

Buying a Franchise Checklist

If you are interested in purchasing a franchise, remember you are not buying a business; you are buying a legal right to use the franchisor's trademark, brand, operating system and ongoing support for a fee. In return, you pay an upfront franchise fee and provide a share of your income back to the franchisor. We've compiled a list of key pieces of information you should obtain from potential franchisors before you make your decision:

Franchise Organization

- Determine who are the shareholders, officers and directors of the franchise organization.
- Find out the level of expertise and experience of the franchise principals.
- Examine the franchisor's financial health – years of operation, number of franchises, three years of financial statements, and audit results.
- Determine the typical franchisee's financial health and its profitability.
- Access a list of other franchisees in your local trading area – interview them for feedback.
- Obtain information on failed franchisees, if any – what reasons were attributed to the failure?
- Obtain information on any litigation against the franchisor.
- Ways in which this franchisor innovates, develops new products and services.

Franchisor's Support of Franchisee

- Determine the franchisor's reputation of dealing with franchisees – talk to several franchise owners to get the picture.
- Learn the selection process of franchisees – how are franchisees screened?
- Find out how the franchisor will monitor and inspect your operation.
- Determine how advertising budgets are established – is it by the franchisor, franchisee or both?
- Find out how advertising and promotional campaigns are decided – will you have input?
- Have franchisees been terminated in the last 10 years? How many? For what reason?

Franchise Fees

- Estimate initial franchise fees, royalties, and site development costs – are they reasonable?
- Estimate the cost of initial inventory, equipment and other costs associated with start-up.
- Determine franchisor financing availability.
- Estimate annual franchise earnings.
- Estimate the average time from start-up to cash flow to profitability.

Products or Services

- Estimate the future demand for the franchisor's products or services – is demand likely to increase or decrease?
- Does the franchisor hold any intellectual property like patents, copyright or trademarks on their products, or corporate visual identity? If so, where – Canada, US, Europe?
- Look at the industry in which this franchise operates. What is the future outlook for this industry?
- Look at competitor's product and services. What is their competitive advantage?
- Examine product and service warranties. Determine who is responsible for honouring warranty claims – the franchisee or the franchisor?
- Determine what products have to be purchased from the franchisor or specified supplier – determine if the price paid by the franchisee is competitive.
- Determine the nature of training and ongoing support offered to you by the franchisor – is it sufficient?



Expansion Plans

- Determine the franchisor's strategic plans for the future – how many franchisees and where?
- Determine the extent of exclusivity of trading area offered.
- Determine if you can purchase a second franchise location – how many franchises can you buy?

Franchise Contract

- Make sure the contract clearly specifies the payments to the franchisor – franchise fee, deposits, royalties, percentage of gross sales, advertising fund contribution and other payments.
- Make sure you know if you must purchase proprietary inventory from suppliers and how much. Find out if you can find your own supplier if you're not happy with the franchisor's designated supplier.
- Determine if you must meet a sales quota and if the quotas are reasonable.
- Determine the contract term, renewal option and conditions.
- Examine location choice and lease specifications – how is the location chosen? Is it a lease or sublease? Is it the same term as franchise agreement? What are the renewal options and terms?
- Determine the exit strategy. Under what conditions can you sell your franchise or terminate the franchise contract?

Our Buying a Franchise Checklist should be viewed as a starting point for determining what you're going to get for your franchise fee and ongoing royalty payments. For many, buying a franchise operation is the perfect balance between entrepreneurship and risk and uncertainty. Entering into a franchise agreement should be done with your eyes wide open. You should seek the advice of a lawyer, preferably an experienced franchise lawyer, to assist you to review and negotiate your franchise agreement. Don't attempt to do this on your own unless you have a background in contracts and negotiations – you can't afford to make mistakes here. Make sure you spend time with franchise owners to get their somewhat objective view of operating this particular type of franchise.

