



Checklist FOR FRANCHISEES

Investing in a franchise is a major investment decision, and not every franchise will be the right fit for you. That's why it's important to ask the following questions if you're considering the purchase of a franchise. You may need to ask many more questions to properly conduct your due diligence, and it's also very critical that you retain franchise professionals to assist you through the process of determining whether to purchase the franchise.

This workbook has been prepared with the assistance of the following franchise experts:

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*Note: The Franchisee Checklist is a public resource of general information which is intended, but not promised or guaranteed to be correct, complete, or up to date. It is not intended to be a source of legal advice. Readers should seek the advice of competent legal, accounting, and business counsel.



SECTION 1: THE FRANCHISOR – IDENTITY & EXPERIENCE (Questions to ask the franchisor)

- 1. Who are the shareholders of the franchisor? _____
- 2. Who are the officers and directors of the franchisor? _____
- 3. What is the business experience of the franchisor's directors and officers? _____
- 4. Is the franchisor a subsidiary of another company? _____
 - If so, who is the parent company? _____
 - Has that franchisor or any of its affiliates ever franchised other services? _____
 - If so, which concept(s), and how successful are the other concepts? _____
- 5. What other companies are in the franchisor organizational group? What role do these companies have in relation to the franchise business? _____
- 6. Are the units franchised under a master franchise agreement? What are the terms/timelines of the master franchise agreement? What is the outcome if the master franchise agreement is terminated? _____

SECTION 4: FRANCHISED PRODUCT OR SERVICE

- 1. What makes the franchisor's product or service unique?
 - Does it satisfy a need?
 - Is it marketable in your territory?
- 2. Is the franchise system easily replicated, and if so, how will the franchisor differentiate itself from its competitors?
- 3. What are the current sales of the franchisor's product or service?
 - Have sales been increasing or decreasing?
- 4. How long has the product/service been on the market?
- 5. What is the competition for the franchisor's product or service in your market?
- 6. On a scale from 1 to 10, how competitive is the pricing of the franchisor's product or service?
- 7. Is the sale of the product or service subject to certain legal restrictions? If so, what are the applicable federal and provincial standards and regulations, and does the franchisor comply?
- 8. Is the product protected by patent, trademark, or copyright?
 - Are the trademarks, copyrights, or patents registered in Canada?
 - Who owns the trademarks, copyrights, or patents?
 - Are they owned by the franchisor or its affiliates?
- 9. Are there product warranties?
 - Who is responsible for such product warranties – the franchisor, the franchisee, or a third-party supplier?
- 10. What products must be purchased from the franchisor or designated suppliers?
 - On a scale from 1 to 10, how competitive is the cost with third-party suppliers?
 - If supplies are interrupted, can purchases be made through alternate suppliers?
- 11. How often does the franchisor update product/service offerings?
- 12. How often does the franchisor require renovation/upgrades to be completed?
 - What is the general cost of these renovations/upgrades?

SECTION 5: SALES TERRITORY AND LOCATION

- 1. Is your franchise territory exclusive?
 - If not, is there any territorial protection?
 - Will there be other outlets opening near your territory which may undermine your sales?
 - Would these be company-owned or owned by other franchisees?
 - Can you get a first right of refusal for any adjoining territories?
 - Does the franchisor sell its products through other channels of distribution?
 - If so, what are these channels, and how will they impact the profitability of the franchise?
- 2. Can you decrease or expand your sales territory?
 - Under what conditions?
 - At what additional investment level?
- 3. Has the franchisor conducted a site selection analysis of the location of the franchised business and the territory, and provided you with information that substantiates the viability of the location and territory? If not, how could you obtain this information?

SECTION 6: QUESTIONS TO ASK CURRENT FRANCHISEES

- 1. What was your total investment in the franchise? _____
- 2. Were there any unexpected costs? If so: _____
 - What were they for? _____
 - How much were they? _____
 - Were they unique to that individual, or is it something several franchisees experienced? _____
- 3. On a scale from 1 to 10, how good is the quality of the products or services supplied by the franchisor or its designated suppliers? _____
- 4. On a scale from 1 to 10, how satisfied are you with the price-quality relationship? _____
- 5. On a scale from 1 to 10, how reliable are deliveries from the franchisor or its designated suppliers? _____
- 6. On a scale from 1 to 10, how effective was the franchisor's initial training? How long was the training? _____
- 7. What is the franchisor's initial and ongoing training program? _____
 - On a scale from 1 to 10, how effective is the:
 - i) initial training? _____
 - ii) ongoing training? _____
 - iii) group training calls? _____
 - iv) mentoring by the franchisor? _____
 - v) mentoring by other successful franchisees? _____
- 8. On a scale from 1 to 10, how effective is the franchisor in responding promptly and helpfully to questions you have or advice you seek? _____
- 9. What type of ongoing support and advice (including advertising, marketing, and promotional assistance) do you receive from your franchisor? _____
 - On a scale from 1 to 10, how satisfied are you with this support? _____
- 10. On a scale from 1 to 10, how profitable is your franchise as compared to initial expectations? _____
- 11. How long did it take for revenue to cover operating costs? _____
- 12. How long did it take for you to break even? _____
- 13. What have you done to make your franchise successful, and would you recommend this franchise? _____
- 14. Does the franchisor have a dispute settlement board with both franchisee and franchisor representatives? On a scale from 1 to 10, how effective is it? _____
- 15. Have you ever had a serious disagreement with your franchisor? What was the disagreement about? How was it settled? _____
- 16. If you have experienced financial difficulty in operating the franchise, how has the franchisor supported you through the difficult time? _____
- 17. What is the time investment for the franchisee (high amount of owner involvement, or more self-sufficient operations)? _____
- 18. Knowing what you know now, would you do it over again? Why or why not? _____

SECTION 7: THE FRANCHISE AGREEMENT

1. Have you retained a franchise lawyer with expertise in reviewing franchise agreements? _____
2. Are the franchise, the location, and the territory clearly described in the contract? _____
3. Does the contract clearly describe the duration, type, and cost of the training to be provided by the franchisor? _____
4. Does the contract clearly describe the support to be provided for the grand opening? _____
5. Does the contract clearly specify the type, amount, and timing of all payments to the franchisor? This includes the franchise fee; any deposits and the conditions for any refunds; royalty payments based on a percentage of gross sales; local, regional, and/or national advertising contributions; fees of continuing services provided by the franchisor; and any other payments. _____
6. Are you required to purchase supplies from the franchisor or other designated suppliers?
• If so, what and how much?
• Are there any minimum purchase quotas? _____
7. Can you use alternate suppliers (provided the franchisor's quality standards are maintained) if the franchisor's supply deliveries are interrupted or for other reasons? _____
8. Do you have the right to use any innovation developed by the franchisor? _____
9. Is there a sales quota that you are required to meet?
• Is it attainable?
• What are the consequences if you fail to meet it? _____
10. What is the length of the contract term?
• Is the term renewable, and on what basis?
• Are the renewal conditions reasonable? _____
11. What types of records and reports are you required to provide to the franchisor? How cumbersome are the requirements? _____
12. Are you leasing your location directly with your landlord, or will you enter into a sublease with the franchisor?
• Is the lease for the same period as the franchise contract?
• Can the lease be renewed, and on what terms and for what time period?
• Can you change locations? If so, on what conditions? _____
13. Are you required to build, or can you renovate existing franchise premises?
• Will the franchisor provide design and construction specifications, and/or monitor the construction?
• Can these specifications be changed? _____
14. Do you choose the location or sales area of the franchise, or does the franchisor? _____
15. Can you operate more than one franchise in your sales area? _____
16. Can you sell your interest in the franchise?
• Does this require the franchisor's consent?
• What are the conditions of such consent?
• How is the sale price determined?
• Is there a pre-determined valuation formula? _____
17. Can you terminate the contract?
• If so, what are the termination conditions?
• What are the costs and/or penalties? _____

SECTION 7: Continued...

- 18. On what basis can the franchisor cancel the contract? _____
- 19. If the contract is terminated, will you be compensated for any component of the goodwill that you have built up in the business? _____
- 20. Is there a post-term non-competition covenant, and is it a reasonable one? _____
- 21. If you violate any provision of the agreement, do you have adequate time to correct the situation? _____
- 22. Does the contract provide for arbitration or mediation as a pre-requisite before litigation is commenced? _____
- 23. What happens if you suffer a prolonged illness or death?
 - Will your survivors, for example, be entitled to operate and maintain ownership of your franchise in such event? _____
- 24. Can you engage in any other business enterprise during the term of the contract? _____

SECTION 8: DISCLOSURE DOCUMENT

(For franchisees in provinces where legislation mandates the provision of disclosure documents – currently British Columbia, Alberta, Manitoba, Ontario, New Brunswick, and Prince Edward Island.)

- 1. Has the franchisor provided you with a disclosure document that complies with the applicable franchising disclosure statute? In particular, does the disclosure document contain all disclosure required by the relevant franchise disclosure statutes, including the franchise agreement, all other agreements, and the franchisor's financial statements for its most recently completed fiscal year? _____
- 2. Have you retained a franchise lawyer with expertise in reviewing disclosure documents? _____
- 3. Have you retained an accountant with expertise in franchising matters to review the franchisor's financial statements? _____
- 4. Is the disclosure made by the disclosure document consistent with the terms of the franchise documentation and the representations made by the franchisor's salespersons? _____
- 5. Has the franchisor complied with the disclosure requirements of the relevant disclosure statutes by providing you with at least 14 days in which you could review the documentation before paying the franchisor any monies or before you signed any agreements? _____

SECTION 8: DISCLOSURE DOCUMENT

(For franchisees in provinces without legislation mandating the provision of disclosure documents)

- 1. Has the franchisor provided you with a disclosure document? _____
- 2. Have you retained a franchise lawyer with expertise in reviewing disclosure documents? _____
- 3. Have you retained an accountant with expertise in franchising matters to review the franchisor's financial statements? _____
- 4. Is the disclosure made by the disclosure document consistent with the terms of the franchise documentation and the representations made by the franchisor's salespersons? _____