



CFA
Canadian Franchise
Association™

celebrating
50 YEARS
1967 2017

Franchising In Canada: Policy Briefing



A Message From The CFA President & CEO



Lorraine R. McLachlan
President & Chief Executive Officer

THE CANADIAN FRANCHISE ASSOCIATION (CFA) is the recognized authority on franchising in Canada and 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.

As this document outlines, the franchise industry is vital to our country's continued growth and prosperity. Franchising allows companies to expand with local entrepreneurs who go into business for themselves but with the support of an established brand. Franchises can be found in nearly every sector of business and provide employment opportunities for over 1 million Canadians from coast to coast.

CFA invites you to learn more about franchising and the benefits it offers to Canada's economy, people, and communities. We look forward to collaborating with you in strengthening this important industry.

Contact the CFA Government Relations Team:

As the Authoritative Voice of Franchising in Canada, CFA is focused on issues where government regulations and policies impact our members' business. We are committed to working with federal, provincial, and municipal government across Canada to enhance and protect the environment in which franchises do business today and in the future.

We invite you to contact our government relations team:

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About The Canadian Franchise Association (CFA)



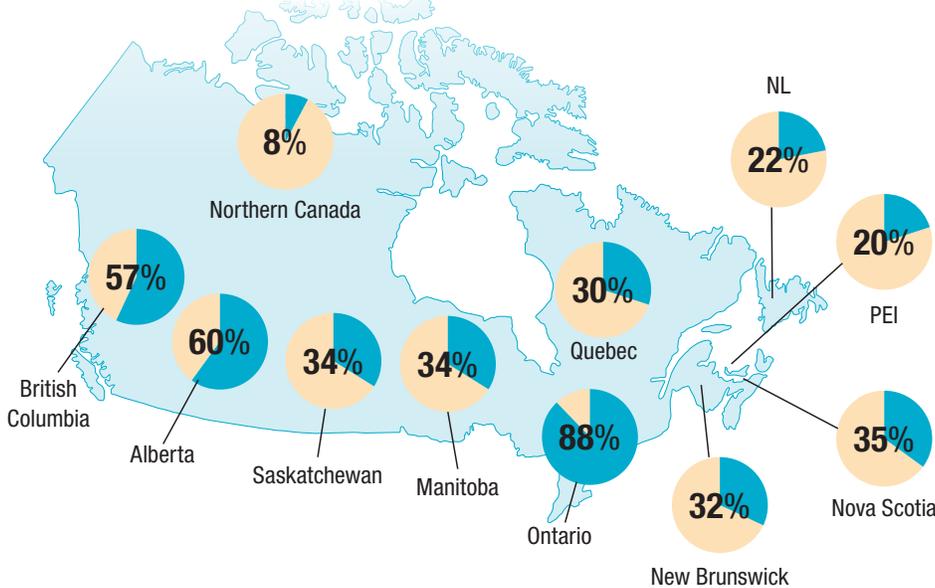
THE CANADIAN FRANCHISE ASSOCIATION (CFA) is the recognized authority on franchising in Canada. With over 750 corporate members nation-wide,

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 and www.LookforaFranchise.ca).

The CFA was founded in 1967 and, for almost 50 years, has acted as the voice of franchising in Canada. CFA works with all levels of government to promote the benefits of franchising and the development of industry-made solutions to issues affecting the franchise industry.

Franchising is an important engine for the Canadian economy and for a significant number of Canadians becoming a franchisee is their chosen path to running their own business. CFA looks forward to working with key stakeholders, including all levels of government, to protect the opportunities and benefits franchising brings to individuals and to Canada as a whole.

Where Canadian Franchise Association (CFA) member franchise systems operate



*Results add to more than 100% due to multiple responses.

WHAT DOES CFA'S MEMBERSHIP LOOK LIKE?

Over **750** corporate members

Operating in over **50** different sectors

419 franchise systems, with **592** brands

CFA members represent more than **40,000** franchised outlets across Canada

CFA MEMBERSHIP BY SECTOR

Food	40%
Consumer Products & Services	20%
Automotive	4%
Business to Business	12%
Retail	8%
Children's Products & Services	6%
Health/Fitness/ Senior Care	10%

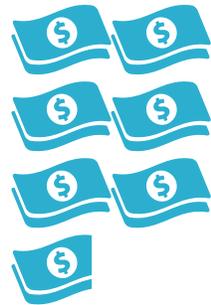
The Canadian Economy Runs on Franchising

Franchising is a thriving and wide-ranging business sector in Canada. The Canadian Franchise Association (CFA) is the authoritative voice for franchising in Canada and its members represent over 750 brands in over 50 industries and over 40,000 franchised locations across the country.

Here are some quick facts about Canadian franchising

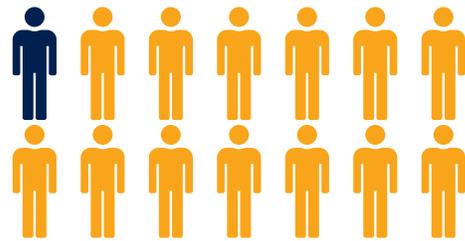
THE CANADIAN
FRANCHISE
INDUSTRY
GENERATES
APPROXIMATELY

**\$68
BILLION
EVERY YEAR**



**OVER 1 MILLION
CANADIANS**

approximately 1 out of every 14 **WORKING CANADIANS** – are directly or indirectly employed by the franchise industry



Franchising is more than food – 60% of franchises can be found in non-food sectors and industries

THERE ARE AN ESTIMATED **1,300 FRANCHISE BRANDS** OPERATING IN CANADA

Any business that can be exactly replicated can be a franchise

Most prospective franchisees explore franchising as a way to be in business **FOR THEMSELVES** but not by themselves

Every time a new franchise opens, it creates **new jobs**

THE ADVANTAGE OF BEING A FRANCHISEE INCLUDES WORKING A BUSINESS THAT ALREADY HAS A PROVEN BUSINESS FORMAT, A SUCCESSFUL TRACK RECORD, AND A RECOGNIZED BRAND



There are over **78,000** franchise units across Canada

Franchise fees can range from under \$5,000 to over \$75,000

Individual investments can range from under \$10,000 to over \$1,000,000

Franchisees are independent business people and have significant control over the success of their businesses

Why is Franchising Important?

Franchising plays an important role in the lives of Canadians and the Canadian economy. Here are just some of the ways franchising positively impacts people and communities.



FRANCHISE BUSINESS MODEL IS VALUABLE TO NEW CANADIANS

Franchising = new career opportunities



FRANCHISEES ARE ENTREPRENEURS

Franchisees = small business owners



FRANCHISEES INVEST IN CANADIANS ECONOMY



FRANCHISES ARE COMMUNITY-FOCUSED

Active in community - support local charities and sports teams



DIRECT AND INDIRECT ECONOMIC BENEFITS TO ALL COMMUNITIES

Positive economic ripple effect



REVENUE STARTS AND STAYS LOCAL

Invested in community

FRANCHISING FACT:

97%

of franchises that were opened in Canada in the previous five years are still operating today;

this is in contrast to the **51%** of independent businesses that opened over the same time period and remain in operation, demonstrating the success and attractiveness of the franchise business model to budding entrepreneurs.

The Franchise Relationship

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 trademarks and the operations manuals which will outline the systems and processes used to operate the franchise.

As the success of a franchised business depends on all franchisees delivering the same positive customer experience, the operations manuals are one of the key ways a franchise system can ensure consistent delivery of its product or service. Deviating from this uniformity and consistency of experience can be confusing to customers and can undermine the entire system.

The relationship between the franchisor and the franchisees is symbiotic with the franchisor depending on the franchisees for revenue and the franchisees depending on the franchisor to grow the brand and create greater demand for the product/service which, in turn, leads to more customers. The franchisor, in addition to providing the standard operating system, typically offers its franchisees initial and ongoing support in areas such as training and marketing.

Though most franchisors offers their franchisees some level of support, franchisees are independent business owners and their franchise locations are considered small businesses. Franchisees are solely responsible for the activities of their business and execute the day-to-day operations of the business, including employee hiring, training, scheduling and payroll, and tracking and filing taxes.

Advantages Of The Franchise Business Model

FOR FRANCHISEES:

- Operating a business that already has in place a proven concept, successful track record, and a recognized brand.
- Autonomy over the operations of their business, including employee hiring decisions and oversight and other important day-to-day decisions and processes.
- Increased familiarity with franchised brands at financial institutions and other lenders can assist when franchisees approach them about financing.
- Initial and ongoing training and support from the franchisor.
- Learn from the experience of the franchisor and other franchisees who have operated the same exact business.

FOR FRANCHISORS:

- Benefit from partnering with independent business people in local markets who have invested in the system and have strong motivation to make their franchise location successful.
- Achieve accelerated growth by expanding through franchisee investment (compared to corporate expansion with company capital).
- Attain further market share by expanding points of sale.
- Share in the revenue generated by the system through royalties collected from franchisees (typically either a standard set fee or calculated as a percentage of gross sales volume).



Franchise Industry Policy Priorities



Policy Theme #1:

Supporting the Function and Importance of the Entrepreneur

FRANCHISING IS A STRONG AND IMPORTANT CONTRIBUTOR to the economies of each province in Canada. Franchised entrepreneurs create opportunities and jobs in every single community in the country, and continually stimulate activity within local economies.

Recommendation #1: Work with the CFA to explore franchise-specific opportunities by targeting certain employment groups such as youth and New Canadians.

The franchise business structure has provided many entrepreneurs with the opportunity to start and operate a small business. Franchisees are typically independent small business owners, and their franchise locations are independently owned. The franchisor developed a business model, brand, and system from the ground up and the franchisees view owning a franchised business as a way to fulfill their entrepreneurial spirit, while also minimizing risk to their investment. Unlike other small businesses, franchisees have the benefit of an already established brand and system that is combined with expertise and training from the franchisor. CFA would be pleased to work with the appropriate Ministry to maximize the value franchising can bring to your jurisdiction.

Recommendation #2: Maintain a low corporate income tax rate and enhance tax credits to help small business owners, particularly franchisees, thrive

Taxes play a significant role in shaping the broader competitive environment for entrepreneurs, especially for small business owners. The value of small businesses cannot be underestimated. Government needs to ensure they provide the right economic climate and smart tax structures for entrepreneurs to have the best chance at surviving and succeeding. Your government can provide the best opportunity for small businesses to succeed by keeping corporate and small business tax rates low.

Policy Theme #2:

Ensuring the independent nature of the franchisor-franchisee relationship is recognized

AT THE HEART OF THE FRANCHISE BUSINESS MODEL is the independent nature of the franchisor-franchisee relationship. The franchisor grants a license to the franchisee, giving the rights to operate a business using the franchisor's trademarks, brand, and operating system for a specified length of time.

Recommendation #1: Protect the franchisor-franchisee relationship in legislation to recognize the true nature of the franchise relationship as an independent contract and retain the integrity of the franchise model

A current threat to the franchise business model could undermine the independent nature of the franchisor-franchisee relationship by making franchisors co-employers of – and therefore liable for – their franchisees' employees; this is otherwise known as a joint employer designation.

If this were to happen, franchisees would be treated differently than other small business owners, as they would essentially be reduced to managers of a franchised location. They would no longer have the autonomy of being a small business owner who responds to the needs of their workforce at their own discretion, impacting franchisee profitability, with fewer entrepreneurs willing to invest in franchises as this option involves more risk and less reward. Given the contribution franchising makes to the economy of Canada, this should be of great concern for all jurisdictions.

Implementing a joint employer designation on franchisors, should it happen, would also create a chilling effect. CFA is aware of franchised businesses that are already hesitant to expand in the Province of Ontario, or even come to Canada, because of the discussion surrounding potential changes to provincial labour and employment legislation.

We believe there is significant benefit in enshrining and protecting the contractual nature of the franchisor-franchisee relationship in provincial labour and employment legislation. As well, clarification of this could be achieved through changing the definition of "employee" to reflect the true nature of the franchise business model by specifically excluding franchisees from the definition to recognize that franchisees are not employees of their franchisor.

Policy Theme #3:

Maintaining a reasonable, predictable, and fair minimum wage

THE CFA SUPPORTS A MINIMUM WAGE POLICY which is fair, predictable, and transparent, accompanied by open communication and consultations with stakeholders, including business and franchising.

Recommendation #1: Continue to ensure the minimum wage policy balances the realities of what constitutes a fair wage with the responsibility of keeping the business environment healthy

CFA is not opposed to fair increases in minimum wage, instead wishing to ensure increases are predictable and reasonable. Significant and unpredictable increases in the minimum wage can have a dramatic impact on our members and their businesses, potentially resulting in hiring freezes, price increases, and reduction of employee hours. These are not circumstances in which small businesses can thrive.

CFA would be pleased to work with your jurisdiction should the consideration be given to drastically increase minimum wage in a way that would be detrimental and unpredictable to our members.

Policy Theme #4:

Reducing red tape and regulatory burden for small businesses

RED TAPE INTRODUCES SIGNIFICANT BARRIERS to productivity by forcing businesses to spend a substantial percentage of their time dealing with paperwork, removing them from the responsibilities of managing their business. Franchises and small businesses often do not have the administrative staff or resources to deal with these burdens, and they become a resource drain to busy owners who already wear many hats.

Recommendation #1: Become a leader by reducing red tape reduction and regulatory reform

CFA asks that your government commit to passing red tape reduction and regulatory reform legislation that requires annual measurement and public reporting of the amount of red tape small businesses face. CFA and its members would welcome the opportunity to work with government to identify points of concerns for small businesses and to determine appropriate solutions that serve both government and business owners.



Have Questions? Need Assistance?

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