



## Section 2: FRANCHISOR RELATIONS WITH ITS FRANCHISEES

1. What is the franchisor's reputation for relations with its:
  - franchisees?
  - with 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 and/or 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?
  - what is the nature of such litigation?
  - the status?
  - 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. 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 3: 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 premises? \_\_\_\_\_
- rental payments or purchase cost of real property? \_\_\_\_\_
  - anticipated construction costs for the premises? \_\_\_\_\_
6. What other costs may you incur? \_\_\_\_\_
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 provided 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 you need monthly to cover living expenses, multiplied by the number of months before you can draw income from your franchise)? \_\_\_\_\_

#### Section 4: 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 product or service in your market? \_\_\_\_\_
6. Is the price of the franchisor’s product or service competitive? \_\_\_\_\_
7. Is the sale of the product or service subject to legal standards and regulations? If so, what are the applicable federal and provincial standards and regulations and does the franchisor comply? \_\_\_\_\_
8. Is the product protected by patent, trademark or copyright? \_\_\_\_\_
- are the trademarks, copyrights or patents registered in Canada? \_\_\_\_\_
  - who own the trademarks, copyrights or patents? \_\_\_\_\_
  - are they owned by the franchisor or its affiliates? \_\_\_\_\_
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 5: 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? \_\_\_\_\_
  - would these be company-owned or owned by other franchisees? \_\_\_\_\_
  - can you get first right of refusal? \_\_\_\_\_



## Section 7: 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? This includes the franchise fee; any deposits and the conditions for any refunds; royalty payments based on a percentage of gross sales; local, regional and/or national advertising contributions; 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 minimum purchase quotas?
6. Can you use alternate suppliers (provided the franchisor's quality standards are maintained) if the 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 if you fail to meet it?
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 and on what terms and for what length of time 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 of terminating?

