



CFA **GUIDEBOOK** **SERIES**

FRANCHISING 101

An Introduction to the Basics of Franchising

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Canadian Franchise Association™

ABOUT THE CANADIAN FRANCHISE ASSOCIATION (CFA)

The Canadian Franchise Association (CFA) is the recognized authority on franchising in Canada. With almost 600 corporate members nation-wide, representing many of Canada's best-known brands, CFA is the indispensable resource for the franchise community and advocates on behalf of franchisors and franchisees in Canada to enhance and protect the franchise business model. CFA promotes excellence in franchising and educates Canadians about franchising, specific franchise opportunities and proper due diligence through its many events, programs, publications, and websites (www.cfa.ca | www.LookforaFranchise.ca).

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CFA: The Authoritative Voice of Franchising in Canada

What is the Canadian Franchise Association?

Back in 1967, as Canada's centennial was being celebrated, a group of franchise business owners recognized a need for a national umbrella organization committed to the growth, enhancement, promotion, and development of ethical franchising across the country. The Canadian Franchise Association (CFA) was founded with this mission and prin-

ciples and is now the only national trade association serving the franchise industry and the needs of franchisors, franchisees, and anyone considering opportunities in the franchise sector.

The CFA is now the recognized authority on franchising in Canada, and represents over 600 corporate members nationwide, including some of Canada's best-known brands like McDonald's, Tim Hortons, and Boston Pizza.

Quick Look: Canadian Franchise Association

ABOUT US

- Founded in 1967, CFA is the only national trade association for franchising in Canada.
- CFA is the authoritative, recognized voice for franchising in Canada and the indispensable resource for the Canadian franchise community.
- CFA advocates on behalf of franchisors and franchisees to enhance and protect the franchise business model.
- CFA promotes excellence in franchising and educates Canadians about franchising, specific franchise opportunities and proper due diligence through its many events, programs, publications, and websites.

PROGRAMS AND SERVICES

For Members:

CFA offers its members exclusive programs and services, including:

- Promotion of excellence and growth in franchising.
- Industry credibility
- Advocacy and government relations
- Free, confidential ombudsman program
- Awards programs
- Educational programs and networking opportunities, including full-day seminars, webinars, and annual national convention
- Member savings program
- Mentorship program
- Members-Only Resource Area on www.cfa.ca

What does the CFA do?

CFA publishes the annual *FranchiseCanada* Directory and bi-monthly *FranchiseCanada* magazine. It also produces Canada's only tradeshows that exclusively feature franchise systems, The Franchise Show, in major cities across the country.

CFA's wealth of knowledge flows, in part, from its prominent role in the nation's business community. CFA members represent more than 40,000 business outlets across the country. As a whole, the franchise industry employs well over a million people. About half of these employees work under the banners of over 600 CFA member franchise systems.

CFA produces the annual *FranchiseCanada* Directory, and *FranchiseCanada*

magazine, considered the country's most trusted franchise resources. The bimonthly magazine is sold at CFA tradeshows and events, on newsstands and through subscription. The Association also offers Canada's only tradeshows that exclusively feature franchise systems. Promoted as The Franchise Show, this event features some of the biggest names in franchising and is held in major cities across the country.

What can CFA do for you?

One of CFA's primary roles is to help prospective franchisees make the best decision when investing in a franchise by providing resources and education about franchising. The CFA websites (www.cfa.ca and LookforaFranchise.ca)

For Prospective Franchisees:

CFA helps prospective franchisees learn about the franchise business model, as well as specific franchise opportunities, through resources such as:

- CFA's official online franchise directory, www.LookforaFranchise.ca
- Online resources, like Franchisee Tutorials
- *FranchiseCanada* magazine
- *FranchiseCanada* Directory
- The Franchise Show tradeshows
- CFA Information Kit

ABOUT OUR MEMBERS

CFA members represent a diverse cross-section of Canadian businesses, ranging from large, established franchise systems to smaller, regional systems, as well as professionals and organizations that provide support services and

supplies to the franchise sector. In joining CFA, members commit to pursuing excellence and voluntarily adhere to the CFA Code of Ethics.

Franchise System Members:

- Companies that are offering franchises in Canada.
- Member franchise systems can be found in more than 50 different business categories and sectors.

Franchise Support Services/ Suppliers Members:

- Persons or companies engaged in providing products and/or services to franchise systems and franchisees.
- FSS members include, but are not limited to, accounting firms, legal firms, consultancies, insurance providers and financial institutions.

offer valuable information and resources about franchising as well as detailed listings in its online member directories. Directories are separated into franchise systems and franchise support services providers (e.g. franchise lawyers, accountants, consultants, etc.).

CFA members represent a diverse cross-section of franchise systems in Canada, ranging from very large, established operations to smaller regional concepts. When you deal with CFA members, you can be confident you'll be treated fairly because all members must adhere to a strict Code of Ethics. Among other things, the Code of Ethics requires members to provide prospective franchisees with disclosure documents that clearly state the rights and obligations of both parties. Franchisors can become members only after they undergo a review process performed by a committee of their peers.

Members join CFA voluntarily, as franchise systems are not obliged to belong to any trade organization. CFA members share the conviction that their commitment to ethical franchising improves the industry as a whole for everyone involved, including franchisors, franchisees, suppliers, and customers.

Realistically, however, what the Association can't do is protect potential investors from making bad business decisions. CFA does not have specific punitive powers to use against members if they violate the Association's Code of Ethics. Members, however, may use the confidential, complimentary services of the Franchise Ombudsman (available through www.cfa.ca) to help resolve disagreements between franchisors and franchisees.

Canadian franchising is a diverse and thriving community with a vast array of opportunities across the country. "A lot of people immediately think of fast food when they think of franchises, but what most people don't realize is that a franchise can be found in nearly every industry. Any business that can be exactly replicated can be a franchise," CFA President and CEO Lorraine McLachlan notes.

A look at the listings in this directory shows hundreds of franchise brands in approximately 50 different categories ranging from accounting services to hair and nail salons to home renovation.

Not only is there a wide range of businesses being franchised, there's also diversity in investment levels, making it possible for almost anyone to go into business for themselves. The biggest challenge when reviewing franchise opportunities is deciding what you want to do. With so many options, the choice can be overwhelming.

"Above all," advises McLachlan, "choose a franchise you're going to love. You're investing a significant amount of money, time, energy, and emotion." That's why it's essential, she adds, to go into it with your eyes open. "Risks are reduced through research. Starting with CFA members is a good first step. Then investigate the opportunity thoroughly, talk to existing franchisees and an experienced franchise lawyer, and enjoy building your new business." 🍁

Franchising: So Many Opportunities

You've seen their brand names in malls, on signs, offices and storefronts, and have probably purchased or used their products and services. You may be surprised to find that they are part of the wide variety of businesses and brands found in franchising.

There are a surprising number of franchise brands we interact with every day and may not even realize that they operate under the franchise business model. Whether well-known systems or an emerging brand just making a name for themselves, franchising is bigger than many people know. And there's a wealth of franchises operating in Canada. This directory features listings for hundreds of franchise brands, plus the services and suppliers that support the industry.

"A lot of people think of franchising as 'fast food,'" says Lorraine McLachlan, President and Chief Executive Officer of the Canadian Franchise Association (CFA). "What most people don't realize is that a franchise can be found in nearly every industry, from automotive to education to tax preparation."

That's because franchising is a business model where the company that owns the brand (called the Franchisor) licenses its brand, product or services and way of doing business to an investor/business owner (called the Franchisee.) In return, the Franchisee provides a share of his or her income back to the franchisor. Says McLachlan, "Any business that can be exactly replicated, and in which the success is not dependent upon a great location or the personality of the owner, can be a franchise."

CFA Code of Ethics

CFA encourages and promotes excellence in franchising and CFA members agree to follow the CFA Code of Ethics in its general course of conduct.

The CFA Code of Ethics includes guidelines such as:

- Compliance with federal and provincial law;
- Full and accurate disclosure documentation; and,
- Establishment of open and honest dialogue between franchisor and franchisee.

Franchise Fast Facts:

- There are over 78,000 franchise locations operating under the banners of over 1,200 franchise systems in Canada.
- Franchising in Canada employs well over a million people.
- Every year, thousands of Canadians turn to franchising as a way to be in business for themselves, but not by themselves.

Your Franchise Investment To Do List

9 important things to check off before you sign on

1. Do your due diligence

Before you start investigating all the exciting franchise opportunities available, take some time to do a self-assessment and consider your own personality and work style. Franchising may not be right for everyone, so these questions will help determine if becoming a franchisee would suit your characteristics and goals. Ask yourself: Are you able to follow standard procedures? How hard are you willing to work? What are you passionate about?

Once you've done some self-reflection, start your due diligence process by collecting as much information as possible on the franchise brands in which you are interested. Review all materials and information you receive from the franchisors with franchise professionals (consultants, lawyers, accountants, etc.) as required to ensure you fully understand your rights and responsibilities.

2. Do assess your financial situation

When investing in a franchise, you need to cover the cost of the franchise and also leave yourself with a financial buffer. Ensure you have enough funds to cover the initial expenditure, as well as operating expenses. Financial experts also generally advise new franchisees to reserve funds for living costs for the first

3-6 months as you kick-start your business. Going into business underfunded is a common reason for business failure.

The franchises that you are investigating will usually provide an overview of the upfront costs involved in joining them (such as the franchise fee) and other expenses you may incur early on. You need a complete picture of your financial situation, including a personal net worth statement and your credit rating, to find a franchise that fits your financial capabilities.

3. Do create a comprehensive business plan

Business plans are an important part of any business, and are particularly useful in securing business loans from financial institutions and other lenders. Business plans are a great way to clearly describe your vision and goals for your franchise.

In general, a business plan consists of two parts: a business model and a financial plan. The business model covers the qualities of the franchise – industry, customers, competition, your qualifications, etc. – while the financial plan explains the quantitative side, including a projected balance sheet and cash flow statement. Your franchise accountant will be able to assist you in creating a comprehensive plan for your business.

4. Do explore every opportunity

While it is good to know what kind of franchise in which you are most interested, keep an open mind. You never know when the perfect opportunity may arise that you may not have thought about. While many people first think of food service when they think about franchising, the reality is that franchises can be found in just about every industry and business sector.

The Canadian Franchise Association offers many events, programs, and resources to help prospective franchisees explore the opportunities available, including The Franchise Show tradeshows in major cities across Canada; its websites, www.cfa.ca and www.LookforaFranchise.ca; and publications like *FranchiseCanada* Directory.

5. Do invest in a franchise brand you'll be passionate about

While it is imperative to do due diligence, it is equally as important to feel good about the business, the products and/or services offered, and the people involved in the franchise. The franchise is going to be a big part of your life and you will need to spend much of your time on your business, especially in the early years. This time will be better spent if you are passionate about the franchise.

As the franchisee, you are a brand ambassador and your passion and belief in the brand will go a long way toward the success of your location.

6. Do consult a FRANCHISE lawyer

Using a franchise lawyer who understands franchise law and agreements can save you a lot of headaches down the road. In reviewing documentation

you receive from the franchisor, franchise lawyers will be able to clarify them for you, as well as spot any atypical clauses and/or help you negotiate on certain points as applicable.

7. Do make sure it is a franchise opportunity

While business opportunities (biz-ops) are often packaged to seem like franchises, there are many differentiating factors of which prospective franchisees should be aware.

Key limitations of a business opportunity include: limited training; little to no ongoing support or marketing from the licensor; no binding franchise agreement; and, no trademark or branded strength/recognition. Also, in general, biz-ops don't offer exclusive territories or disclosure documents.

8. Do not assume that a franchise is like a G.I.C.

A franchise is a business and requires work. While, in general, franchisors are ready and willing to offer some level of support and assistance, the franchisor is not going to do all the work for you. As a franchisee, you must be prepared to work hard, most likely in a hands-on capacity, and take responsibility for your location's success.

9. Do remember to include your family

Franchising is a big investment in both resources and time and may require changes to your lifestyle. Make sure your family is on board with your decision, particularly if they are going to be a source of financing.

If your family is going to be part of the day-to-day operation of the location,

YOUR FRANCHISE INVESTMENT TO DO LIST

make sure that you establish the primary roles each member will play. For example, will you look after the administration of the business while your spouse handles more of the customer service or vice versa? Having defined roles at the outset will help prevent conflict later on. 🍁

10 Things You Need to Know Before You Invest

Investing in a franchise is a decision that shouldn't be taken lightly. Although the franchise business model can provide you, as a franchisee, with a business that has been tried, tested and honed, no venture is without risks. Gaining as much knowledge as possible beforehand can help you avoid pitfalls and navigate any obstacles as you steer toward franchise success. Here, *FranchiseCanada* has mapped out 10 vital questions that you'll need to be able to answer as part of your due diligence process.

1. How will a franchise fit into your life and lifestyle?

Before you get into the specifics, think broadly. How will operating your own business impact your life? Will it alter or upset the balance between your work and your personal lives? Another important aspect to consider is the franchise impact upon your spouse and other family members. Have you discussed your franchise goals with them? Are they going to be actively involved in the franchise? If so, have you decided the roles or tasks you will each take on? Even if they aren't going to be involved in the day-to-day operations, it's a good idea to include those closest to you as you go through the franchise investment process.

2. What do you have a passion for?

Another key to success is being fully enthusiastic about the product or service you will be offering as a franchisee. Take a look at the hobbies, pastimes, and interests that mean the most to you. If you love surrounding yourself with delicious food, perhaps a food service franchise would be a great option for you. If helping people look and feel great is something you care about, maybe a hair salon or spa franchise would fit with you. Those with a technological bent might enjoy a franchise that deals with computer and internet services. With a franchise available in nearly every industry out there, you're sure to find one that matches your passions.

3. Does the franchise fit your personality and your strengths?

Much like finding a franchise that suits your passions, the system you choose should also fit your personality and play to your strengths. If you're not a morning person, for example, your best bet might not be a breakfast franchise. Someone who is quite outgoing and comfortable with marketing themselves and their business might be a great choice for a franchise that requires a lot of face-to-face contact and networking

with customers and clients. If you have a strong managerial background, this might be great experience to bring to a franchise that will require you to hire and work with employees.

4. Is the franchise system a member of the Canadian Franchise Association (CFA)?

As part of your due diligence process, ask the franchisors you're researching if they are a CFA member. CFA members voluntarily adhere to the CFA Code of Ethics, pledging to encourage and promote ethical franchising. CFA members also have access to programs, resources, networking, and events to help both the system and its franchisees succeed.

5. Have you met with the franchise system's senior management and support team?

While you must be sure you align with the franchise concept, you should also look at how well you fit with the system's corporate culture. When you meet with senior management and members of the support team as part of the due diligence interview process, be sure to ask questions of them to make certain that their values and visions for the company line up with your own. As you are entering into a long-term relationship with the company and its people, it becomes important that you are comfortable with their leadership and feel you will be able to work well with them.

6. Do you know the rights and obligations prescribed by franchise legislation?

Specific franchise legislation in certain Canadian provinces shapes the rights

and obligations of both sides of the franchise relationship – franchisor and franchisee. The legislation, currently found in the provinces of Alberta, Ontario, Manitoba, New Brunswick and Prince Edward Island, and under consideration in British Columbia, provides an outline of fair dealing for franchisors and prospective franchisees. For example, the legislation governs the distribution of disclosure documents, including what information the document should contain, how they may be delivered to a prospective franchisee, and the length of time the franchisee is given to review the document.

7. Have you received and reviewed the franchise's disclosure document?

One important document you will receive once you've qualified as a potential franchisee and as part of the due diligence process is the franchise system's disclosure document. This comprehensive summary of information will provide you with background on the company, including its officers, on topics such as any previous bankruptcy, estimated working capital and annual operating costs, training and support provided, and, typically, financial statements of the franchisor. In Canada, franchise systems are currently required by law to provide a disclosure document to prospective franchisees in the provinces of Alberta, Ontario, Manitoba, New Brunswick and PEI. Canadian Franchise Association (CFA) members are required as part of the CFA Code of Ethics to provide disclosure documents to potential franchisees in all provinces and territories.

8. Have you talked to existing franchisees?

Nobody knows the ins and outs of the daily operation of your chosen franchise better than those already on the front lines of the business. The disclosure document will usually include a list of current franchisees, as well as those who have left the system. Talking to these people can provide you with essential firsthand knowledge from those who have experienced it. In some cases, the franchisor will also invite potential franchisees to spend a day in an existing location to get a real feel for how a franchisee would spend his or her time.

9. Do you have a business plan and are your finances in order?

A necessary step in the franchise investment process is securing your financing. Whether you will be putting up your own personal funds, borrowing from personal contacts, or approaching a financial institution for a business loan, having a business plan in place will make the money situation clear for all involved. It will outline your initial costs, projected income and expenditures, and better allow you to plan your cash flow, particularly during your all-important first year in business. It will also play a large role in securing a business loan, as it lets both you and your bank see at a glance how realistic your plan is and how well-prepared you are.

10. Do you fully understand the franchise agreement?

Before you sign the dotted line, you should be aware of all your rights and obligations as outlined in the franchise agreement. The franchise agreement

should also describe the rights and obligations of the franchisor. Reviewing the agreement with a franchise lawyer to ensure it contains the required and/or customary information can help prevent potential headaches for you down the line. ✱

Know the Lingo

Become fluent in franchising with this handy guide

What does a master franchisee do? Have you heard the term 'disclosure document'? What is a royalty fee? Like many industries, there are some unique words and phrases that have a specific use or meaning in the world of franchising.

As you are investigating and evaluating franchise systems, you'll likely come across this terminology and it's important that you know the 'lingo' in order to fully understand the opportunity.

Here, *FranchiseCanada* has defined some of the most common franchising terms to help you become fluent in franchising.

THE FUNDAMENTALS

Franchising/Franchise business model

Franchising is a method of doing business in which one person, the franchisor, grants another, the franchisee, certain rights contained in the franchise agreement.

These rights govern the way in which the franchisee will conduct their business. The franchisee gains access to the franchisor's proven business system, including the operations manuals which will outline the systems and processes used to operate the franchise. The franchisee/franchisor relationship is one of mutual benefit, as the franchisee brings the system's products/services to market and the

franchisor provides franchisees with a level of support and assistance.

Franchise system

Also known as the franchisor, a franchise system is a business that expands using the franchise business model. The franchise system licences its proprietary system to franchisees, collects fees from franchisees for its use, and, in return, provides support, such as training and marketing.

Franchisee

The franchisee is the individual or company that is granted a licence to operate a business using a franchisor's proprietary business system. He or she does not own the system; instead, the franchisee has the right to use the system for a set period of time.

Franchise fee

Franchise fees are monies paid by the franchisee to the franchisor for the use of the franchisor's operating system, brand and trademarks. Fees may include a one-time initial franchise fee as well as an ongoing fee (usually referred to as a royalty) that may be a flat-rate fee or calculated as a percentage of the business' sales. Many franchisors also collect advertising fees, which are collected into a fund to be used for the system's advertising and marketing initiatives.

THE BUSINESS RELATIONSHIP

Franchise agreement

The franchise agreement is the legally binding contract that the franchisee and franchisor sign. Among other things, it should outline vital details such as the rights and obligations of both parties, the term of the agreement, the franchisee's territory, initial and ongoing fees, initial and ongoing training, how and when reporting will be required, and authorized suppliers.

Franchise deposit

A franchise deposit is monies collected by the franchisor from the franchisee prior to entering a full franchise agreement. It is generally a percentage of the initial franchise fee amount and the deposit is usually credited towards the amount owing when a full franchise agreement is signed. Making a deposit allows the franchisee to show that they are a serious candidate and can often permit them to place a 'hold' on a certain territory while the franchisee completes their due diligence and other preparations.

Franchise disclosure documents

Franchise disclosure documents are a summary of information on the franchisor, its executive team, and its franchise agreements. Franchise systems are required by law to provide a disclosure document to prospective franchisees in certain provinces where franchise legislation exists. (Members of the Canadian Franchise Association pledge to provide disclosure documents to prospects in all provinces and territories as part of the CFA's Code of Ethics.) Disclosure documents are not public and are usually only available to serious investors.

Advertising fees/fund

A fund held by the franchisor into which franchisee advertising dollars are pooled and used for national and/or regional marketing.

Territory/ Protected area

Some franchise systems offer franchisees a territory or protected area in which to conduct business. A territory may be defined by distance radius, postal codes, municipal borders, or simply defined as within the walls of the franchised location. The franchise agreement will outline the boundaries and how they will be respected; it will often state that no other franchisee (or a system-operated corporate store) will be permitted to operate under the same brand within your defined territory. Territories help protect your business' sales from being 'cannibalized' by other locations offering identical products/services in close proximity.

THE OPERATIONAL SIDE

Initial training

Initial training provides franchisees with the knowledge and skills required to duplicate the franchisor's proven business concept and provide a consistent customer experience at their location. Duration, associated costs, and venue will vary from system to system; details will usually be outlined in the disclosure documents.

Ongoing training

Many franchisors provide ongoing training designed to keep franchisees and their staff members up-to-date as the business evolves. Ongoing training further ensures consistency of

operations for the duration of the franchise agreement.

Operations manuals

A franchise system's operations manuals are written documents that provide the franchisee with all the details to duplicate the franchise's proven business concept at their location. They may be one general manual or, more typically, a series of manuals. Operations manuals serve to reinforce the franchise agreement, particularly areas where consistency is required to preserve the integrity of the brand. 🍁

Franchising A to Z

An alphabetical glossary of some common franchise terminology

Area Developer: Also referred to as area franchisee or master franchisee, an area developer is granted the franchise rights to open and operate multiple locations in a defined geographical area. There is usually a set schedule for when and where the locations will be developed.

Business Plan: A business plan is a document created by a prospective franchisee that sets out his/her business goals and the strategy for attaining them. The document may also include background information on the franchisee, the concept, and the market in which they plan to operate. Business plans are also used when approaching financial institutions for loans and other funding for the business.

Cash Flow Projections: A part of business planning, cash flow projections capture the movement of money coming into the business as well as any expenses. Creating month-by-month cash flow projections can help prospective franchisees to better understand how and how well their potential business will be funded and if they will have sufficient capital. An accountant can assist in creating cash flow projections.

Disclosure Document: A disclosure document is a collection of information on a franchise system, such as

information on the franchise and its officers, initial investment and other fees, training and support, and the rights and obligations of both the franchisee and franchisor. It is provided to prospective franchisees as part of the due diligence process. In some provinces, franchise systems are required by law to provide disclosure documents to franchisees. As part of the Canadian Franchise Association (CFA) Code of Ethics, all CFA members agree to provide disclosure documents to prospective franchisees in all provinces.

Entrepreneur: A person who organizes, operates, and assumes the associated risks and benefits of a business venture. Franchisees are sometimes also referred to as entrepreneurs and small business owners as they are operating their own business and responsible for its success.

Franchise Agreement: The franchise agreement is the main contract in the business relationship between the franchisee and franchisor. It will set forth the rights and obligations of each side, as well as information on territory, training, renewal, and suppliers.

Group Purchasing Power: One of the biggest advantages to joining a franchise system is its strength in numbers. Most franchises have an established

supply chain through which franchisees order their stock, supplies, and equipment. As part of a purchasing group, franchisees may receive perks like preferential pricing or special delivery.

Home Based Business: A growing sector in franchising, home based businesses are those that can be run from a franchisee's home or home office. In many cases, the start-up costs for this type of business are minimal, as there is no build-out or leasing of a bricks-and-mortar location, little or no inventory to be purchased, etc.

Initial Investment: Initial investment indicates the amount of money required to open and start to operate a franchise location. This investment total may include initial fees like the franchise fees or could pertain solely to the start-up costs.

Join: Many in the franchise industry use the phrase 'joining a franchise system' to indicate someone investing in a franchise. Other phrases that may be used to indicate this include 'awarding a franchise' and 'investing in a franchise.'

Kit: A franchise information kit is a packet of information sent to interested prospective franchisees. Usually requested through an interaction with the brand (i.e.: online, at a tradeshow, etc.), these marketing packages provide further details on the franchise, concept, investments costs, etc. to help prospective franchisees learn more about the franchise opportunity.

Liquid Capital: Liquid capital is the amount of 'cash on hand' a potential investor has that is not a loan or tied up

in another asset. For example, if your brother gives you \$500 for your birthday, that would count toward liquid capital. If he loaned you the \$500 and expected it to be paid back, it would not. Similarly, other assets such as houses and cars are not considered liquid capital (though they would be part of your net worth).

Multi-Unit Franchisee: A franchisee that operates more than one franchise unit or location.

Net Worth: Net worth indicates a person's total assets (things that are owned), minus any liabilities (anything that is owed). A net worth statement indicates the person's net economic position.

Operations Manual: A manual (or set of manuals) that outlines the operations for a franchise location, as well as system-wide policies. Franchisees must follow the policies and procedures outlined in the operations manual to the letter in order to ensure consistency between locations in their franchise system. The operations manuals will include sections on topics such as quality control, management practices, use of trademarks, fees and royalties, and approved suppliers.

Product Standardization: As consistency is paramount for franchises, most systems employ product standardization and quality control to ensure that the products and/or services offered in each location are uniform.

Quality Control: Along with product standardization, a franchisor will employ quality control to ensure that the products and/or goods at each location in

their system meet a uniform standard of quality. Franchisors will usually supervise and regulate their locations through quality control to ensure consistency.

Royalty Fee: An ongoing fee paid by the franchisee to the franchisor as part of the agreement for the franchisee to make use of the franchisor's brand, trademarks, etc. Royalty fees are usually remitted on a weekly or monthly basis and may be calculated as a flat rate, a percentage of sales, or a combination of the two.

Site Selection: Site selection is the process by which a location is chosen for a franchise unit. Key considerations in site selection include market characteristics, traffic, local demographics, and zoning.

Turn-Key: The phrase 'turn-key franchise' is used to describe a franchise opportunity that is streamlined and set up for the franchisee in advance so that, in order to start operations of their franchise, all they need to do is 'turn the key' and get started

Unit: A franchise location may also be referred to a franchise unit.

Validation Process: Also known as due diligence, the validation process refers to the research and investigation a prospective franchisee should conduct regarding a franchise opportunity before investing. It's important to keep in mind that, in general, the franchise system will be conducting its own validation process to ensure new franchisees brought on board are a good fit for the system.

Work: Investing in a franchise is not like a GIC. Successful franchise locations require work and many require the franchisee to take a hands-on role in the operations of their location. While one of the many benefits of joining a franchise is the support of a franchise system, franchisees must be prepared to work hard and take initiative.

Exclusive Territory: An exclusive territory is a defined area in which a franchisee operates and in which the franchisor agrees to not open a competing location or allow another franchisee to do so. Rights regarding exclusive territory will generally be outlined in the franchise agreement, though not all franchises offer exclusive territories.

YTD: YTD stands for year-to-date and indicates the time period between the start of a fiscal and/or calendar year and the present date. YTD is often used in financial reports detailing the ongoing performance of a business, such as a franchise location. It is important for franchisees to maintain detailed, up-to-date financial reporting so they can stay on top of the day-to-day operation of their location. Many franchise systems provide their franchisees with proprietary or specialized reporting and/or accounting tools to assist with this.

Zees/Zors: The terms 'zees' and 'zors' are used to refer to franchisees and franchisors, respectively, in a shortened manner. ✱

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