



A Brief Overview of Franchising

Franchising is a formal business arrangement that brings together two parties in a unique business partnership:

- the franchisor, who controls the product or service to be franchised; and
- the franchisee, the individual business person who will distribute the franchisor's product or service.

In a franchise agreement, the franchisor grants the franchisee the right to market and sell a product or service. The right is granted in a certain area for a predetermined amount of time. The franchisor also provides the operational "blueprint" for the establishment and successful operation of the business. Normally, the franchisee is required to pay an initial franchise fee, conform to the franchisor's operating criteria, maintain quality standards and pay royalties throughout the term of the franchise agreement.

The Benefits of Owning a Franchise

If you have a desire to start your own business, a franchise can be a great way to increase your chances for success. As part of a major franchise network, you can expect to benefit from professional marketing, national advertising, specialized training, and centralized purchasing. Statistically, you are more likely to succeed with a well-established franchise than with a non-franchised independent business.

Franchising is an area of business that is enjoying continued growth in North America. But what makes a franchised business a good business opportunity for you?

A franchise allows you the independence to manage your own business while providing the security of participating in an established business with a successful track record.

In a franchising relationship, there are benefits to both the franchisee and the franchisor. The franchisee benefits from the

franchisor's expertise and trademarks, and an already established business format. The franchisor is able to expand the scope and reputation of the franchise with each additional outlet, generating additional value for both parties.

Franchises represent a fast-expanding segment of the retail sector. In fact, franchising accounts for more than 40 per cent of all retail sales in North America.

According to the Canadian Franchise Association, it is estimated that there are over 1,000 active franchise systems in Canada, represented by more than 78,000 franchisees, offering a wide variety of products and services.

Ten Things to Consider Before Buying a Franchise

As a potential franchisee, you have certain expectations – in particular, that the franchise you are about to buy will be profitable and will retain its value. To increase your chances of meeting and surpassing these expectations, investigate before investing.

Although we can't guarantee your success, BMO Bank of Montreal can help you with the investigation process. We suggest you ask the following questions about 10 key aspects of franchise ownership. The answers to these questions, and to others you will no doubt think of, will help you decide whether a particular franchise – or franchising itself – is the right business decision for you. Consumer demand for the franchisor's product or service:

1. Consumer demand for the franchisor's product or service:

- Is there strong consumer demand for it? Is the demand expected to continue?
- Are there many competitors? Could more competitors enter the market in the next few years?
- Is the product or service of outstanding quality?
- How does its quality compare to the competition?
- Are you confident you can market the franchisor's product successfully in your marketplace?

2. The franchisor's business track record:

- What's the story on the franchisor's business record and reputation?
- Have you spoken to existing franchisees?
- Have you contacted government consumer protection agencies, Canadian Franchise Association and your local Better Business Bureau?
- Is the franchisor's infrastructure comprehensive and stable?
- Are there any outstanding legal actions against the franchisor?

3. The proposed legal agreement between yourself and the franchisor:

- Have you reviewed it with an independent lawyer who specializes in franchise law?
- Are the terms of the agreement in line with your expectations?
- Does it cover the challenges you will face in running an independent business?
- Do you feel pressure to sign before you're absolutely ready?

4. The financial strength of the franchisor:

- Is the franchisor financially strong and stable?
- Does the franchisor provide financial information that you can take to your accountant?
- What is the background and experience of senior management?
- Are you confident the franchisor will still be in business many years from now?
- Does the franchisor make available a "Disclosure" document?

5. The nature of the franchise fee and ongoing royalty payments:

- How is the franchisor compensated?
- What does the franchise fee cover?
- What do you receive in exchange for ongoing royalty payments?

6. The franchisor's financial interest:

- Does the franchisor own the land or building?
- Is the franchisor prepared to go on the head lease?
- Will the franchisor provide you with financial assistance?

7. The franchisor's plans for expansion and growth:

- What is the franchisor's plan for targeted expansion?
- What are the target markets for growth?
- Will your franchise be located where the traffic and demand are likely to be?
- Are you assured of exclusive rights to the franchisor's product and service in the area where you wish to locate?

8. The franchisor's market intelligence and market research capabilities:

- Does the franchisor thoroughly research new markets using reliable and credible market research methods?
- Will you, as a potential franchisee, have access to marketing and product information regarding your industry as well as your specific business?
- What forms of ongoing field support and assistance are provided, and how do they work?
- Will the franchisor assist you in the development of your business plan?

9. The franchisor's people selection criteria:

- What kind of people is the franchisor looking for as potential franchisees?
- Is there a typical franchisee profile?
- Are there any special training, educational or other requirements the franchisor would ask of you?

10. The franchisor's financial profile of each franchise location:

- What is the total cost going to be for your franchise?
- Does this include equipment, inventory, leasehold improvements, advertising and promotion? What other costs are included?
- What is the minimum cash commitment you must make?
- Has the franchisor established a pre-arranged financial services program for franchisees with a major Canadian financial institution?

To contact one of our Franchise Specialists



Talk with us
1-877-629-6262



Send us an email
franchising@bmo.com