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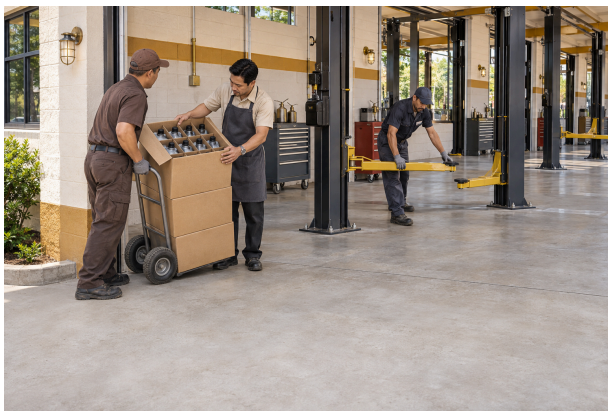
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FDD Item 8 Restrictions on Sources of Products and Services

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Executive Summary

Item 8 of a franchise disclosure document (FDD), titled "Restrictions on Sources of Products and Services," tells a reader what franchisees must buy or lease, from whom, and what the franchisor or its affiliates earn from those purchases. Most public explainers address prospective franchisees. This report addresses a narrower private equity (PE) origination question: does a franchisor's procurement model merit follow-up, does the required-purchase income belong to the entity being screened, and which supply-dependence questions remain unresolved after the FDD has been read?

The operative rule is 16 CFR 436.5(h). It requires a franchisor that may derive revenue or other material consideration from required purchases to state its total revenue, its revenue from all required purchases and leases, and the percentage of total revenue that share represents (www.law.cornell.edu). It also requires the affiliates' revenues from sales or leases to franchisees to be stated separately (www.law.cornell.edu). That makes one ratio observable, but only where the numerator and denominator come from the same entity and period. The estimated proportion of required purchases within all franchisee purchases is a different ratio with a different population (govinfo.gov).

Supplier concentration is not observable from the rule. FTC guidance says supplier payments may be reported on an aggregate basis and that the specific manufacturer or distributor making them need not be identified (www.ftc.gov). The Department of Justice and FTC define the Herfindahl-Hirschman Index (HHI) as the sum of squared market shares, so a range of rebate percentages or a count of approved suppliers cannot produce one (www.ftc.gov). The worksheet in this report therefore carries an explicit state, "supplier concentration not disclosed," rather than an estimate.

Currency matters. The Electronic Code of Federal Regulations (eCFR) displayed Title 16 as up to date as of **11/19/2026** (www.ecfr.gov), and the section carries its original 2007 source citation (www.ecfr.gov). The FTC compliance guide is dated **May 2008** and says it is not binding on the Commission (www.ftc.gov). The FTC's frequently asked questions (FAQs) are staff views (www.ftc.gov). A fictional example below shows a **20.0%** disclosed ratio, a separate **17.9%** sales-only ratio on a net-revenue basis under a stated accounting assumption (a different metric, not an alternative value of the disclosed 20.0%), and why adding affiliate revenue to the issuer denominator would be wrong. This is screening methodology, not legal advice, and it is not evidence of any company's willingness to sell.

Introduction and Background

An FDD is the document a franchisor must give a prospective franchisee at least **14 calendar days** before a binding agreement is signed or a payment is made (www.ecfr.gov) (www.ftc.gov). The Franchise Rule describes a disclosure document with **23 specific items** (www.ftc.gov). Item 8 is one of them, and the FTC's walkthrough groups it with Item 12 as the place where restrictions on a franchisee's business, such as what to buy and where, are explained (www.ftc.gov).

Competing coverage is aimed at the buyer of a franchise. One current guide describes the revenue and percentage disclosures as telling a prospective franchisee whether a franchisor's revenue model matches its description (franchisedepth.com), and it carries a recommendation to review the page with a franchise attorney admitted in the reader's state (franchisedepth.com). That is a reasonable frame for a franchisee. A PE analyst asks a different question. The analyst is not deciding whether to sign a franchise agreement. The analyst is deciding whether a franchisor's economics, as disclosed, depend on supplier relationships that cannot be assessed from public documents.

Three constraints shape the method. First, the FDD is a disclosure instrument, and the FTC compliance guide states that it is no substitute for the rule text (www.ftc.gov). Second, the rule permits aggregation, so some facts an analyst might want are legitimately absent. Third, an FDD edition is tied to an issuer, a fiscal year and, in some cases, a state. The FTC's own 2026 Paperwork Reduction Act notice estimates about 4,000 covered franchise sellers and notes that franchisors may maintain an alternative FDD version for non-registration states (www.federalregister.gov). The edition, issuer and period must therefore be recorded before any figure is used.

The sector context is large enough to justify structured screening. The International Franchise Association (IFA) and FRANdata projected franchise establishments rising from 832,521 to 845,000 units in 2026 (www.franchise.org), and franchise output rising from $907.3 billion to $921.4 billion (www.franchise.org). These are association projections, not Census counts, and they say nothing about procurement models.

This article is not a source of franchise procurement services, and nothing here identifies a real target or draws on franchisee contact. The worksheet below is meant to be run by any analyst with the public FDD in hand.

Key Provisions of Item 8 and What Each Makes Observable

What counts as a required purchase

Item 8 covers a franchisee's obligations to purchase or lease goods, services, supplies, fixtures, equipment, inventory, computer hardware and software, real estate or comparable items, either from the franchisor, its designee, or suppliers approved by the franchisor, or under the franchisor's specifications (www.law.cornell.edu). The obligation can be imposed by the written agreement or by the franchisor's practice (www.law.cornell.edu). The FTC guide gives the operating manual as an example of how an obligation may arise outside the contract text (www.ftc.gov), and a law-firm explainer from August 2026 makes the same point about practice-based obligations (thelawdept.com).

For screening, this yields five working classes, which the worksheet uses as its "required/optional status" and "permitted source" fields:

- **Designated source:** one named supplier, the franchisor, or an affiliate is the only permitted source.
- **Approved list:** several suppliers qualify, and alternatives may or may not be admitted.
- **Specifications only:** the franchisee may buy from anyone meeting the franchisor's specifications, which one competing guide calls the least restrictive structure (franchisedepth.com).
- **Optional:** the franchisee has total discretion, so the item is generally outside Item 8 (www.ftc.gov).
- **Unclear:** the FDD wording does not let the reader place the item in a class.

The class matters because Item 8 relates only to source-restricted obligatory purchases (franchiselawsolutions.com). A franchisor-or-affiliate sole source is the exception that pulls an otherwise free choice back into scope (www.franchise.org). Items already disclosed elsewhere are not repeated: the FTC guide says fees disclosed in Item 6 need not be repeated in Item 8 (www.ftc.gov), and goods or services already provided as part of the initial fee are outside Item 8 as well (www.ftc.gov).

One caution applies to the approved-list class. A competing guide argues that an approved-list structure can become effectively a designated-supplier structure when the approval process is slow or narrow (franchisedepth.com). That is an opinion about practice, and the FDD alone cannot confirm it. The screening output should record the stated approval terms and leave the practical effect as unknown.

Approval and revocation of alternative suppliers

The rule asks how the franchisor grants and revokes approval of alternative suppliers. The sub-items cover whether approval criteria are available to franchisees (www.law.cornell.edu), any fees and procedures to secure approval (www.law.cornell.edu), the time period for notification of approval or disapproval (govinfo.gov), and how approvals are revoked (govinfo.gov). The rule also asks whether the franchisor issues specifications and standards to franchisees, subfranchisees or approved suppliers (www.ecfr.gov).

These items determine whether supply dependence is contractual, procedural or merely practical. A franchisor with published criteria, a stated review period and a stated revocation mechanism has disclosed an exit route for the franchisee, whatever its commercial effect. A franchisor that discloses no approval process for a designated source has disclosed a closed route. Neither fact quantifies dependence. Both belong in the "alternative approval terms" field, because they determine which follow-up question to ask. A law-firm explainer notes that a single-source arrangement may be justified by proprietary products, food safety, integration requirements or consistency (thelawdept.com), which is a reminder that a closed route is not by itself a negative finding.

Naming, affiliates and officer interests

The rule asks whether the franchisor or its affiliates are approved suppliers or the only approved suppliers (www.law.cornell.edu), and it asks for any supplier in which an officer of the franchisor owns an interest (govinfo.gov). These two items are the main route to attribution, because they say whether the supplier is inside or outside the franchisor group. "Affiliate" is defined by control: an entity controlled by, controlling, or under common control with another entity (www.law.cornell.edu).

The FTC FAQ narrows what the officer-interest item reveals. It says Item 8 does not demand disclosure of the identity of the officer with the ownership interest (www.ftc.gov), and that a de minimis interest that would not be material need not be disclosed (www.ftc.gov). It adds that materiality cannot be answered in the abstract, and advises erring on the side of disclosure (www.ftc.gov). A law-firm explainer reports that the FTC defines an officer by management or policymaking authority (franchiselawsolutions.com). For the worksheet, "officer interest" is therefore recorded as disclosed, not disclosed or not applicable, and never as a statement about the size of the interest.

Income and consideration

The income provisions are the center of the screen. The rule asks whether the franchisor or its affiliates will or may derive revenue or other material consideration from required purchases or leases (www.ecfr.gov). If so, the franchisor describes the precise basis by stating its total revenue (www.law.cornell.edu), its revenues from all required purchases and leases (www.ecfr.gov), the percentage of total revenue from required purchases or leases (www.law.cornell.edu), and, where affiliates also sell or lease to franchisees, the affiliates' revenues from those sales (www.ecfr.gov).

A footnote ties the figures to the franchisor's most recent annual audited financial statement (www.law.cornell.edu), and it adds that where the entity deriving the income is an affiliate, the franchisor discloses the sources of information used (www.ecfr.gov). The FTC guide says the total should come from the statement of operations in that audited statement (www.ftc.gov). The consequence is that the percentage is a franchisor-entity figure. An affiliate's income is stated separately and is not part of the franchisor's denominator.

Separate provisions cover designated-supplier payments. If a designated supplier will make payments to the franchisor from franchisee purchases, the basis, such as a percentage or flat amount, is disclosed (govinfo.gov), and a payment includes selling similar goods to the franchisor at a lower price than to franchisees (govinfo.gov). A law-firm explainer adds that franchisors do not need to itemize supplier payments in Item 8 (franchiselawsolutions.com). The guide says the specific manufacturer or distributor making such payments need not be identified (www.ftc.gov), that payments are reported on an aggregate basis rather than by supplier (www.ftc.gov), and that ordinary sales or volume discounts offered to all buyers need not be reported (www.ftc.gov). It also says payments to a franchisor-controlled third party, such as an advertising fund, must be reported in Item 8 (www.ftc.gov), whereas a law-firm explainer notes that payments to independent third parties outside the franchisor's control need not be (franchiselawsolutions.com).

The remaining provisions cover purchasing or distribution cooperatives (govinfo.gov), and an explainer notes that the existence of voluntary cooperatives must also be disclosed (franchiselawsolutions.com), whether the franchisor negotiates purchase arrangements, including price terms, for franchisees (www.law.cornell.edu), and whether material benefits, such as renewal or additional franchises, depend on supplier use (govinfo.gov). An IFA paper says the benefits supplier programs provide may include cash and volume discounts (www.franchise.org). The FTC guide says negotiated price terms need not be disclosed (www.ftc.gov), and that a required cooperative must be identified while a voluntary one need not be named (www.ftc.gov). A trade paper describes a purchasing cooperative as member-owned and member-controlled (www.franchise.org), and notes that cooperatives are commonly owned by franchisees, with the franchisor possibly holding an interest (www.franchise.org).

The state regulators' model commentary reaches wider than "designated" suppliers. The North American Securities Administrators Association (NASAA) commentary says disclosure is required if rebates are paid by designated or other categories of supplier (www.nasaa.org), and that revenue the franchisor or its affiliates derive from purchases and leases must be disclosed (www.nasaa.org). An IFA symposium paper adds that the benefits may be reported as a percentage or flat figure on an aggregate basis (www.franchise.org), and that the best practice is to state a reservation of the right to receive such benefits in the future (www.franchise.org).

Item 8 versus Items 5, 6 and 7

The items overlap in subject matter but not in function. Item 5 covers initial fees, meaning payments for goods or services received from the franchisor or any affiliate before the business opens (www.ecfr.gov). Item 6 covers all other fees the franchisee must pay to the franchisor or its affiliates (govinfo.gov), and its illustrative list includes advertising, advertising cooperatives and purchasing cooperatives (www.law.cornell.edu). Item 7 gives a more detailed picture of the likely investment, lists other specific required payments by name (govinfo.gov), and has a column stating to whom each payment is made (www.ecfr.gov).

For attribution, the practical difference is the payee. Items 5 and 6 are about money paid to the franchisor group. Item 7 shows the payee on each line, including third parties. Item 8 explains why the money flows where it does, and what the franchisor group earns when the payee is an outside supplier. A law-firm explainer notes that an Item 8 change may affect Items 5, 6, 7, 11 and 21 (thelawdept.com), so the worksheet cross-references them.

Currency, edition and lawful access

Three currency facts should be on every worksheet. The eCFR displayed Title 16 as up to date as of 11/19/2026 (www.ecfr.gov). The eCFR Part 436 page lists later amendments (2012, 2016, 2020 and 2024) in a note that follows the Part's text (www.ecfr.gov), while section 436.5 renders with its original source line (www.ecfr.gov). This report did not find an amendment to paragraph (h) in those records, but the rule text should be rechecked at the time of use. The eCFR text of (h)(7) uses the word "proportion" (www.ecfr.gov), and the 2008 guide paraphrases the same item with slightly different wording, so the rule text controls.

On access, the FDD is public in several registration states. Minnesota says documents in its registration system are public and may be copied, and that the system holds ten years of material (mn.gov). Wisconsin offers a public search for the current registration status and history of a franchise (dfi.wi.gov). California says its law generally requires franchisors to register before offering and selling there (dfpi.ca.gov). Washington requires registration before offering unless an exemption applies (dfi.wa.gov), though its page offers no self-service document search. NASAA's electronic filing depository includes a public website for searching franchise notice filings in participating jurisdictions (www.nasaa.org). The prescribed cover-page text states that no governmental agency has verified the information in the document (www.ecfr.gov). An FDD obtained lawfully should be logged by its source, its issuance date and the state version.

Implementation Considerations and Process Changes

The worksheet below converts the provisions into a repeatable review. It has eight steps, and each one ends in a recorded output, including "unknown."

- **Define the screened legal entity.** Record the issuer named on the FDD cover, the parents, predecessors and affiliates in Item 1, which the rule requires to be named where they offer franchises or provide products or services to franchisees (www.law.cornell.edu), and the FDD issuance date. The screened entity is the one whose revenue is being tested.
- **Fix the edition and reporting period.** Record the FDD edition, the state version, the fiscal year of the audited statements, and the date the document was obtained.
- **Classify each purchase obligation.** Use the five classes above, and record the agreement section. Item 9 requires each listed obligation to be cross-referenced with the applicable section of the agreement (www.ecfr.gov), which makes the cross-reference a ready locator.
- **Record the approval mechanism.** Capture criteria availability, fees, notice period and revocation terms. Where the FDD is silent, record "not stated."
- **Separate four identities.** Record the named supplier, any affiliate relationship, any officer interest, and the entity that receives the consideration. Do not infer a name that was not disclosed.
- **Type the consideration.** Record whether each flow is a product or service sale, a rebate or supplier payment, affiliate income, a cooperative benefit or an ordinary royalty. Table 1 shows where each type appears.
- **Reconcile only compatible figures.** Match the Item 8 figures to Item 21 only if issuer, fiscal period and consolidation basis agree.
- **Write follow-up questions.** State what would have to be known and from whom, without calling an absent figure a defect.

Table 1 below maps the consideration types to their FDD locations and to the entity that earns them. It should be read together with the matrix fields that follow it.

Consideration type	Where it normally appears	Entity that earns it	Screening caution
Product or service sales to franchisees	Item 8 revenue from required purchases (www.law.cornell.edu)	Franchisor, or an affiliate if the affiliate sells (www.ecfr.gov)	Gross sales and margin differ. Do not treat sales as profit.
Supplier rebates and payments	Item 8 basis of payment, as a percentage or flat amount (govinfo.gov)	Franchisor or an affiliate	Aggregate only, with no payor named. May be recorded as a purchase-price reduction instead of revenue (viewpoint.pwc.com).
Affiliate income	Item 8 affiliate revenues, with sources of information stated (www.law.cornell.edu)	The affiliate, a separate entity	Outside the issuer denominator. Consolidation determines whether a parent's statements include it.
Cooperative benefits	Item 8 cooperative disclosure (govinfo.gov)	Cooperative members, possibly with a franchisor interest (www.franchise.org)	A rebate retained by the franchisor should not be presented as a pass-through (thelawdept.com).
Ordinary royalties	Item 6 other fees (govinfo.gov)	Franchisor or an affiliate	Not Item 8 income. Keep out of the required-purchase numerator.

The table separates streams that buyer-facing guides sometimes discuss together as supplier margin. The streams differ in disclosure location, earning entity and accounting presentation, and those differences, not the label, drive the follow-up questions. The matrix then carries one row per obligation or income stream, with these **seventeen columns**:

- **FDD edition and page:** the edition date, state version and page.
- **Issuer:** the legal entity on the cover.
- **Product or service category:** as the FDD names it.
- **Required or optional status:** one of the five classes.
- **Permitted source:** designated, approved list, specifications, free choice or unclear.
- **Alternative approval terms:** criteria, fees, notice period, revocation.
- **Named supplier:** as disclosed, or "not named."
- **Relationship evidence:** affiliate statement, officer-interest statement, or none.
- **Recipient entity:** who receives the consideration.
- **Consideration basis:** sale, rebate, affiliate income, cooperative benefit or royalty.
- **Amount or range:** as disclosed, with units.
- **Period:** the fiscal period the amount covers.
- **Total-revenue denominator:** the same entity's revenue, same period, or "not disclosed."
- **Supported claim:** what the page evidence supports.
- **Unknown:** what the page evidence does not support.
- **Request needed:** the document or answer required.
- **Reviewer:** the person who checked the row.

For a spreadsheet, the same columns can be pasted as a header line:

```
fdd_edition_page,issuer,category,required_status,permitted_source,alternative_approval,named_supplier,relationship_evidence,recipient_en
```

Data Analysis and Evidence

The three scope questions

Table 2 separates three questions that are routinely blended. Each has a different numerator, a different denominator and a different disclosure status.

Question	Rule hook	Numerator and denominator	Observable from the FDD?	Output state
Franchisor revenue dependence	Item 8 revenue and percentage (www.ecfr.gov) (www.law.cornell.edu)	Franchisor's required-purchase revenue over the franchisor's total revenue, same entity and period	Yes, where the franchisor discloses both and the entity matches	Compute and compare to the disclosed percentage. Otherwise "not computable."
Franchisee required-spend share	Item 8 estimated proportion (govinfo.gov)	Required purchases over all franchisee purchases, a franchisee-side estimate	As the franchisor's estimate only	Record as stated. Never combine with the franchisor ratio.
Supplier concentration	None. Aggregate reporting allowed (www.ftc.gov)	Each supplier's share of a defined market or spend	No. Payors and price terms need not be named (www.ftc.gov)	"Supplier concentration not disclosed."

The first row is the only one that can be computed by the analyst, and even there the computation is a check on the franchisor's own disclosure. The second row is a different population, because it is measured against the franchisee's spending, not the franchisor's revenue. The third row has no rule hook at all. The accounting literature does contain a notion of concentration, since a concentration of available sources of supply is one of the categories that financial statements may need to disclose when stated criteria are met (viewpoint.pwc.com), but a vulnerability criterion applies and no percentage threshold is given (viewpoint.pwc.com). The FDD item does not borrow that test.

Calculating the observable ratio

The ratio is simple:

Required-purchase revenue dependence = required-purchase revenue of entity E for period P, divided by total revenue of the same entity E for the same period P.

Three rules keep it honest. First, take both figures from the same entity and the same period. The rule's own footnote anchors total revenue to the most recent annual audited statement (www.ecfr.gov). Second, label gross sales and rebates separately, because they can be presented differently in financial statements. Under the accounting guidance summarized by PricewaterhouseCoopers (PwC), consideration received from a vendor is generally accounted for as a reduction of the purchase price of what was acquired (viewpoint.pwc.com), and an entity records gross revenue as principal only if it obtains control of the specified good or service before transfer (viewpoint.pwc.com). A franchisor that arranges supplier sales may therefore not record those sales as its revenue at all. Third, never add an affiliate's revenue to the issuer's denominator, because the rule asks for affiliate revenues as a separate item (www.law.cornell.edu).

Reconciling to Item 21

Item 21 financial statements must be audited by an independent certified public accountant, subject to a start-up phase-in (www.ecfr.gov). In the phase-in's first selling year, only an unaudited opening balance sheet is required (govinfo.gov), and a balance sheet has no revenue line, so no denominator exists. Operations statements cover each of the franchisor's previous three fiscal years (www.law.cornell.edu), and the rule's three-year scope means the analyst should read all three years rather than the latest alone.

Reconciliation is safe only if the entities match. Where the franchisor controls a subsidiary, its statements should reflect the franchisor and the subsidiary (www.ecfr.gov). That is a consolidation basis, and the PwC summary of consolidation guidance says intra-group transactions are excluded from consolidated results (viewpoint.pwc.com). A franchisor may instead present an affiliate's audited statements in place of its own, but only if the affiliate absolutely and unconditionally guarantees the franchisor's duties and obligations to franchisees and a copy of the guarantee is attached to the disclosure document. Whichever entity's statements are presented, the Item 8 revenue denominator must be matched to that entity (govinfo.gov) (www.law.cornell.edu). The FTC FAQ says a parent that merely sells goods to franchisees is treated like any other third-party supplier and its financials need not be disclosed (www.ftc.gov), while the parent's statements are required where it is the only supplier of an essential good or service (www.ftc.gov).

Related-party disclosures help but do not substitute. Regulation S-X requires related-party transaction amounts to be stated on the face of the primary statements for registrants (www.law.cornell.edu), and related-party disclosure under the accounting standards includes a description even where the transaction value is zero (www.crowe.com). The Public Company Accounting Oversight Board (PCAOB) notes that related-party transactions might not be on arm's-length terms (pcaobus.org). Regulation S-X applies to SEC registrants, so a privately held franchisor's Item 21 statements may not follow it, and the analyst should not assume these disclosures are present.

Why no concentration index is computed

The HHI is defined as the sum of the squares of the market shares (www.ftc.gov). The agencies' concentration analysis begins with pre-merger market shares of products within a relevant market. A franchise FDD provides, at most, a percentage or flat-amount range of rebates in aggregate, a statement that suppliers exist, and perhaps a count of approved suppliers. None is a market share. Mixed spending populations, such as franchisor revenue and franchisee purchases, cannot be combined into a share either. The state "supplier concentration not disclosed" is therefore the correct output, and a count of approved suppliers should be recorded as a count and nothing more.

Competing interpretations

Two readings of the same disclosure coexist. One competing guide notes that a sentence saying a franchisor receives rebates from designated suppliers tells the reader very little about magnitude (franchisedepth.com). An IFA symposium paper presents supplier benefits as a welcome alternative revenue stream that can help cover the cost of running the supply chain (www.franchise.org), and a second IFA paper says centralized purchasing reduces costs by leveraging the system's buying power (www.franchise.org) and calls the supply chain a possible source of revenue for franchisors (www.franchise.org). A law-firm explainer adds that not every rebate must be retained as general franchisor revenue, since credits to franchisees or the system are an alternative (thelawdept.com). These are not contradictory. They describe the same flow from the buyer's and the seller's side. The worksheet records the flow, its entity and its disclosure status, and leaves the characterization to the reader.

Case Studies and Real-World Examples

Fictional worked example (Hypothetical Example)

All names and figures below are fictional and are user assumptions, not benchmark data. The example uses a fictional franchisor, "Example Franchising LLC," its fictional affiliate "Example Supply Co.," and a fictional FDD issued in 2026 for fiscal 2025.

Assume the Item 8 text states total revenue of **$48.0 million**, revenue from all required purchases and leases of **$9.6 million**, and a required-purchase percentage of **20.0%**. The text further states that the $9.6 million comprises $8.4 million of product sales and $1.2 million of supplier rebates, that rebates are paid at an aggregate 1% to 3% of purchases, that no supplier is named, and that Example Supply Co. separately sold $14.0 million to franchisees. Item 8 states that franchisees' required purchases are an estimated 62% of all their purchases.

Table 3 below shows how the matrix handles these facts. It shows four of the rows, not all seventeen columns.

Row	Category and status	Recipient and basis	Amount, period and denominator	Supported claim	Unknown and request
A	Core consumables, designated source	Example Franchising LLC, product sales	$8.4M, FY2025, over $48.0M = 17.5%	Gross sales are 17.5% of issuer revenue	Margin on sales. Request: gross-to-net presentation from the auditor's notes
B	Same category, supplier payments	Example Franchising LLC, rebates	$1.2M, FY2025, over $48.0M = 2.5%	Rebates are 2.5% of issuer revenue	Payor names, per-supplier shares. Supplier concentration not disclosed
C	Equipment, affiliate is sole approved supplier	Example Supply Co., affiliate sales	$14.0M, FY2025. Denominator: affiliate's own revenue, not disclosed	Affiliate revenue exists and is separate	Whether Example Supply Co. is consolidated. Request: Item 1 and Item 21 consolidation note
D	All required items, franchisee-side	Franchisees, estimated proportion	62% of franchisee purchases, no fiscal denominator	Franchisor's own estimate	Basis of the estimate. Not comparable to rows A to C

Rows A and B sum to 20.0% (17.5% plus 2.5%), matching the disclosed percentage, so the figures are internally consistent. The reviewer records "supported" for the 20.0% dependence ratio and "unknown" for supplier concentration. Now vary one assumption. If the $1.2 million of rebates had been presented as a reduction of cost of sales rather than as revenue, as the vendor-consideration guidance allows (viewpoint.pwc.com), a revenue-based denominator would be $46.8 million ($48.0 million less $1.2 million) and product sales would be $8.4 million over $46.8 million, or about **17.9%**. The 17.9% figure is not a restated 20.0%: it is a different metric, because it changes both the numerator (product sales only, $8.4 million) and the denominator (net revenue, $46.8 million). The two figures differ by about 2.1 percentage points, and the reviewer should not compare them as if they measured the same thing. The reviewer cannot tell from the FDD which presentation applies, so the request is for the auditor's revenue-presentation note.

A common error is shown by row C. Adding the affiliate's $14.0 million to the issuer's $48.0 million gives $62.0 million, and $9.6 million over $62.0 million is **15.5%**. That figure matches no disclosed entity, because the affiliate's revenue is not issuer revenue and the affiliate's own total revenue is not stated. The correct output for row C is "not computable." The 62% figure in row D also cannot be divided into the issuer's revenue, since it is measured against a franchisee's purchases. Finally, no HHI is computed from the "1% to 3%" range or from the number of approved suppliers. The scope table state for that question is "supplier concentration not disclosed."

Implications and Future Directions

For an origination analyst, the result of this screen is a prioritization signal. A disclosed required-purchase percentage that is low, with no affiliate seller, narrows the follow-up list. A high percentage, an affiliate that is the sole approved supplier, or an undisclosed relationship between the issuer and the recipient entity widens it. None of those states is a finding about conduct. One buyer-facing guide lists a high share of required purchases in total franchisee purchases among its warning signs (franchisedepth.com). That is a warning frame for buyers. The FDD itself supports only that the share is disclosed, and this report uses "follow-up" language instead.

Follow-up questions should be specific and answerable, for example:

- **Entity question:** which legal entity records the required-purchase income, and is it inside the Item 21 statements?
- **Presentation question:** are supplier payments recorded as revenue or as a reduction of cost of sales?
- **Dependence question:** which categories have a single approved source, and what does each approval mechanism state?
- **Concentration question:** what documents, if any, could establish supplier shares, and who holds them?

The same discipline applies to change-of-control questions. Nothing in the FDD text reviewed here permits an inference about consent rights, assignment or transferability of supply arrangements. Those depend on the supply contracts and on counsel's reading of them, so the worksheet's "request needed" field is the only appropriate place for them.

Source quality also matters. The FTC guide is dated May 2008 (www.ftc.gov), and the FAQs are staff views. An IFA symposium paper describes the Item 8 requirements as meant to provide a base level of transparency (www.franchise.org), which is a practitioner reading and not rule text. Analysts should keep rule text, FTC guidance and practitioner commentary in separate columns when they cite them.

One future question is open. The FTC guide reviewed here is dated May 2008, so any amendment to Part 436 or later FTC guidance would change the worksheet's rule hooks, and the currency check should be repeated at each use. For related outlet-population work, Docket's article on the FDD Item 20 franchise system map addresses a separate part of the document.

Frequently Asked Questions (FAQs)

What is FDD Item 8 in plain terms? It is the item that discloses required purchases, who the permitted sources are, how alternatives are approved, and what revenue or other consideration the franchisor or its affiliates may receive from those purchases (www.ecfr.gov) (www.law.cornell.edu).

What is the difference between Item 8, Item 6 and Item 7? Item 6 lists other fees paid to the franchisor or its affiliates (govinfo.gov), Item 7 estimates the initial investment and shows to whom each payment is made (www.ecfr.gov), and Item 8 explains source restrictions and supplier income. Fees already in Item 6 need not be repeated in Item 8.

How is franchisor revenue from required purchases calculated? The FDD states the franchisor's total revenue, its revenue from required purchases and the percentage (www.law.cornell.edu) (www.ecfr.gov). An analyst can test the percentage only where both figures come from the same entity and period, using the audited statement the footnote cites (www.law.cornell.edu).

Do FDDs disclose franchisor rebates from suppliers? Where a designated supplier will make payments, the basis is disclosed as a percentage or flat amount (govinfo.gov). The FTC guide says payments are reported in aggregate and the specific manufacturer or distributor need not be identified.

Can supplier concentration risk be measured from an FDD? Not from the rule's required content. Concentration indexes need market shares, and the FDD may provide only aggregate ranges. The correct entry is "supplier concentration not disclosed."

What does a PE team do to review an FDD for procurement dependence? Apply the worksheet: define the entity, fix the edition, classify obligations, record approval terms, separate the four identities, type each consideration stream, reconcile only compatible figures, and write follow-up requests.

How do approved supplier requirements in the franchise agreement appear in the FDD? Item 8 reaches obligations imposed by the agreement or by practice (www.ecfr.gov), and Item 9 cross-references each franchisee obligation to the agreement section (www.law.cornell.edu).

How should affiliate supplier income be analyzed? Record it as a separate entity's revenue (www.ecfr.gov), check whether the affiliate's sources of information are stated (www.law.cornell.edu), and do not add it to the issuer's denominator. Whether the affiliate is consolidated depends on Item 21 and its notes.

Conclusion

Item 8 makes one procurement ratio observable and leaves another question unanswered. The observable ratio is the franchisor's required-purchase revenue over its own total revenue for the same period, which the rule asks the franchisor to state. The unanswered question is supplier concentration, because the rule allows aggregate reporting without naming payors or price terms. A disciplined worksheet keeps the three scopes (franchisor revenue dependence, franchisee required-spend share and supplier concentration) separate, labels gross sales and rebates separately, keeps affiliate revenue out of the issuer denominator, and records "supplier concentration not disclosed" as a valid output.

The method depends on current text and on lawful access to the right edition. The eCFR displayed the section as current through 11/19/2026 (www.ecfr.gov), while the FTC guide dates from May 2008. Readers should confirm the operative rule text and the FDD edition before any use, and should obtain counsel's review for questions about contracts, consent or compliance. This report is screening methodology, not individualized legal advice. An absent figure is recorded as unknown, a disclosed figure is tied to its entity and period, and neither state is read as a judgment about the franchisor. Applied consistently, the worksheet gives a research lead a short, auditable list of what is supported, what is unknown and what to request next, which is the decision the screen exists to support.

Source links

Links cited in this article, in order of first appearance. Full addresses are provided for readers using extracted text.

1. https://www.law.cornell.edu/cfr/text/16/436.5
2. https://govinfo.gov/content/pkg/CFR-2024-title16-vol1/pdf/CFR-2024-title16-vol1-part436.pdf
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