, or to get free information on any of 150 consumer topics, call toll-free, 1-877-FTC-HELP (1-877-382-4357), or use the complaint form at www.ftc.gov. The FTC enters Internet, telemarketing, identity theft and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.