

# A guide to buying a franchise



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## An introduction to franchising

Franchising is a business model that some companies use to market or distribute their products or services. The franchisor grants the franchisee the right to sell their products or services in a specified location or area using the franchisor's trademark or product name. A key requirement is that the franchisee must adhere to the operational and marketing standards and procedures that have been developed by the franchisor — what is often referred to as the “business format.” This is normally a long-term contractual relationship. The benefit is that the franchisee gets the management, operational and marketing expertise of the franchisor.

Acquiring a franchise is like entering into a partnership agreement: its success depends on the experience, skills and passion of both parties. The result, ideally, is an operation that benefits from a proven business model, the experiences of both the franchisor and the franchisees, and the flexibility and dedication of an independently owned business.

Franchising is also an extremely adaptable means of doing business. Although it is most widespread in food services and certain retail service industries, there are few products or

services that cannot be franchised. Franchise businesses can be found in a wide range of industries from automotive products and services to weight-control systems. Available franchises include cleaning and sanitation services, computer and software retailing, dental services, employment services, hotels and motels, security systems and more.

This guidebook provides an overview of what franchising has to offer you as an owner-operator and what is involved should you decide to acquire a franchise operation. It discusses why a franchise might be preferable to starting your own independent business, how franchising works, and what the nature of the relationship between the franchisor and the franchisee is. Then it outlines the steps to acquire a franchise, and examines special considerations such as determining the amount of financing required and how to approach a bank for loans or other banking services.



## Why choose franchising?

Acquiring a franchise can be an attractive alternative to starting an independent business. A franchise provides a proven business format with training and support and lets you exercise your skills and abilities in your own business, thereby reducing much of the risk of starting an independent business. Note, however, that most of the benefits of acquiring a franchise will only apply to a well-run franchise system, so it is essential that you check out prospective franchisors and their franchisees thoroughly before making a decision.

### Advantages of being a franchisee

As a franchisee, you want to work with a company that already has a successful business format. The franchisor should provide you with expert advice and guidance in the start-up and operation of the franchise. While this won't eliminate the need for hard work and good management on your part, it will mean that you won't have to learn by trial and error, improving your chances of success.

You will also have the advantage of using a known brand and its reputation when launching your business, rather than facing an initial period of uncertainty while you establish your presence in the market.

Another significant benefit comes from economies of scale. For instance, franchisors normally buy in bulk, so you may be able to purchase supplies from the franchisor at a lower cost than you could as an individual buyer.

Then there's the task of getting a bank loan. Banks often prefer lending to a franchisee who is part of a reputable franchise with a strong track record. In the eyes of a lender, the performance of a proven franchise operation is usually more predictable and, on statistical evidence, involves less risk than that of an independently owned business.

### Assessing the risk

Franchisors vary enormously in size and market experience. While size alone will not determine how well a franchisor supports its franchisees, it does indicate brand acceptance — reducing risk for a would-be franchisee. A new franchisor will not have the market presence or acceptance of its established competitors. It may also still be in the process of developing its franchise system, and a full range of support services may not yet be in place. If the franchisor lacks the necessary resources, some of these services may never materialize.

On the other hand, joining an emerging franchise system also has its benefits. A new franchisor is likely to be more flexible in its negotiations with franchisees, so you may have a greater say in the terms and conditions of the franchise agreement. Also, by being among the first in the market, you will have a better choice of location for your franchise outlet.

### Is franchising for you?

Consider carefully: will purchasing a franchise help you achieve your personal and business goals? For example, in many cases the franchisor will require that you personally run the franchise on a full-time basis. So having the necessary cash is no guarantee the franchisor will accept your application; you may have to commit your time as well as money.

You should also ask yourself how large an operation you wish to run. Certain types of franchises have considerable potential for growth, both in the size and the number of units/outlets. In other cases the franchise is likely to remain a small, single-outlet operation. There is quite a difference between managing a chain of outlets and running a single location. Is your goal to build a sizeable business or to provide yourself with a secure position and a good source of income? It is important to clarify your objectives before you start investigating franchise opportunities.

Another important consideration is whether being a franchisee will suit your personality. Do you have the passion it takes to run a franchise location? To maintain the integrity of the system, franchise agreements require that franchisees conduct their businesses according to specified standards and procedures, and accept reporting requirements and inspections. Entrepreneurs who feel cramped by such arrangements may prefer to start a business on their own.

## How franchising works

### Why companies franchise

Companies franchise because it is an effective way to grow a brand. As independent business people, franchisees often have a strong motivation to make the business succeed profitably. They will dedicate long hours and hard work to their franchise outlet above and beyond what the franchisor normally expects of their franchise employees. Moreover, the entrepreneurial qualities and skills of a franchisee are particularly valuable to a company that is growing rapidly and opening up in new markets. Local owner-operators understand their marketplace better than someone sitting in head office or a marketing firm that has provided some demographic study.

Another reason for franchising is that it provides companies with capital to expand and establish a presence throughout a sales territory before their competitors make inroads into the market. Some franchises may have insufficient capital to finance the rapid expansion of company-owned locations, relying on the franchisees to bare the financial risks. While other franchise systems will deploy capital to areas that can have a greater impact, such as site selection, brand support functions, etc. At the same time, most companies involved in franchising continue to operate one or more company-owned outlets.

There is also a trend among large, well-established corporations to convert existing corporately owned locations into independent franchises, a process known as “branchising.” Branchising is a way to raise capital and improve the performance of their branches or chains by turning them over to independent operators with a personal stake in the business. The owner-operators tend to outperform corporately owned locations in a number of franchise systems.

### The franchise agreement

The precise relationship between franchisor and franchisee is spelled out in the franchise agreement or contract. This runs for a specified number of years (often between 10 and 20) and may be renewed for a further term, or terms.

There is no such thing as a standard franchise contract; each franchisor will have their own particular form of contract reflecting the objectives of the company and the nature of its business.

### Exclusive sales territory

Under the agreement, the franchisee is granted an exclusive sales territory where they have the right to sell the franchisor’s product or service using the franchisor’s trademark or company name. The size of the territory will depend on the nature of the business and whether the franchisee will be responsible for running a single or several outlets.

In what is known as “area franchising/franchisee” or “area development/developer,” an entire sales region may be assigned to one franchisee. A “master franchise” operates on a similar principle, except that in this case, the master franchisee may also have the right to sub-franchise to others within the same territory.

The term “exclusive sales territory” can also have different meanings. It may mean that the franchisor agrees not to grant another franchise, or operate another outlet, within the designated territory. Or it could mean that the franchisee has the right of first refusal to acquire any additional outlets within the territory. Exclusivity may also be subject to certain external factors. For example if the population of the sales territory increases beyond a certain size, the franchisor may be entitled to open other outlets (either franchised or company-owned) in the area.

### Use of the trademark

The conditions governing the franchisor’s trademark are usually described in detail in the franchise agreement. Franchisors are extremely careful to protect their trademarks, which symbolize their brand — the quality of their products and service. The success of a franchise system owes much to the reputation of the brand, which in turn depends on the maintenance of uniformly high standards throughout the system.

The franchise agreement thus contains provisions for controlling many aspects of the operation of the franchise. For example:

- The franchisee may not use the franchisor’s trademark in connection with another line of business, and may not sell products other than those authorized or approved by the franchisor. In many cases the franchisor’s proprietary goods must be purchased from the franchisor or a designated supplier.



- The appearance of the premises — its design and layout, its fixtures and furnishings, the colour scheme used and even the uniforms worn by staff — must conform to the standards and specifications laid down by the franchisor.
- The franchisee must adhere to operational procedures such as inventory control, purchasing, servicing of equipment, use of advertising and promotional material, and specified financial reporting requirements.

In most cases the franchisee receives a business operations manual, which spells out the operating standards and procedures to be followed.

### Franchise fees and services

A reputable franchisor will provide franchisees with a variety of services to assist them in the start-up and continuing operation of their franchise. Franchisees must normally pay directly for these services, some of which are mandatory, but the costs are often very reasonable compared to what an independent business would pay acting on its own account.

The precise fees and services involved vary according to the franchise concerned. In most cases, however, some or all of the following will apply:

#### Initial franchise fee

Paid on signing the franchise agreement, the amount of the initial franchise fee varies considerably depending on the type of business and the size of the franchise. It is almost always non-negotiable. Generally speaking, it includes the right to use the trade name and operating procedures of the franchisor, and it covers some of the franchisor's costs such as attracting, screening, selecting and training potential franchisees. The franchise agreement may also indicate whether the franchisee will own the goodwill or not.

#### Training

A reputable franchisor will provide thorough training, initial and ongoing, to familiarize the franchisee with the franchise's products, operating methods and procedures. Other areas often covered include:

- Obtaining financing to start up the business
- Financial management
- Hiring and training employees



- Building and equipment maintenance
- Methods of advertising and promotion

This training must be completed before the new outlet is opened. Employees may also be required to attend training sessions either at the franchisor's facilities or on the premises of the franchise outlet. In some cases, qualified franchisor personnel are made available to assist management and staff for a specified period before and/or during the opening of the business. Training costs are charged as a separate fee if not included in the initial franchise fee.

### Site selection and development

Many franchisors select sites for new franchise outlets in advance and then look for suitable franchisees to run them. Where the franchisee is responsible for finding a suitable location, the franchisor often provides assistance in the search, and in negotiating the purchase or lease of the premises. The franchisee may own the premises or lease them from the franchisor or a third party. In all cases, final approval of the site must be given by the franchisor.

Because the design and appearance of the franchise outlet are vital to the franchisor's corporate image, the franchisor normally provides standard plans and specifications that franchisees must follow. These specifications may change from time to time as a result of new merchandising techniques or an updated corporate image, so franchisees may have to upgrade their outlets periodically to meet current standards and ensure uniformity.

Site selection and development costs incurred by the franchisor are charged as a separate fee if not included in the initial franchise fee.

### Royalty fees and product pricing

The most common ways a franchisor is compensated for the use of their brand are through charging their franchisees a royalty fee, charging a sourcing fee for the products they supply franchisees or charging franchisees a rental surcharge.

Royalties are usually calculated as a percentage of the franchisee's gross sales (though sometimes a fixed fee is charged instead). The percentage varies according to the nature of the business — generally it is higher for service franchises than for retail operations. The royalties may be paid weekly, monthly or quarterly, and may cover some of the ongoing services to franchisees.

Alternatively, in systems where franchisees must purchase most or all of their essential supplies from the franchisor, some franchisors build a profit margin into the prices they charge, a method often referred to as "product pricing."

### Continuing assistance

To help franchisees run their business smoothly and in accordance with standard methods and procedures, franchisors usually provide a variety of ongoing services, including:

- Research and development
- Selection of inventory
- Purchasing of goods and services
- Hiring and training of employees
- Equipment testing
- Advertising and promotion
- Bookkeeping and accounting
- Financial management
- Performance monitoring
- Technologies for inventory control, purchasing, invoicing, delivery

Continuing assistance may be part of the royalty fee or may be on a fee-for-service basis, and franchisees can sometimes exercise some discretion as to which services they will use.

### Advertising fund contributions

Franchise advertising takes place at two levels: 1) for the franchise system as a whole and/or 2) locally for individual franchise outlets.

System-wide advertising is generally jointly controlled by the franchisor and franchisees through an advertising fund that all franchisees must contribute to. These contributions are normally calculated as a percentage of franchisees' gross sales. The fund is used to develop advertising and promotional programs and materials for the entire franchise system. In the case of a large franchise system, this may include national advertising campaigns.

At the local level, individual franchisees are expected to advertise on their own account. In fact, franchise agreements usually stipulate that they must spend a minimum amount each month for this purpose. How and when such advertising will be carried out may be determined by the individual franchisee. However, the materials involved — point-of-purchase displays, flyers, local newspaper ads and radio commercials — may be produced by the franchisor to ensure that consistent standards are maintained.

While advertising contributions represent a considerable expense to franchisees, they do benefit from high-quality

materials and forms of advertising that they could not afford on their own. If dealing with a well-established franchisor, a new franchisee will have automatic access to an advertising program that has been developed and tested in the market over a number of years. Such advantage can more than make up for the costs involved.

### Termination and renewal of the agreement

Franchise agreements run for a specified number of years. At the end of the stated period, the contract is terminated unless there are provisions for its renewal. Most franchise agreements can normally be renewed for a further term or terms. Some, however, expire at the end of the initial term, and the franchisee no longer has the right to operate the franchise. Nearly all franchise agreements also contain termination clauses that enable the franchisor to terminate the contract either at the end of or during the contract term if certain conditions are not being met.

### Reasons for termination

To protect the integrity of their franchise system, reputable franchisors want to ensure that the agreement can be terminated under certain conditions. A single franchisee who engages in unauthorized activities or fails to maintain the required standards could damage the franchisor's reputation and the reputation of all their other franchisees.

Depending on the nature of the default, termination may be given either with or without notice. In the former case, the franchisee normally has a chance to rectify the situation.

There are a number of situations where a franchise contract can be terminated. For example, the franchisee could:

- Submit financial reports that understate gross sales (which are the basis for calculating royalties payable to the franchisor)
- Make late payments or refuse to pay amounts owing to the franchise
- Sell unauthorized products or services
- Fail to comply with standards or operating procedures in spite of a notice received from the franchisor
- Refuse to cease activities that might damage the franchisor's brand

The agreement may also be terminated by the franchisee if, for example, the franchisor fails to acquire the location specified in the contract or cannot develop it for operation; or if the franchisee becomes seriously ill.

### Conditions of renewal

When a franchise agreement is renewed, the franchisee signs a new contract with the franchisor. This will contain the terms and conditions of the then current franchise agreement, which will probably differ from the original agreement in certain respects. There may, for example, be changes in the royalty payments and advertising contributions required during the renewed term of the agreement. The franchisee may also have to make substantial renovations and improvements to the franchise premises so as to conform to current standards.

### Sale or assignment of the franchise

In some cases franchisees can sell their interest in the franchise agreement during the term of the contract. Franchisors exercise a certain amount of control over such transactions, and they will want to ensure that the buyer of the franchise meets their normal criteria for franchisees.

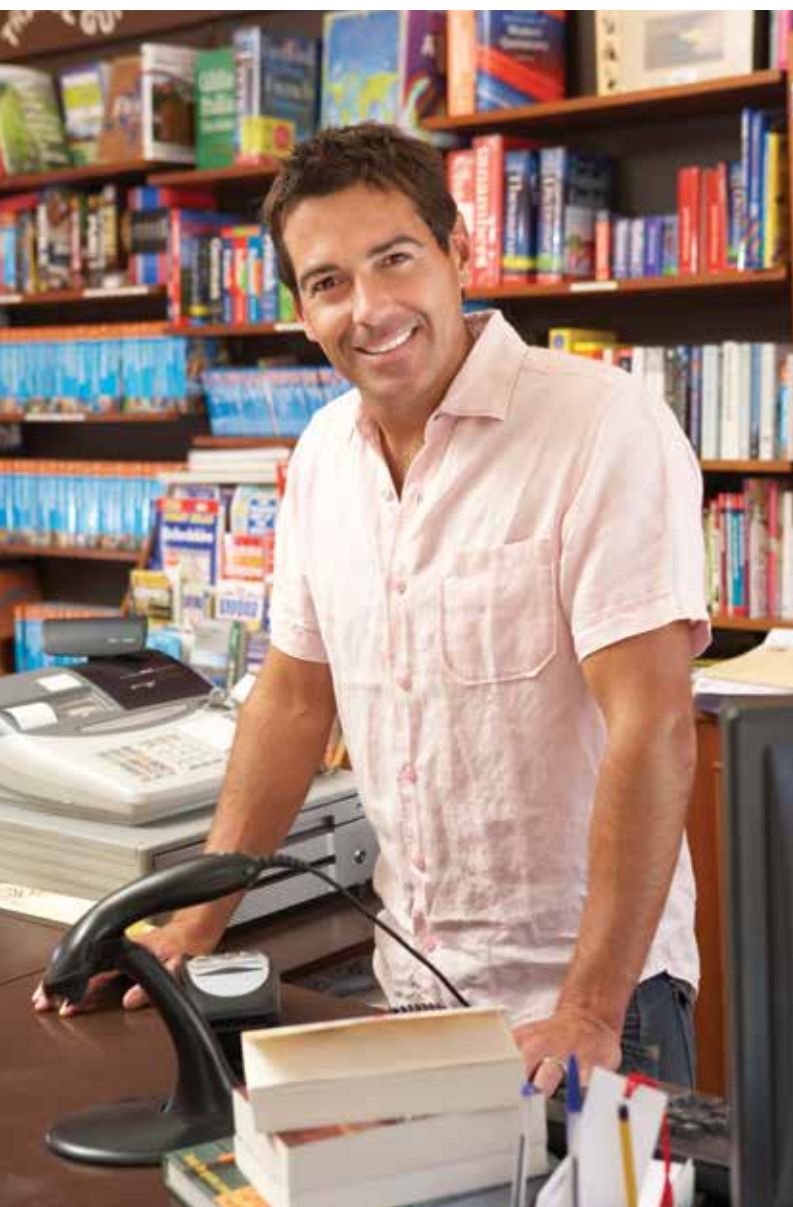
It is quite common for the franchisor to have the right to purchase the franchise itself or the right of first refusal if the franchisee receives an offer from an independent third party. If the franchisor is the buyer, the price may be fixed according to a predetermined formula and should reflect current market value.



## Buying a franchise

Before acquiring a franchise you need to investigate and analyze the product or service, the market and the return on investment (though some franchisors may provide you with their own market analysis). You must also examine the track record of the franchisor and the nature of the franchise agreement you will be entering into.

It is also important that you seek professional advice from an accountant and lawyer who are experienced in dealing with franchise businesses. There may be certain aspects of the franchise agreement a generalist may not be familiar with. Moreover, franchise systems are constantly changing. You need professional advisors who keep up with the latest developments. Certainly, no major decisions should be made without first consulting them.



## Finding your franchise

There are a number of ways to learn about franchise opportunities. Franchise directories (available on newsstands) are a good place to start. They will give you a good idea of the range of opportunities available. Other sources of information include:

- The Canadian Franchise Association ([lookforafranchise.ca](http://lookforafranchise.ca))
- Organizations such as the Better Business Bureau, which can provide information on franchise businesses in your area
- Your banker, professional advisors and business friends, all of whom may be able to give you leads
- Franchising shows held annually in major cities in Canada and the U.S.
- The International Franchise Association's Directory of Membership
- Newspapers and trade magazines

It is also a good idea to check out as many franchises as you can in person — it will help clarify your thinking on what sort of franchise you want, or whether you want one at all.

## Assessing the franchise

### Investigation

Once you've determined the type of franchise you are interested in, you can start investigating prospective franchisors. Find out whether they are expanding in your area and still have local territories to offer. If not, are you prepared to move? You need to assess the product or concept the franchise is based on, see if it is well managed and financially sound, and determine whether the franchisor maintains good relations with their franchisees.

How far you take your research will depend on the companies you investigate. A well-established organization operating successfully in several hundred locations over a number of years is different than a new company with no track record. The former will normally have financial statements and/or credit reports to examine. The latter may only have the reputation and experience of the company's principal officers and your assessment of its business concept.

Most franchisors will send you a promotional kit on request. This normally contains some basic facts about the company — its philosophy, a brief history of its development, the

number of outlets and their locations, and financial data on the performance of a sample franchise.

Any franchise system, regardless of where their home office is located, will have to provide a Franchise Disclosure Document (FDD) in accordance with various provincial franchise disclosure laws. The FDD will provide most of the relevant information about the franchisor, their operations, history and franchisees. Most franchisors will provide a single FDD that meets all existing provincial legislative requirements. Even if your province does not have a franchise disclosure law, most reputable franchisors will have an FDD.

The FDD should list the names and addresses of current and past franchisees so you can consult with them about their experiences with the franchisor. Are they happy? Do they feel they are getting a good deal? Are they making a good return on their investment? Have they had any serious disagreements with the franchisor? Would they do it again? Such inside information can be invaluable in determining the merits of a franchise system.

It is also worth finding out if any of your prospective franchisors have a franchisee association. There are definite advantages to belonging to one. An association helps franchisees act collectively in negotiations or disputes with the franchisor. This can give you a stronger voice in running your franchise versus acting by yourself.

Think in terms of the market you hope to operate in. What works in one market won't necessarily work in another. This is particularly important if the franchisor doesn't have any outlets in your area. Consider the extent to which the franchise concept has something new to offer, or whether it merely imitates another well-established product or service.

If the franchisor is a publicly owned company, you can find their financial statements and a list of their principal officers in company reports, which are available from university or public libraries. The FDD will have the financial statements for privately held franchisors. You can also obtain a credit report and check the company's reputation with the Better Business Bureau, the Canadian Franchise Association or your province's ministry of industry and trade.

### Application

The franchisor's promotional kit will normally contain an application form requesting basic personal information: name,

address, specific details about your business experience, your personal net worth and so on. In order to proceed with the application, you must complete the form in detail. If you are reluctant to answer any of the questions asked, bear in mind that the franchisor needs to be as thorough in their investigations as you are in yours. It's a bad sign if the franchisor is not interested in the details of your skills and experience.

When you submit the application form, you may be required to pay a fee, which may not be refundable.

### Interview

If your application is accepted, you will be asked to attend an interview; this is where the franchisor will decide whether you have the right qualities to become a successful franchisee. You will be assessed on your education, previous business experience, health, motivation, family commitment, personal net worth and ability to manage the franchise. The franchisor will want proof that you are in a financial position to make the required investment with your own money.

The interview gives you the opportunity to ask about the franchise system. Some of the questions you should be asking are contained in the "Checklist for Franchisees" at the end of this guidebook.

For your own protection, you should take minutes of all meetings with the franchisor. Statements made in the interview that are not in line with the agreement you eventually sign could cause dispute in the future. Having a record of all verbal and written exchanges can help solve those problems.

### Points to watch for

Throughout the application process, you must analyze and evaluate all the available information and documents with the help of your professional advisors. The following points should be carefully considered:

#### The company's commitment to franchising

Find out if the company's owners are committed to their franchise system by asking questions such as these:

- How many new franchises does the company intend to open in the next year? Is it actively seeking to expand its franchise system?
- Has a high proportion of its franchises been sold by the original franchisees? If so, what were their reasons for selling?

Have there been many bankruptcies? A high turnover in franchisees could mean that they are unable to operate their outlets profitably or the franchisees do not receive the proper support and services from them.

- Does the franchisor have any company-owned outlets? If they don't, find out how they keep in touch with what is happening in the market.
- Has the franchisor been involved in any legal action against their franchisees, or vice versa? Are there any suits pending? Litigation might indicate serious problems in the franchise system.

#### The company's financial position

Recent financial statements should be carefully analyzed by your accountant. You want to be sure that the franchisor is financially sound, and that their profits come from franchise operations rather than from the sale and resale of franchised outlets. The latter is a clear sign that proper assistance and ongoing services are unlikely to be provided.

#### The status of the trademark

Make sure that the franchisor has registered its trademark, or has at least applied for registration and is likely to obtain approval in the near future. Otherwise the trademark cannot be legally protected. You should also find out if there is any legal action pending against them. If the franchisor is subsequently prevented from using the trademark, the effect on your franchise could be devastating.

#### Your expected franchise earnings

To give you an idea of what you can expect to earn, a statement of current average franchise income is normally included in the promotional kit. Remember, these are only average figures based on existing franchises and may bear little relation to the results you can expect in your location and market. Prepare your own projections and go over them carefully with your accountant.

#### The location of the franchise

Site location is critical, especially for a business that relies on walk-in customers. Most franchisors have systems for determining the best locations.

If you are selecting the site, ask the franchisor for advice in your search. Also, visit other franchises in the system and compare their locations with the ones you are considering.

How much work (and money) will be required to develop and occupy the site? Will new premises have to be built, or can an existing facility be remodelled? Must this work be completed by a specified date? What are the occupancy costs — mortgage/rent, taxes, utilities? And how do they compare with expected sales volumes? If you are leasing, make sure the length of the lease coincides with the term of the agreement. And ask whether you can move your franchise if a more favourable site becomes available.

#### The terms and conditions of the franchise

The importance of checking the franchise agreement with a lawyer who specializes in franchising cannot be overemphasized. You should go over the contract together, clause by clause, so you understand it thoroughly. Do not hesitate to seek clarification; the agreement defines your working relationship with the franchisor, and once you have signed it, you will have to abide by its terms. Your accountant should also take a look at the agreement to see if it will have any adverse effects on your tax position.

It is important to look ahead at what will happen when the original term of the agreement expires. Can it be renewed? If not, you must consider whether a single term is long enough for you to earn a decent return on your investment.

#### Contract negotiations

To what extent can you bargain with the franchisor for better terms? There may be areas where, because of your knowledge of local conditions, the franchisor may be prepared to follow your suggestions. However, there will be little or no room for negotiation on the main points of the agreement, especially with an established franchisor. It is precisely on such major points that the franchisor has built the franchise system and maintained it successfully.

Some franchisors will expect you to make your decision fairly quickly once you have been accepted. Others will not have you sign the contract until they have found a suitable location for the franchise outlet, which could take weeks or even months. If you are dealing with a popular franchisor, you may join a long list of future franchisees, and an opening may not be available for some time. Whatever the case, be wary of a franchisor who does not appear to give you adequate time to study the franchise agreement and consult with your professional advisors.

## Financing the franchise

Unless you can finance the start-up of the business entirely with your own funds, you will need to approach your bank for a loan. You will need to develop a well-organized financing proposal that clearly demonstrates your financing needs, a conservative expectation of the franchise's performance and how you expect to repay the funds. A reputable franchisor will be able to help you prepare your financing proposal, but you will need to prepare and understand your assumptions and projected financial statements.

Start by determining the total cost of your investment. This may be different from the “initial costs” or “initial cash required” or “initial investment.” These terms can mean different things in different franchise agreements. Total costs cover all the expenses incurred up to the opening of the business as well as the working capital you will need once the business is operating.

Next you need to know how much of your own money you must invest at the start. The amount will vary considerably depending on the type of business and the size of the operation. Some franchisors will establish a minimum investment. This initial start-up capital must come from your personal assets and should not be borrowed. The key is to set yourself up for success. Higher debt levels require higher loan payments. Your ability to manage through a slow sales period while carrying high levels of debt is crucial.

Subtracting your equity from your total costs should give you a good idea of how much external financing you will need. Generally speaking, financing comes in two forms: term loans and operating loans. Term loans provide financing for capital expenditures — for example, machinery and equipment, opening inventories, the renovation or expansion of facilities, the acquisition of land and buildings. Operating loans are used to finance the day-to-day operating expenses of the business on a short-term basis. Term financing is the primary vehicle for franchise financing.

As well as documenting the amount needed, your financing proposal should indicate over what period you expect to repay your loans. There are two main questions to consider here:

- How long will it take, after your initial outlay of cash, to open the business and make your first sale?
- How long will it take the business to cover its operating costs?

You need to make a realistic assessment of both these objectives. If your estimates and projections are overly optimistic, your initial loans may prove to be inadequate. You should also have contingency plans to fall back on if, for example, the opening of the business is delayed or it takes longer than expected to break even.

It is advisable to keep your banker fully informed of your plans, particularly if you intend to ask for a loan. Major banks, such as RBC Royal Bank®, have developed special programs for franchise systems that cover both financing and other banking services. However, you should discuss your financing needs with the franchisor first before going to your banker with your financing proposal. Few franchisors will actually lend you money, but they do know what financing the average franchisee needs in order to be successful, and their assistance can be invaluable. Most bankers, therefore, rely on the franchisor to screen candidates and won't take action unless you have been through this process.



## Summary

As we stated at the beginning of this guidebook, when you acquire a franchise, you are in effect entering into a partnership with the franchisor. So it is important that you choose that “partner” carefully — it can be key to the success of your franchise operation.

Remember, owning a franchise means you are in large measure your own boss, able to make decisions affecting the day-to-day operations and to set long-term goals. It also calls for a lot of hard work and the need to follow the franchisor’s business format. Your persistence and dedication will determine the success of the business.

At the same time, the franchisor sets standards and procedures, controls the supply of goods and expects a certain level of performance from the franchisees. You’ll have to run the franchise within the guidelines set by the franchisor.

So before you make the leap, consider the pros and cons and ask yourself whether franchising is for you. Does owning a franchise operation fit with your personal and business goals? Are you comfortable with the franchisor-franchisee

relationship? If you decide to go ahead, chances are you will find franchising a profitable and satisfying business venture.

### Consult a professional

We cannot emphasize enough that using the approaches and techniques described in this guide will not eliminate the need for professional advice. You will always require professional guidance to help you meet the problems and exploit the opportunities of your own particular business.

### Consult your RBC Royal Bank Franchise Specialist

It is recommended that you meet with your RBC Royal Bank Franchise Specialist prior to starting on your business plan. Consider the Franchise Specialist as one of your trusted advisors. Ask for their insight and guidance. They would be more than happy to sit down with you and go over your plans. Over the years, RBC Royal Bank has been proud to work closely with many thousands of Canadian franchisees. We know the needs of franchisees — and we’re here to support you with more than just financing advice.





## Checklist for franchisees

This checklist contains an extensive list of questions you should be asking if you are interested in acquiring a franchise:

### Section A: The franchisor

1. How long has the franchisor been in business?
2. How long have they been offering franchises?
3. Is the franchise the subsidiary of another company? If so, what is the parent company? Has that company ever franchised other products or services?
4. What is the franchisor's current financial condition?
5. Have you received the franchisor's recent audited financial statements?
6. Who are the franchisor's directors and officers, and what is their business experience?
7. Does the franchisor have a reputation for dealing honestly with its franchisees? With its customers?
8. What is the franchisor's standing with the Chamber of Commerce? The Better Business Bureau? Dun & Bradstreet? Its bank?
9. How many franchises does the franchisor have? Have you discussed their plans for future development and expansion or diversification?
10. What effect will development and expansion have on your dealings with the franchisor?
11. What innovations has the franchisor introduced since first starting?
12. How selective is the franchisor when choosing their franchisees? Have your qualifications been reviewed?

### Section B: The product or service

1. What makes the product or service unique, and does it satisfy a particular need in your market?
2. How much of this product or service is presently sold, and have sales been increasing or decreasing?
3. Would you buy the product or service on its own merits?

4. How long has it been on the market?
5. Is the product or service marketable in your territory?
6. Is the price competitive with similar products or services on the market?
7. Have you reviewed the federal/provincial standards and regulations governing the product or service?
8. Are there product warranties? Are they your responsibility or the franchisor's?
9. Is the product patented or protected by trademarks or copyrights?
10. Have you made an assessment of your competitors and competitive products or services in your area?

### Section C: Sales territory and location

1. To what extent is your trading area exclusive? Will the franchisor be opening other franchised or company-owned outlets near your own?
2. Under what conditions can your sales territory be expanded or contracted?
3. How will you establish the sales potential of your territory?
4. Has the franchisor been able to assist you with information such as population statistics and expected growth potential over the next five years?
5. Do you have a profile of the people in your area, including age, income and occupation?

### Section D: The experience of current franchisees

1. What was the total investment required by the franchisor?
2. Are there any hidden or unexpected costs?
3. Are you satisfied with the quality of goods supplied by the franchisor?
4. Are you satisfied with the price/quality of the relationship?
5. How reliable is delivery from the franchisor?

6. How long was it before your operating expenses were covered by revenue?
  7. How long was it before the franchise was able to pay you a reasonable management salary?
  8. Has your franchise been as profitable as you expected?
  9. What kind of management and staff training was provided? Did it meet your expectations? Where was it held?
  10. Have you ever had a serious disagreement with the franchisor? What about? Was it settled amicably?
  11. Does the franchisor respond promptly and helpfully to questions you have or advice you seek?
  12. Are you satisfied with the marketing, promotional and advertising assistance that you receive from the franchisor?
  13. If you could change your contract, what would you change?
  14. Would you advise anyone to start a franchise with this particular franchisor?
  15. What have you done to make your franchise successful?
5. Must you purchase your essential supplies from the franchisor or designated suppliers?
  6. Is there a minimum amount of merchandise you must purchase from the franchisor each year?
  7. What happens if supplies are interrupted? Can you purchase goods from alternative suppliers?
  8. Have you the right to the franchisor's latest innovations?
  9. Is there an annual sales quota? Is it attainable?
  10. What types of reports are you expected to provide the franchisor?
  11. Does the contract cover in detail all the franchisor's verbal promises made during the interview?
  12. Will the franchisor maintain any necessary federal and provincial registrations?
  13. Can the contract be renewed? If so, on what terms?
  14. If leasing the location, will the lease be for the same term as the franchise agreement? Can the lease be renewed if you renew the franchise?

### Section E: The franchise contract

1. Does the contract protect you as well as the franchisor? Are the rights and obligations of both parties clearly stated?
2. Is the contract specific as to the type and size of operation you are expected to manage?
3. Is the nature, duration, cost and extent of your training outlined in the contract?
4. Are your payments to the franchisor clearly specified? Are the following shown?
  - The franchise fee
  - Any fixed yearly payments the franchisor receives
  - Royalty payments based on a percentage of gross sales
  - The monthly percentage of gross sales required for advertising
  - Fees for continuing services provided by the franchisor
5. Are you responsible for the construction or improvement of premises? If so, will the franchisor provide you with plans and specifications, and can these be changed?
6. To what extent can you choose your territory or location?
7. Are you permitted to have multiple locations within your territory?
8. Can you sell your interest in the franchise with the franchisor's consent?
9. Can you keep any profits made from the sale? How is the sale price determined?
10. Can you terminate the contract if, for some reason, you have to?
11. If you terminate the contract, is there a penalty cost?
12. When and how can the franchisor terminate your franchise?

23. How will you be compensated for the goodwill you have built up in the business?
24. If you default on the contract, how much time do you have to rectify the situation?
25. Is there an arbitration clause regarding defaults?
26. What happens to the business in the event of your prolonged illness or death? Have questions regarding succession been clearly addressed?
27. Are you prevented from engaging in any other business activity for the duration of the contract?
28. Does the contract prevent you from establishing, owning or working in a competing business for a certain number of years after termination of the contract?
29. Before you sign the contract, are you sure that the franchise can do something for you that you cannot do for yourself?
12. Will the franchisor help with opening inventory? With purchasing? With inventory control?
13. Can you get credit terms for inventory purchases or will they be collected on delivery?
14. Does the franchisor provide designs and specifications for layouts and displays?
15. Are the administrative and bookkeeping procedures simple and well run? What manuals and systems are provided?

#### **Section F: The franchisor's assistance to you**

1. Will the franchisor help you to finance the purchase of the franchise? What will such assistance cost you?
2. Will the franchisor help you to select a suitable site?
3. Will the franchisor help you negotiate a lease agreement with a third party?
4. Will the franchisor sign the lease and then sublet to you?
5. Is the franchisor committed to providing an ongoing training program for future employees?
6. Will the franchisor work with you on-site in the actual operation of the franchise during the first few weeks?
7. What continuing management assistance will you receive?
8. Is such continuing assistance included in the royalty fees or is there an additional charge?
9. Does the franchisor make available its own qualified personnel to help out in an emergency?
10. What advertising and sales promotion is provided?
11. How much control do you have over the format and costs of local advertising?

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