Checklist for Franchisees

Purchasing a franchise is a major investment decision and not every franchise will be right for every individual. The CFA recommends that you should ask the following questions if you are considering the purchase of a franchise.

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NOTE: Our Franchisee Workbook 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 I. 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 company ever franchised other services?
   - if so which concept(s)?
   - how successful are the other concepts?
5. Have any of the franchisor's directors, officers or shareholders gone bankrupt or have they been convicted of any criminal offences in the last 10 years?
6. How many years has the franchisor been operating?
7. How many years has it been offering franchises?
   - in Canada?
   - in USA?
8. How many franchises does the franchisor have?
   - how many units are corporately owned?
9. Is the franchisor a member of the Canadian Franchise Association?
10. What is the franchisor's reputation with the Better Business Bureau?
    - with the Chamber of Commerce?
    - with Dun & Bradstreet?
    - with their banker?
11. What is the franchisor's financial condition? Have you reviewed its most recent financial statements (prepared in accordance with auditing or review engagement standards)?

Section II. FRANCHISOR RELATIONS WITH ITS FRANCHISEES

1. What is the franchisor's reputation for relations with its:
   - franchisees?
   - its customers?
2. How does the franchisor choose its franchisees?
   - have your qualifications been reviewed?
   - ask yourself, why do you feel you are a good match?
3. What are the franchisor's plans for future development?
   - for expansion / diversification?
   - how will these plans affect your dealings with the franchisor?
4. How does the franchisor monitor franchisee operations?
   - does the franchisor periodically inspect all of the franchises?
5. Does the franchisor keep advertising funds in a separate account?
   - will the franchisor regularly provide franchisees with a statement of how the advertising funds are disbursed?
6. Does the franchisor solicit franchisee input into marketing strategies, new product development, etc.?
7. Does the franchisor account for the unique needs of different marketing (geographic) areas as it implements its marketing strategies?
8. Can the franchisor provide a list of all the franchisees?
9. Have franchises been terminated in the last 10 years?
   - how many?
   - for what reason?
10. Has the franchisor litigated with franchisees in the past?
    - What was the outcome of such litigation?
11. Is there any pending litigation against the franchisor?
    a. what is the nature of such litigation?
    b. the status?
    c. the likely outcome of the litigation?
12. How does the franchisor describe its corporate culture?
    - Ask yourself, will you be comfortable with this culture?
13. Does the franchisor have a recognition program for exceptional performance? What does it involve?
14. Is there a franchisee association or council?
    - who belongs?
    - does the franchisor relate well with the association or council?
15. Does the franchisor have plans for expansion or diversification of its products and/or services? What affect will these plans have on your dealings with the franchisor?
16. How innovative is the franchisor?
    - how important is innovation to the franchisor's industry?
    - what successful innovations has the franchisor introduced since it began its business?

Section III. REQUIRED INVESTMENT

1. How much is the initial franchise fee?
   - is there a deposit?
   - how much of the deposit is refundable and under what circumstances?
2. What is the minimum operating cash requirement at start-up, in addition to the original investment?
3. Is there a site development fee?
4. What is the anticipated cost of leasehold improvements, equipment, signage and start-up inventory?
5. What is the anticipated occupancy cost of the premise?
   - rental payments or purchase cost of real property?
   - anticipated construction costs for the premises?
6. What other costs may be incurred by you?
7. Does the franchisor assist in the financing of the franchise?
8. What is the anticipated period of time between start-up and profitability?
9. What are the anticipated franchise earnings and has the franchisor provide you with any earnings claims? If so, have you been provided with the underlying assumptions that substantiate the projections or claims?
10. What is your anticipated "personal" working capital required through the launch period (the amount your need monthly to cover living expenses, multiplied by the number of months before you can draw income from your franchise)?

Section IV. 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 products or services in your market?
6. Is the price of franchisor's product or service competitive?
7. Is the sale of the product or service subject to legal standards and regulations and if so, what are the applicable federal and provincial standards and regulations and does it comply?
8. Is the product protected by patent, trade-mark, or copyright?
   - are the trade-marks, copyright or patents registered in Canada?
   - Who owns the trade-marks, copyright or patents (are they owned by the franchisor or its affiliate(s)?
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?
    - is the cost competitive with third party suppliers?

Section V. 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?
    - company owned?
    - owned by other franchisees?
    - can you get first right of refusal?
    - does the franchisor sell its products through other channels? If so, what are these channels and how will they impact on 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 obtained an analysis of the territory and provided you with population statistics, including age, occupations and income levels and information about projected growth potential in the territory over the next few years? If not, how could you possibly obtain this information?

Section VI. QUESTIONS TO ASK CURRENT FRANCHISEES

1. What was your total investment of the franchise?
2. Were there any unexpected costs? If so:
    - what were they for?
    - How much were they?
    - How unique were they to that individual, or is it something several franchisees experienced?
3. On a scale of 1 – 10, how good is the quality of the products supplied by the franchisor or its designated suppliers?
4. On a scale of 1 – 10, how satisfied are you with the price-quality relationship?
5. On a scale of 1 – 10, how well reliable are deliveries from the franchisor or its designated suppliers?
6. On a scale of 1 – 10, how effective was the franchisor's initial training? How long was the training?
7. What is the franchisor's ongoing training program?
    - On a scale of 1 – 10, how effective is the:
        i. Ongoing training?
        ii. Group training calls?
        iii. Mentoring by franchisor?
        iv. Mentoring by other, successful franchisees?

8. On a scale of 1 – 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 of 1 – 10, how satisfied are you with this support?
10. On a scale of 1 – 10, how profitable is your franchise as compared to initial expectations?
11. How long did it take revenue to cover operating costs?
12. How long did it take 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 of 1 – 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?

Section VII. THE CONTRACT *(Questions to ask yourself)*

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 specify the type, amount and timing of all payments to the franchisor including the following?
   a. the franchise fee;
   b. any deposit and the conditions for any refunds;
   c. royalty payments based on a percentage of gross sales;
   d. local, regional and/or national advertising contributions;
   e. fees of continuing services provided by the franchisor; and any other payments?
5. Are you required to purchase supplies from the franchisor or other designated suppliers?
   - if so, what and how much?
   - are there any annual (or other frequency) minimum purchase quotas?
6. Can you use alternate suppliers (provided franchisor's quality standards are maintained) if franchisor's supply deliveries are interrupted or for other reasons?
7. Do you have the right to use any innovations developed by the franchisor?
8. Is there a sales quota that you are required to meet?
   - is it attainable?
   - what are the consequences of you fail to meet them?

9. What is the length of the contract term?
   - is the term renewable and on what basis?
   - are the renewal conditions reasonable?
10. What types of records and reports are you required to provide to the franchisor?
11. 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?
   - on what terms and for what length of period?
   - can you change locations?
   - if so, on what conditions?
12. Are you required to build or may you renovate existing franchise premises?
   - will the franchisor provide design and construction specifications and/or monitor the construction?
   - can these specifications be changed?
13. Do you choose the location or sales area of the franchise, or does the franchisor?
14. Can you operate more than one franchise in your sales area?
15. 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?
16. Can you terminate the contract?
   - if so, what are the conditions for terminating?
   - what are the costs and/or penalties?
17. On what basis can the franchisor terminate the contract?
18. If the contract is terminated, will you be compensated for any component of the goodwill that you have built up in the business?
19. Is there a post-term non-competition covenant and is it a reasonable one?
20. If you violate any provision of the agreement, do you have adequate time to correct the situation?
21. Does the contract provide for arbitration or mediation as a pre-requisite and before litigation is commenced?
22. What happens if you suffer a prolonged illness or death?
   - will your survivors for example be entitled to operate and maintain ownership in your franchise in such event?
23. Can you engage in any other business enterprise during the term of the contract?

Section VIII. DISCLOSURE DOCUMENT

(For Franchisees in the Provinces of Ontario and Alberta only)

1. Has the franchisor provided you with a disclosure document which 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 documents?

Section IX. DISCLOSURE DOCUMENT

(For Franchisees outside of the Provinces of Ontario and Alberta)

1. Has the franchisor provided you with a disclosure document which complies with the CFA's voluntary disclosure requirement for its members? (Please see www.cfa.ca/disclosure.html for more information in this regard)
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?

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