

Buying a Franchise

A franchise typically provides you with the tools and framework to operate a business. By paying a franchise fee, which may cost several hundred thousand dollars, you are given a format or system developed by the company, the right to use the franchiser's name and the franchiser's assistance. Franchising can offer an attractive package to the person who wants to own a business but doesn't want to start from scratch. However, be aware that there are good franchises and bad franchises.

Following is a list to help you evaluate a franchise:

1) *Carefully read the disclosure statement, financial statements and franchise agreement.*

2) *Obtain from the franchiser:*

- Experience of its personnel, including turnover.
- Rate of failure and turnover among franchisees.
- Franchisee terminations, and reasons.
- The provinces within which the franchiser is licensed to sell locations.
- Basis for any financial projections by the franchiser.
- Financial statements of company-owned stores or franchises.
- Number of company-owned stores or franchises that have failed.
- Plans for future expansion.
- Whether or not the location is exclusive.
- Information relating to how much of the operation is controlled by the franchiser and how much is controlled by the franchisee.

3) *Obtain from other franchises:*

- An assessment of the franchiser's disclosure statement.
- Critical analysis of the franchiser's financial projections.
- Verification of information provided by the franchiser.
- Detailed history of problems with the franchiser.

- Assessment of the training and ongoing aid and assistance provided by the franchiser.
- Information about any special deals that may have been made with other franchises
- Opinions about the ease of negotiating with the franchiser.
- Confirmation about the franchiser's policies regarding supplier approvals, sources of supplies, franchisee placement, fee collections, and attitude when franchisees experience financial difficulties.

Beyond completing this detailed analysis of the prospective franchise, it would still be in your best interest to consult a lawyer and accountant.

For More Information:

Internet: <http://strategis.ic.gc.ca/SSG/ae00278e.html>