

Checklists for Franchisees

Source: *The Canada-Ontario Business Service Centre (COBSC)* provides access to accurate, timely and relevant information on federal and provincial business-related programs, services and regulations. The COBSC is jointly managed by Industry Canada and the Ontario Ministry of Government and Consumer Services. Visit: www.cbosc.org/ontario

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Summary

Franchising has become a major force in today's business environment. Franchising is a system of distribution used by companies to sell products or perform services. The company (franchisor) offers its technical expertise, established marketing system, symbols and trademarks, and ongoing operational support, in exchange for a continuing right to receive royalties from the operator (franchisee). The aim is to be mutually beneficial to both parties, by combining the marketing and technical strengths of the franchisor with the local market familiarity, energy and capital of the franchisee.

There are many opportunities available regarding franchised businesses. To add further complexity, there are many variations in the franchising methods offered. To ensure your success, you must be fully aware of and evaluate all available facts pertaining to your franchise opportunity.

The following checklist of questions should assist you in making a decision about acquiring a franchise. In addition, we strongly recommend that you consult with your lawyer and accountant before you sign any documents or contracts.

Self Evaluation

- Do you have the capital required for investment?
- Do you have the necessary management skills, education and work experience required?
- Are you fully aware of the work involved in running this franchise?
- What is the best franchise for you? (The answer is a combination of four things)
 - What types of businesses are succeeding these days, with every indication that they will continue to succeed?
 - What is the kind of business you would like to be in?
 - Is someone offering a franchise in your area of interest, that you believe will help you to succeed, and that you can afford?
 - Can you work within the limits of a franchise system? Franchisors are not looking for real entrepreneurs, but more entrepreneurial sergeants who can fit into the system.

The Franchise Operation

- What is the franchisor's background and how long has it been offering franchises?
- Is the franchise financially stable?
- How selective is the franchisor when choosing its franchisees? Did they ask your qualifications and financial standing?
- Who are the principals involved and are they experienced in business?
- How many franchises are operating now? Are new locations being opened on a regular basis? Have any locations failed?
- If the franchise is new, what is its record of accomplishment?
- What innovations has the franchisor introduced since first starting?
- Are you required to meet with existing franchise owners?
- Does the franchisor provide localised on-going training for franchisees for the length of the contract?

The Product or Service

- What makes the product or service unique?
- Is there a reasonable demand for it? Have sales been increasing or decreasing? Is it seasonal?
- Is it a product or service you would buy?
- Are you allowed to carry other product lines?
- Is it priced competitively with similar products or services?
- Can the franchisor guarantee continual supply at a fair price?
- Are there product warranties or guarantees? Whose responsibility?
- Is the product protected by a patent, trademark, or copyright?
- When your inventory levels become low, can you use other sources until the franchisor's products arrive?

Location and Sales Territory

- Is your territory clearly defined and exclusive? What guarantees do you have?
- What is the sales potential for the territory? Has the franchisor provided you with market information and statistics to support this?
- What is the future growth potential?

- Can you select your own location? Are there flexible standards for location and premises? Do you own or lease? Terms?
- What competition, both franchises and non-franchised is in the area?

Other Franchisee Experience

Have you been in contact with other franchisees? Get the franchisor to give you a list of those operating in your vicinity. These are some of the questions you should ask them when you visit or phone them.

- What was the total investment required by the franchisor?
- Were there any hidden or unexpected costs?
- Are you satisfied with the quality of goods supplied by the franchisor?
- How reliable is delivery from the franchisor?
- How long was it before your operating expenses were covered by revenue, and how long before you could draw a reasonable salary?
- Were the projected sales and profit figures provided by the franchisor accurate?
- Has your franchise been as profitable as you expected?
- What kind of management and staff training was provided? Did it meet your expectations? Where was it held?
- Have you ever had a serious disagreement with the franchisor? What about? Was it settled amicably?
- Does the franchisor respond promptly and helpfully to questions or advice you are seeking?
- Are you satisfied with the marketing, promotional, and advertising assistance that you receive from the franchisor?
- If you could change your contract, what would you change?
- Would you recommend starting a franchise with this particular franchisor?
- What have you done to make your franchise successful?

Franchise Contract

The franchise agreement is a business contract that should clearly indicate the terms and conditions relevant to the business operation. Have your lawyer and accountant carefully check out the agreement, particularly those areas dealing with bankruptcy, termination, renewal, transfer and sale of the franchise.

- Does the contract protect yourself as well as the franchisor?
- Are the rights and obligations of both parties clearly stated?

- Is the contract specific as to the type and size of operation you are expected to manage?
- Is the nature, duration, cost and extent of your training outlined in the contract?
- Are your payments to the franchisor clearly specified? Are the following shown?
 - the franchise fee;
 - any other fixed yearly payments the franchisor receives;
 - royalty payments reasonable;
 - advertising payments;
 - fees for continuing services provided by the franchisor.
- Must you purchase your essential supplies from the franchisor or designated suppliers?
- Is there a minimum amount of merchandise you must purchase from the franchisor each year? If this merchandise cost is pricier than other comparable products, is this a hidden franchise cost?
- What happens if supplies are interrupted? Can you purchase goods from alternative suppliers?
- Have you the right to the franchisor's latest innovations?
- Is there an annual sales quota? Is it attainable?
- What types of reports are you expected to provide the franchisor?
- Does the contract cover in detail all the franchisor's verbal promises made during the interviews?
- Will the franchisor maintain any necessary federal and provincial registrations?
- Can the contract be renewed? If so, on what terms?
- When confronted with a monthly loss, can royalty payments be deferred to a later, more profitable month?
- Do you have to follow franchisor controls and policies exactly, or can you exercise some creativity regarding the product or service and its delivery?
- 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?
- 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 or altered?
- To what extent can you choose your territory or location?
- Are you permitted to have multi-locations within your territory?

- Can you sell the franchise? What are the conditions?
- Can you keep any profits made from the sale? How is the sale price determined?
- Can you terminate the contract if, for some reason, you have to?
- If you terminate the contract, is there a penalty cost?
- When and how can the franchisor terminate your franchise?
- How will you be compensated for the goodwill you have built up in the business?
- If you default on the contract, how much time do you have to rectify the situation?
- Is there an arbitration clause regarding defaults?
- What happens to the business in the event of your prolonged illness or death? Have questions regarding succession been clearly addressed?
- Are you prevented from engaging in any other business activity for the duration of the contract?
- 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?
- Before you sign the contract, are you sure that the franchise can do something for you that you cannot do for yourself?

Resources

Canadian Franchise Association

5399 Eglinton Avenue West, Suite 116
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 Tel: 416-695-2896
 Toll-free: 800-665-4232 ext. 232
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 E-mail: info@cfa.ca
 Web site: www.cfa.ca

Franchise Annual On-Line

Info Franchise News Inc.
 9 Duke Street
 P.O. Box 755
 St.Catherines, Ontario L2R 6W8
 Tel.: (905) 688-2665
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 Web site: <http://www.infonews.com>

Canadian Business Franchise

15 Wertheim Court, Suite 710
 Richmond Hill, ON L4B 3H7
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 Fax: 905-771-7336
 Web site: www.franchiseinfo.ca

Entrepreneur Magazine

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