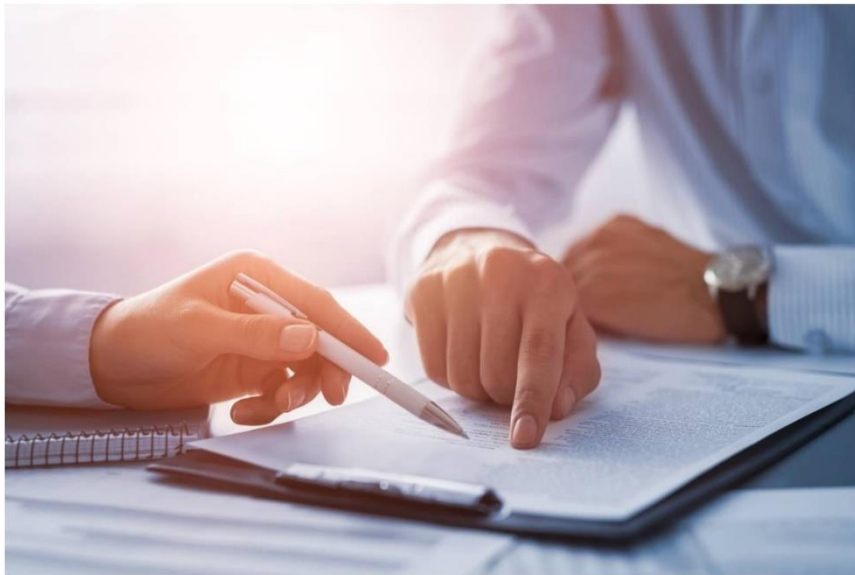




Franchise Disclosure Documents Can Be Baffling

New Study Finds That The Paperwork Takes More Than 20 Years Of Education, On Average, To Understand...

But, [Francap Corporation's](#) Legal Staff (Who [“Wrote The Book”](#) On Franchising) Knows How To “Keep It Simple, As Well As Succinctly Durable!”



An April 30, 2018 WSJ Editorialization

People looking to buy a franchise may need to get themselves a translator.

New research finds that on average it takes more than 20 years of education to understand a U.S. franchise disclosure document on first reading. Not only is the language complex and the sentences long, the study found, the median length of the documents themselves is 229 pages.

This makes scoping out potential pitfalls tough for would-be franchisees, who

Typically, would-be franchisees are community-college graduates with 14 years of schooling. PHOTO: ISTOCKPHOTO/GETTY IMAGES

typically are community-college graduates with 14 years of schooling, according to co-authors Uri Benoliel, a law professor at the College of Law and Business in Ramat Gan, Israel, and Xu “Vivian” Zheng, a marketing professor at the City University of Hong Kong’s College of Business.

Spell it out

Under Federal Trade Commission rules, franchisers such as restaurant chains must disclose information to their potential franchisees about management and franchise terms. And these disclosure documents are supposed to “present all material facts accurately, clearly, concisely, and legibly in plain English.”

To see how well franchisers were abiding by those conditions, Professors Benoliel and Zheng obtained electronic copies of 523 disclosure documents filed in Wisconsin, which the state makes available online.

To make the project manageable, the researchers limited their examination to a section of the documents regarding territorial rights. Then they ran those passages through an electronic text editor, scrutinizing them using a widely accepted standard for readability.

The result: On average, someone would need an education level of 20.36 years to understand the text. In addition, the study found that in 80% of the disclosure documents, the average sentence was longer than 25 words. The [study](#), which is scheduled to be published in the Alabama Law Review in November, cited a 154-word sentence in one sample document as an egregious example.

Lack of expertise?

Prof. Benoiel argues that franchisers may be trying to hide unfavorable terms with difficult language. But he also says that smaller and younger franchisers—which were more likely to produce hard-to-read documents—may be producing tough-to-read documents due to lack of expertise.

Omri Ben-Shahar, a law professor at the University of Chicago who writes about disclosure, says the study confirms “mountains of evidence” that many types of disclosure documents are unreadable.

What Does That Mean, Exactly?

A look at the readability of franchise disclosure documents, as measured by the Gunning Fog readability index. A higher value means less readability. So, a franchiser that's five years old with 100 outlets and creates a document 350 pages long will produce an index of 21.

Franchiser Age (Years)	Franchiser Size (Outlets)	Length Of Document (Pages)	Readability Index
5	100	350	21.0
20	500	250	20.4
40	1,500	200	19.9
60	5,000	150	19.2
80	10,000	100	18.3

Sources: Uri Benoiel of the College of Law and Business in Ramat Gan and Xu “Vivian” Zheng of the City University of Hong Kong’s College of Business

A bigger problem, Prof. Ben-Shahar says, is that disclosures, even simple ones, are “mostly ignored; if noticed, unread; if read, misunderstood; if understood, unused; and if used, often in the wrong way.”

The FTC declined to comment on the research. Matt Haller, senior vice president of government relations and public affairs at the International Franchise Association, says: “Buying a franchise can be an investment in your future. But with any major decision, there are complexities to running a business, and we advise all prospective owners to do their due diligence and investigate all avenues before owning a franchise.”

He adds that disclosure documents “have become more readable and new requirements have been issued to improve disclosure, but a more informed franchisee that has engaged counsel to help understand the franchise agreements and all related commitments will help avoid complications.”

Prof. Benoiel says the impact of unclear documents can be huge, leading prospective franchise owners to take on burdens they don’t understand. The same may hold true for other industries where disclosure documents are important, such as financial services, he says.

He argues that the findings should prompt regulators to issue stronger guidelines about making documents understandable. In addition, he says, since the study shows that the papers from “smaller and younger franchisers tend to be less readable, enforcement authorities should put more effort into monitoring the disclosures issued by such franchisers.”

No lack of expertise!

Big Impact: [FranCap Corporation’s Business Model](#) Has Re-Invented The Franchisor/Franchisee Relationship.

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