

# Checklist to Evaluate a Potential Franchise

## Summary

The following is a list of questions the **Canadian Franchise Association** (CFA) recommends you should ask, if you are considering purchasing a franchise:

### The Franchisor - Identity and Experience

- Who are the shareholders of the franchisor?
- Who are the officers and directors of the franchisor?
- What is the business experience of the franchisor's directors and officers?
- Have any of the franchisor's directors, officers or shareholders gone bankrupt or convicted of any criminal offense in the last 7 years?
- How many years has the franchisor been operating?
- How many years has it been offering franchises?
- How many franchises does the franchisor have?
- How many units are corporately owned?
- What is the franchisor's financial condition? Have you received its most recent audited financial statements?
- Is the franchisor a member of the **Canadian Franchise Association**?
- What is the franchisor's reputation with the **Better Business Bureau**? The Chamber of Commerce? **Dun and Bradstreet**?

### Franchisor Relations With its Franchisees

- What is the franchisor reputation with its franchisees and its customers?
- How does the franchisor choose its franchisees? Have your qualifications been reviewed?
- How does the franchisor monitor franchisee operations? Does the franchisor periodically inspect all of the franchisees?
- Does the franchisor keep a separate advertising budget?
- Will the franchisor provide franchisees with a statement of the disposition advertising funds?
- Does the franchisor solicit franchisee input into marketing strategies, new product development, etc.?
- Does the franchisor account for unique needs of different marketing areas when it designs its marketing strategies?
- Will the franchisor provide a list of all the franchisees in the area?
- Have franchisees been terminated in the last 10 years? How many? For what reason?
- Has the franchisor litigated with franchisees previously? What was the outcome of such litigation?
- Is there any pending litigation against the franchisor? What is the nature of such litigation? The status? The likely outcome of the litigation?
- How does the franchisor describe its corporate culture? Will you be comfortable with this culture?
- Does the franchisor have a recognition program for exceptional performance? What does it involve?
- Is there a franchisee association or council? Who belongs?
- Does the franchisor have plans for expansion or diversification? What effect will these plans have on your dealings with the franchisor?
- Has the franchisor introduced any innovations since it began its business?

### Required Investment

- How much is the initial franchise fee? Is there a deposit? How much is refundable? Under what circumstances?
- Is there a site development fee?
- What is the anticipated cost of leasehold improvements, equipment, signage and start-up inventory?
- What is the anticipated occupancy cost of the premise? i.e. rental payments or purchase cost of real property?
- What are the anticipated construction costs for the premises?
- What other costs may be incurred?
- Does the franchisor assist in the financing of the franchise?
- What is the anticipated period of time between start-up and profitability?
- What are the anticipated franchise earnings?

### **Franchised Product or Service**

- What makes the franchisor's product/service unique? Does it satisfy a need and is it marketable in your market?
- What are the current sales of the franchisor's product or service? Have sales been increasing or decreasing?
- How long has the product/service been on the market?
- What is the competition for the franchisor's products or services in your market? Is the price of the franchisor's product or service competitive?
- 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?
- Is the product protected by patent, trademark, or copyright? Are the trademarks, copyrights or patents registered in Canada? Who owns the trademarks, copyrights and patents?
- Are there product warranties? Are they the responsibility of franchisor or franchisee or a third party supplier?
- What products must be purchased from the franchisor or designated supplier? Is the cost competitive with third party suppliers?

### **Sales Territory and Location**

- Is your franchise territory exclusive? If not exclusive, is there any territorial protection? Will there be other outlets opening near your territory? Does the franchisor sell its products through other channels? If so, what are these channels? How will they impact on the profitability of the franchise?
- Can you decrease or expand your sales territory? Under what conditions?
- Has the franchisor provided you with population statistics, including age, occupations and income levels, and information about projected growth potential over the next few years? If not, how will you obtain this information?

### **Questions to Ask Current Franchisees**

- What was your total investment for the franchise?
- Were there any unexpected costs? If so, what are they?
- Are the quality and price of the products supplied by the franchisor or its designated suppliers acceptable?
- Did the franchisor provide effective, thorough training? How long was the training?
- Is your franchise as profitable as you expected?
- How long did it take for you to cover operating costs?
- How long did it take for you to receive a reasonable salary?

- What type of ongoing support and advice, including advertising, marketing and promotional assistance do you receive from your franchisor?
- What have you done to make your franchise successful and would you recommend the franchise?
- If you could change your contract, what changes would you make?
- Does the franchisor have a dispute settlement board with both franchisee and franchisor representatives?
- Have you ever had a serious disagreement with your franchisor? What was the disagreement about? How was it settled?

## **The Contract**

- Are the franchise, the location and the territory clearly described in the contract?
- Does the contract clearly describe the duration, type and cost of the training to be provided by the franchisor?
- Does the contract clearly specify the type, amount and timing of all payments to the franchisor including the following?
  - - the franchise fee;
  - - any deposit;
  - - royalty payments based on a percentage of gross sales;
  - - monthly percentage of gross sales which must be spent on local advertising;
  - - advertising payments to franchisor operated advertising fund and
  - - other payments?
- Are you required to purchase supplies from the franchisor or other designated suppliers? If so, what and how much?
- Can you use alternate suppliers if franchisor's quality standards are maintained or franchisor's supply deliveries are interrupted?
- Do you have the right to use any innovations developed by the franchisor?
- Is there a sales quota? Is it attainable?
- What is the contract term? Is the term renewable? For how long? What are the renewal conditions?
- What type of records and reports are you required to provide to the franchisor?
- Are you leasing your location or will you have a sublease? Is the lease for the same period as the franchise contract? Can the lease be renewed? On what term? Can you change locations? If so, on what conditions?
- Are you required to build or may you renovate existing franchise premises? Will the franchisor provide design and construction specifications? Can these specifications be changed?
- Do you choose the location or sales area of the franchise, or does the franchisor?
- Can you operate more than one franchise in your sales area?
- Can you sell your interest in the franchise? Does this require the franchisor's consent? What are the conditions of such consent?
- Can you terminate the contract? If so, what are the conditions for terminating?
- When can the franchisor terminate the contract?
- If the contract is terminated, will you be compensated for the goodwill that you have built up in the business? Is there a post-term non competition covenant?
- If you violate a term of the agreement, do you have time to correct the situation? How much time?
- Does the contract contain an arbitration clause?
- What happens if you suffer a prolonged illness or death?
- Can you engage in any other business enterprise for the term of the contract?

## **Franchisor's Assistance to You**

- Will the franchisor choose or assist you in selecting an appropriate site?

- Does the franchisor build the premises? If not, does the franchisor specify the design of premises layout and displays?
- Does the franchisor assist in lease negotiations?
- Does the franchisor provide initial training and ongoing training for future employees? If so, how often, for how long and at what costs? Will you be required to attend ongoing training sessions?
- Does the franchisor provide on-site opening assistance? For how long? At what cost?
- What continuing management assistance will you receive?
- Does the franchisor have a system for detecting franchisees in need of assistance? How does it respond to such situations?
- What advertising and sales promotion assistance does the franchisor provide?
- Do you control the cost and format of local advertising? If not, how does the franchisor control this?
- Are inventory purchases C.O.D., or can you arrange the terms?
- Does the franchisor have simple and well-run book-keeping and other administrative procedures?
- Does the franchisor provide manuals and guidelines?