

GAO Highlights

Highlights of [GAO-23-105338](#), a report to the Ranking Member of the Subcommittee on Innovation, Data, and Commerce, Committee on Energy and Commerce, House of Representatives

Why GAO Did This Study

Franchising enables prospective owners to purchase the right to operate a branch of a branded business. Franchise owners pay a fee to the franchisor, and in return receive the right to use the franchisor's name and to operate using its business model for a specified number of years. Section 5 of the FTC Act, which prohibits unfair or deceptive acts or practices in or affecting commerce, and the Franchise Rule provide FTC with authority to oversee certain aspects of franchising.

GAO was asked to review FTC's oversight of franchising. This report examines (1) challenges franchise owners reported facing in operating franchises and FTC's efforts to educate prospective franchise owners and (2) how FTC oversees franchising.

GAO reviewed laws and regulations related to franchising and FTC data and documentation on franchise-related complaints and investigations. GAO conducted nine discussion groups with 44 franchise owners, selected to represent a variety of industry types. GAO also interviewed FTC officials and 25 franchising stakeholders (attorneys, trade association representatives, and franchisors).

What GAO Recommends

GAO recommends that FTC take steps to (1) enhance its consumer education efforts for prospective franchise owners, (2) increase publicity of its guide for franchise owners, and (3) improve franchise owners' awareness and understanding of FTC's complaint process. FTC agreed with GAO's recommendations.

View [GAO-23-105338](#). For more information, contact Alicia Puente Cackley at (202) 512-8678 or CackleyA@gao.gov.

April 2023

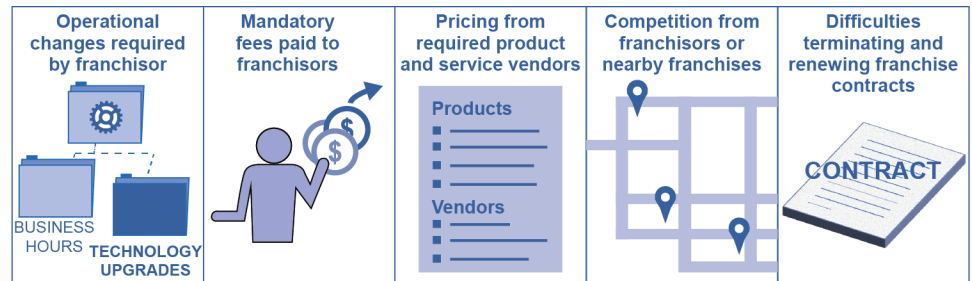
FEDERAL TRADE COMMISSION

Actions Needed to Improve Education Efforts and Awareness of Complaint Process for Franchise Owners

What GAO Found

Franchising is a popular type of business arrangement in the U.S. that can offer benefits to individuals interested in owning their own business. Franchise owners and stakeholders that GAO interviewed described risks and challenges faced after purchasing a franchise (see figure).

Risks and Challenges Franchise Owners Can Face In Operating a Franchise



Source: GAO analysis of interviews with franchisees and stakeholders. | GAO-23-105338

The Federal Trade Commission's (FTC) Franchise Rule requires franchisors to disclose in writing certain information to prospective franchise owners to allow them to compare the risks and benefits of purchasing a franchise. FTC also publishes a guide for prospective franchise owners that highlights challenges they may face and key aspects of the disclosure. However, according to some stakeholders GAO interviewed, prospective franchise owners do not always fully read the disclosure, even though it contains information essential for decision-making. In addition, participants in eight of GAO's nine discussion groups with franchise owners said they were generally unaware of FTC's guide. By enhancing its efforts to educate prospective franchise owners on the importance of the disclosure document and more broadly publicizing its guide, FTC could improve prospective franchise owners' ability to make informed decisions.

FTC uses consumer complaints to inform its oversight and enforcement activities, but franchise owners' concerns may be underreported. GAO's analysis of FTC's complaint data showed that from 2018 through 2022, there were about 5,900 franchise-related complaints, representing less than 1 percent of all complaints received. However, the number of complaints may not fully reflect the extent of problems experienced by franchise owners. For example, while franchise owners in all of GAO's discussion groups identified concerns about franchisors' practices, participants in eight of the nine groups said they had never filed a complaint with FTC because they were not aware they could do so. Stakeholders gave additional reasons why franchise owners may not file complaints with FTC. For example, they said franchise owners may fear violating the terms of their contracts by speaking out against their franchisors. FTC has modified its complaint system to make it easier for franchise owners to navigate. However, without additional efforts to increase outreach and education to the franchise community and work with stakeholders to improve franchise owner awareness and understanding of its complaint process, FTC may not have an accurate representation of concerns to inform its oversight and enforcement activity.