Canadian Franchise Association™

CFA GUIDEBOOK SERIES

GETTING STARTED

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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 board of directors

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5 Ways To Elevate Your Franchise Search

1. Assess Yourself

Before you begin to investigate franchise opportunities, you should first determine whether franchise ownership is right for you. While successful franchisees tend to be entrepreneurial, they must also be willing to operate within a franchisor's proven system. "Buying a franchise is like entering into a marriage. You become part of the brand," says Paul daSilva, Director, National Franchise Market, Royal Bank of Canada. "You have to be comfortable with following a business model."

You should also be realistic about the hard work and sacrifice involved in opening a franchise. "Ask yourself honestly if you are prepared to work hard, with long hours and not expect a good return on your investment for a reasonable period of time," says Frank Zaid of Frank Zaid Franlegal Support Services.

If you determine that you are in fact cut out for franchise ownership, your next step is to evaluate your strengths, weaknesses and interests to help narrow your franchise search. Here, feedback from friends and family is invaluable. "Let them know what you're considering and ask them if they think it's good for you," advises Shawn Saraga, VP, Retail, Cushman & Wakefield Retail & Franchising Services. "Your friends and family often know you better than you know yourself."

To illustrate this point, Saraga presents the scenario of someone considering a breakfast restaurant. "You might fall in love with the brand and the owners and convince yourself it's the right opportunity – until your family and friends remind you that you're not a morning person."

When seeking feedback from others, be prepared – you might not always like what you hear. "You have to be open to hearing constructive criticism and people's opinions of you," Saraga points out. "Feedback from friends and family can make a difference in evaluating what you are and aren't capable of. The best self assessment comes from others' assessments."

2. Analyze Your Finances

At the beginning of your search, you should know how much you're able to invest so you can focus on franchises within that range. Determine how much of your own money you're able to invest and how much you'll have to obtain from other sources. "The level of debt is dependent on the franchise," explains Paul daSilva. "The more stable the franchise, the more you can risk having debt as your primary financing vehicle."

In the early stages of your search, you should familiarize yourself with the structure of a business plan and consult an account manager to help you develop one. "I'm a big advocate of engaging account managers early on," says daSilva. He recommends finding an account manager who has worked with franchisees in the past. "They have the experience to understand what the bank is looking for and will advocate for you when it comes to getting that financing."

When drafting your business plan, daSilva recommends outlining how common scenarios, such as a delayed opening or unexpected cost will impact your projections. "When you're able to articulate how your balance sheet will be impacted by unforeseen events, you come across as so much better prepared," says daSilva. "That's what the banks are looking for."

3. Know Where To Look… And What To Look For

As you begin your search, you might feel overwhelmed by the vast number of franchises out there. CFA's official online franchise directory (www.LookforaFranchise.ca) is a good place to start.

All CFA members voluntarily adhere to a strong Code of Ethics designed to promote fair dealing in franchising. You can also search for opportunities by category or investment range to narrow your search.

Another place to seek out franchise opportunities is at franchise only trade shows. Here, you have the opportunity to meet face-to-face with franchisors who are looking for franchisees in your area.

At this stage, you want to avoid being sold on a concept too quickly and should be wary of any opportunities that seem too good to be true. One red flag to avoid is a hasty franchisee application process. "Make sure not just anyone can get into the system, unless they meet the qualifications," Shawn Saraga warns. "If someone can show up, give them a cheque and get a franchise, you should probably walk away."

You also want to be careful about any expert advice you solicit at this stage. "Make sure you're not hiring someone to sell you something. You should verify that any advisors at the early stage owe you a fiduciary duty, meaning they are legally required to give impartial advice," says Saraga.

Finally, Saraga says to listen to your instincts and use common sense. "Go with your gut. If your gut tells you it's bad, it probably is."

4. Find A Franchise Lawyer

Many franchisees wait until they're at the negotiating table to hire a lawyer but this might be too late, since they are often already sold on the concept by that point.

"Sometimes they have been convinced by a salesperson that the franchise is a once-in-a-lifetime opportunity, or that the particular location is in high demand, or that they are the perfect candidate for the franchise," says Frank Zaid. Consulting a lawyer early on can help you remain objective throughout your search.

Zaid recommends looking for a lawyer with specific franchise experience, since a lawyer without a franchising background might be unaware of the latest legal developments and laws governing the industry.

"My experience is that a lawyer who is familiar with franchising will not usually cost more to consult; however, an inexperienced franchise lawyer may end up costing much more because of the potential for incomplete or even negligent advice," says Zaid.

Finally, make sure you ask for references. "Any lawyer who will not supply references establishing competency and experience is probably not a lawyer worth retaining," Zaid cautions.

5. Be Prepared To Do Your Due Diligence

Once you've selected one or two franchise opportunities, you should thoroughly investigate each system. This is known as due diligence and it involves several steps.

The first is to review the disclosure document, which includes information about the location you're considering, a history of the franchisor, contact information for current and former franchisees, financial statements and all agreements you'd be entering into.

In provinces where franchise legislation exists, the franchisor is legally obligated to provide you with a disclosure document. If you're considering a franchise in an unregulated province, you should still insist on some kind of disclosure. "You should ask for a disclosure document that is used in one of the other jurisdictions or a modified form of voluntary disclosure document," Frank Zaid recommends.

Once you've received the disclosure document, review it with your lawyer to ensure you understand all of the terms and that there aren't any atypical clauses.

In addition to the disclosure document, there are other reference sources you can investigate to determine the franchisor's strength and reputation, according to Zaid. These include corporate, security and trade-mark searches, credit ratings, franchise ratings publications, Internet searches, banks and suppliers.

Even if everything looks good on paper, you should meet face-to-face with the franchisors. "That's who you're getting 'married' to. You might as well know the bride before you lift the veil," says Shawn Saraga.

Finally, speak to both current and past franchisees to see if their experiences with the franchise are consistent with what the franchisor has been telling you and also to determine if you are a good fit within the overall system.

Only after you've reviewed the disclosure document, researched the franchisor and met with others in the system are you in a position to make an informed decision. Keep these steps in mind throughout your search so that you don't jump into anything too quickly.

Smart Guide to Franchise Financing

The dollars and sense of how to fund your investment

The dollars and sense of franchising add up to more than just the jangle of change in your pocket. Starting a franchise can be a roller coaster ride. Just as you need a solid business plan, you also need a solid financing strategy to lead you smoothly through the twists and turns. Here's a few tips from the experts to help set a cool and easy pace at the start of your journey.

Know your numbers

Kathy Steffan, Partner at accounting firm Welch LLP, says it's important for prospective franchisees to take stock of their personal financial house before considering an investment. "Preparing a personal balance sheet, income statement and projected cash requirements is a mandatory first step to determine an amount that can comfortably be invested in the franchise," says Steffan.

Banker Ed Straw, Vice President of Strategic Business Solutions at Alberta-based ATB Financial, says franchisees need to determine what they need personally to live on month-to-month. "Everyone has their requirements, and in the beginning, if you can reduce the requirement and amount drawn from the business in the start-up and initial growth phase, it's better for the company," he says.

He adds that knowing what the expected cash flow from the franchise might be will help determine if the opportunity is the right one, and if there's enough flexibility in the company start up.

Take stock of your financial house

Steffan lists an array of information that franchisees need to know to fully take stock of their financial house. The estimated value of a home or other property, investments, the market value of assets such as vehicles, artwork and jewelry, and the potential franchise investment all paint a comprehensive picture of an individual's assets. Liabilities, such as a mortgage, line of credit, bank loans and monthly payments, such as tuition and costs to support children, should also be considered.

This data helps to create a clear picture of the projected budget and cash flow during the start-up period. Planning various scenarios and their outcomes also helps to assess if the prospective franchisee is financially ready to move forward. A prospective franchisee should be sure to investigate three possible outcomes that might occur once they have invested: a worst case, a most-likely case and a best-case scenario. Steffan says an accountant can help prepare or review the projections to ensure they are realistic and that nothing has been missed or overlooked.

Determine the debt

The amount of debt a franchisee takes on depends on a number of factors, including the type of franchise and the initial franchise fee. To determine the total investment required, additional costs like legal fees, marketing, and working capital must also be determined. Steffan says that while an initial franchise fee might be $25,000, additional costs can nudge the totals to well over $60,000.

"There are no hard and fast rules, and a lot would depend on the prospective franchisee's financial circumstances. However, it is generally recommended that financing 50 per cent of the initial set-up costs is a safe guideline," she adds.

Do your due diligence

What do potential franchisees need to know before they buy? Generally, the franchisor supplies proforma financial statements, an audited financial statement for the most recent year, an outline of the costs and obligations for provided training, a detailed account of the ongoing royalty calculation, any required contributions to system-wide marketing and advertising, and any agreements in place for purchasing products and supplies through the franchisor.

Steffan says that, in provinces where franchise legislation exists, a period of due diligence is required to allow the franchisee to review this information, usually provided as part of a disclosure document, with the help of an accountant or financial advisor to assess the health of the franchisor. She suggests drafting their own projections based on their personal financial situation to determine if the numbers make sense to them.

Straw says that the disclosure package should also include information on the average investment, the down payment, forecast information for an average operation that includes costs, labour, supplies, margins and cash flow generation based on the average franchise location.

He says that averages can be dangerous, but the more known the franchise is, the more likely they are to meet those projections. He suggests requesting information on the company's historical success. "If they have 40 locations, what is the success rate? How many have failed? How much support do franchisees get? Is the success rate based on multiple owners or single owners?"

Gather resources

With most franchisors requiring 25 to 50 per cent of the investment be available in equity, it's important to have access to funds.

Straw adds that franchisees should also be prepared with additional resources to draw on beyond the minimum requirements, like a line of credit.

"Things might go not exactly as planned. If a location needs changes or it starts up slower than anticipated, you have to be able to cover it until cash flow gets positive and your name gets out there. It's about having the flexibility."

Increase your chances

When the bank considers granting a loan, they conduct a background check on the franchisor to gather information on where the head office is, how many locations they hold, where they may have failed and how they handle the failures, and how they support their franchisees. The more established a franchise system is, the less risk a lender may see inherent in granting a loan because of their well-known concept and name in the industry. More established brands usually command a higher investment, while emerging systems, as they build recognition, may require lower investments and offer more flexibility.

For prospective franchisees, a personal credit history that reflects a proven track record of success and the ability to manage money is high on the list of desirable traits.

Straw says that strong candidates are individuals with an understanding of the market they are trying to secure. They've taken the time to scope out their territory, location and traffic and have spoken to an accountant and lawyer. They can present a cash flow forecast that shows them how they plan to manage financials through the first six months, a well-thought-out exercise that demonstrates they are ready to put some skin in the game.

He adds that once you've established a first franchise location, the track record and history there makes securing additional locations much easier, should the franchisee wish to explore multi-unit operations.

Enlist the pros

Franchisees, Straw says, would be wise to seek the counsel of a franchise lawyer, who can also help make sure that all areas of the disclosure document and franchise agreement, from any financial information to key rights and obligations, like territory size, are fully understood.

Steffan recommends enlisting the services of an accounting firm that has experience working with franchisees and assessing the finances of a potential investment.

Straw adds that many banks, like ATB Financial, have departments that specialize in franchising. "We have packages we've negotiated with franchisors and made available to franchisees. If we don't have a package, we often look to mirror a package. We have plenty of experience and often, if you bring something in to us, we can help explain what things mean. It helps for a more seamless transaction."

Know the risks

Though the rewards can be substantial when a franchisee conducts proper due diligence before signing on and is successful once they do, as with any business venture there is also some risk involved.

As everyone's risk tolerance level will be different, Steffan suggests that each prospective franchisee assess themselves and figure out how much risk they are comfortable taking on. "The individual must also assess their tolerance to risk to determine whether they are prepared to endure the uncertainties and probable sleepless nights in the first few years of a new franchise."

Straw says individuals need to look in the mirror and ask themselves if they know what they are getting into. Do they like dealing with people? Are they prepared to be at the franchise a lot, be hands-on, especially in the beginning?

"Ask yourself 'How much money do I have, and how much money do I need? Am I willing to take a step back to take two steps forward? Do I have something to tap into if something happens or changes in six months?' Straw says. "If the answer to all those is positive, then you can go ahead and get excited."

7 Signs You Should Invest in Franchise

Thinking about becoming a franchisee? How do you know when the time is right to move forward and sign on the dotted line? When observed together, these seven signs can indicate that there might be a grand opening in your future.

You've included your family

When you're considering franchising, the first people you need to be on board with this plan is your family. Even if they are not going to be involved in the day-to-day operations of your new venture, having their support will play a huge role in your success as a franchisee. If you're planning on investing in a franchise with financial assistance from family, it's understandably even more important to keep them in the loop. Creating a clear plan for roles your family members might play in the operation of the franchise, whether it's financial, hands-on, or moral support, before you sign on will help everyone feel included.

You've assessed your financials

Knowing your net worth, the assets you hold, the amount of cash you have on hand, and what portion of your franchise investment will be repayable is key to your success. This information will give you a better idea of the budget you have to invest. An important part of selecting a franchise that is the right fit for you is selecting one that fits your financial capabilities without overextending yourself, as going into a business venture without proper funding is one of the main causes of failure.

You've done your research

A proper due diligence process will see you investigate and evaluate all aspects of the franchise opportunities in which you're interested. Reading the website and other franchise literature, getting background on the company and its history, meeting with franchise development and other personnel, speaking with current and former franchisees to get their 'frontline' views – all these are great ways to find out more. You'll also want to bring the professionals on board to assist as needed: a franchise consultant can help you narrow your search, a franchise accountant can assist you in crunching the numbers, a franchise lawyer can review all documentation and contracts and help you to fully understand them, etc.

You've met with important players

They say a franchise agreement is like a marriage – two different sides coming together to work on creating something of value for all involved. This makes it vitally important for you, as a prospective franchisee, to meet with the key people you'll be working with if you enter into the relationship. Just as you are evaluating the company, they will also be gauging your fit within the system's culture to help ensure a good match and the best way to accomplish this is by meeting face-to-face.

You're ready to work hard

The term "invest in a franchise" is used for starting a franchise location but that doesn't mean you can simply invest your funds, walk away, and expect to reap the benefits. The majority of franchise opportunities will require you, as the owner/operator, to invest not only your money, but also your time, talents, and hard work. Many franchises require franchisees to work hands-on in their business, so that they have detailed knowledge on its daily operations.

You're prepared for a change

No matter your background, becoming a franchisee can mean stepping a bit outside your comfort zone. Where you may have worked for someone else before, as a franchisee you will be "the boss" at your location. If you previously ran your own independent business, as a franchisee you will be part of a system and have the support of that system backing you. Other changes you might experience could include those to your schedule or work/life balance. Some changes will be positive, others may be challenging, but the more you are prepared for them, the easier they will be to take in stride. And, you will have a peer network of other franchisees who have probably experienced something similar to help you out, should you need it.

Your gut instincts are saying 'GO

This sign is one that only you can see or feel. Once you've discussed opportunities with your family, taken stock of your financial capabilities, done your due diligence, met with the franchise team, prepared yourself for hard work and a change of pace, you'll need to ask yourself if you're ready. If all the research and preparation you've done has given you the green light, and you're intuition is saying the same thing – congrats, you could soon be on your way to opening your own franchise location!

5 Ways to Wow Franchisors

How to put your best foot forward as a prospective franchisee

As a prospective franchisee, you'll be investigating franchise opportunities, learning the ins and outs of the brands you're interested in. At the same time, those franchise systems will be conducting their own due diligence on you, making sure that granting you a franchise location would be in your and their best interests. This helps to protect the brand by helping to ensure that prospective franchisees are a good fit. Because, in many cases, franchisees will be the 'face' of their business and active in their communities, so franchise systems want franchisees who will be great representatives for the system.

There are many things that franchisors will be looking for as they do their appraisals. They will be evaluating the facts, like your skills, financial situation, and work history, but what about the intangibles? How do you put your best foot forward to help show the franchise system that you are a quality prospect for them? Here are five things franchisors may be looking for that they won't find on your resume.

1. Do Your Homework

While the franchisor will usually welcome your questions, they also want to see that you've been doing your own research before sitting down to discuss your joining the system. If you have documentation, bring it. If you've made notes, bring those, too. Make sure you have everything you need in order to be able to talk about yourself and your credentials, as well as about what you've learned about the franchise system.

2. Ask Thoughtful Questions

Franchisors not only expect your questions, they want to hear the kinds of questions you're asking. After you've done your research on the system, be sure to jot down any questions you have and bring them along. Posing thoughtful questions based on the investigations you've made shows the franchisor that you are thorough, pro-active, interested in their system, and keen to learn even more about the opportunity.

3. Show Your Enthusiasm

A characteristic that many successful franchisees share is a passion for their franchise's product or service. As a prospective franchisee, if you're interested in the franchise system, it would likely indicate that you are excited about what they have to offer clients and customers. Don't hold back on showing your knowledge and enthusiasm about the concept. You don't need to be an expert on the subject – part of the beauty of a franchise system is that the operational procedures and the like can be trained. What is usually harder to achieve through training is a genuine passion for the brand and excitement about providing a high-quality, consistent experience for the brand's end users.

4. Be Professional

Franchise systems are seeking franchisees to be ambassadors of their brand. Therefore, it makes sense that they would look for people who present themselves professionally, both visually and through their communications skills. Franchisors want to know that you are organized, courteous, and would make for a great representative of their franchise system in the marketplace.

5. Be Pro-Active

Investing in a franchise is not a decision to be taken lightly. One way to show the franchises systems you're interested in that you're taking the entire process seriously is to enlist the assistance of franchise support professionals. In addition to providing you with the support, knowledge, and guidance you'll need throughout the process, consulting with experts, such a lawyer or an accountant, who have experience in franchising will indicate to the franchise system that you are a conscientious candidate who is pro-actively seeking out the support needed to make an informed decision and to set yourself up for success as a franchisee.

Though each franchise system will have its own unique obligations, prerequisites and requirements, it is generally

The Importance of Franchise Due Diligence

Investing in a franchise is a major decision and not every franchise will be right for every individual. This is why prospective franchisees should investigate fully the franchise systems in which they are interested.

Part of the due diligence process will likely include meeting with representatives from franchise systems. Here are a few critical questions that you should be able to answer or have answered to your satisfaction about the franchise system as you research the brand and meet with key members of its head office team.

- What makes the franchisor's product or service unique?
- How many years has the franchisor been operating? How many units do they have overall?
- How does the franchisor choose franchisees? How are qualifications reviewed?
- What kind of support and advice, including initial and ongoing training, and operational and marketing assistance, does the franchisor provide franchisees?
- Is the franchise system a member of the Canadian Franchise Association (CFA)?

All CFA member franchise systems voluntarily pledge to abide by the association's Code of Ethics and conduct their business in an ethical manner. Visit www.LookforaFranchise.ca, the CFA's official online franchise directory, for more information on CFA member franchises.

a good idea to bring these intangibles, along with the information you've gathered in doing your due diligence, to all meetings with franchise systems. As you consider your fit with a franchise system, the franchisor will also be evaluating the same thing on their end. Being prepared, passionate, inquisitive, professional, and pro-active can help make the franchise investment process as smooth as possible.

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