

## Ask an Information Officer

**I am thinking of starting a business. What are the advantages and disadvantages of buying a franchise?**

*Jaime Wombolt, Business Information Officer, Canada/Nova Scotia Business Service Centre*

Purchasing a franchise is a popular choice for people who would like to start a business, but aren't sure where to start. We are all familiar with some of the more common franchises in Nova Scotia, many of which are in the food service sector. Buying a franchise can be more expensive than starting a new business from the ground up, but it also has a better chance of success due to the proven track record and reputation of the franchisor. There are a number of positive and negative aspects of franchise ownership, which are outlined below:

### Pros

- Training: Franchisors will usually offer training to help you with the initial start-up and continued operation of your franchise. The level of detail involved in this training, which covers everything from record keeping to human resources, makes it possible for people without extensive business experience to run successful franchises.
- Supervision and consulting: Franchisors generally provide ongoing support,

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## Business Article

**So you think you're ready to franchise!**

*Daniel F. So, Associate, McKenzie Lake Lawyers LLP*

Forty cents of each and every retail dollar spent in Canada is spent within a franchise system. Franchising provides business owners with a method of expansion funded primarily by others, and can result in a significant source of revenue for a business with a brand or concept to franchise. That said, franchising as a method of expansion should be done well, or not at all. Many business owners with a great idea rush to franchise without doing a frank self-examination about their own readiness to do so. Here are five issues to consider before deciding if your business is ready to head down the franchising path.

### 1. Support

Sure, you've been able to operate your business for a few years with the staff that you now have. Do you have the ability, however, to support not only your business, but those of 10 or 15 or 25 franchisees? Are you able to shift your primary responsibility from the operation of your own business to the support obligations you owe to multiple franchisees? A tempting prospect for many franchisors is to expand as quickly as possible. While this may provide short term revenues, you may encounter significant challenges in supporting that many franchisees at the same growth phase. It is far better to grow in a slow and

controlled manner, and to space out your franchisees in varying growth phases, than to have more franchisees than you can support encountering the same problem at the same time!


### 2. History

As important as a great concept around which your franchise is built, is a proven history. An established business looking to franchise is much better positioned than a business without that history. Simply put, a business which has operated itself for several years will have experienced many of the "growing pains" associated with that business, and will be better able to provide advice and support to its franchisees encountering similar issues. Additionally, a franchisor with a proven history can often get a higher price per franchise sold than a business

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## Ask an Information Officer

and are available to offer advice in case of emergencies.

- Well-established products and methods: The pre-established reputation of the products you are selling limits the risks involved in running the business.
- Combined buying power: Franchisors can purchase supplies at reduced process due to the volume they are buying. They also have the resources to launch large marketing campaigns.
- Financing: Franchisors generally have some financing options available to franchisees.
- Ongoing business development: Owning a franchise allows you to take advantage of research conducted by the franchisor and the resulting innovations.

### Cons

- Fees: Franchises are generally very costly upfront, and there are ongoing royalty fees as well, which can make cash flow an issue.
- Additional costs: Franchisees are responsible for purchasing necessary equipment, and are often required to participate in promotional and support services.
- Loss of independence: Franchisees must follow fairly rigid rules and guidelines, and are bound by franchise agreements to do so.

- Inheriting problems: Any problems experienced by the franchisor will likely be yours to deal with as well.
- Limited possibility of expansion: You can only expand as far as is permitted by the franchisor.
- Working hours: You may be required to work long hours, and will have little control over the hours that you do work.

For information on how to decide whether purchasing a franchise is right for you, please see our document Checklists for Franchisees. Before making your purchase, be sure that you are familiar with all applicable laws and regulations about franchises.

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### Our Mission

To improve the start-up, survival and growth rates of small- and medium-sized enterprises by giving business people in every part of Nova Scotia access to accurate, timely and relevant information and referrals

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## Hot Picks

The following books are available from the Canada/Nova Scotia Business Service Centre Library. These books may also be available in our resource centres, located throughout the province.

### **Canadian Franchise Law Handbook**

*Daniel F. So*

Written in plain language, this book explains the legal requirements of franchising in Canada, and the obligations on each party in a franchise relationship. Intended to help current and prospective franchisees and their counsel to navigate the process of entering into a relationship with a franchisor, this text devotes chapters exclusively to each of the franchise jurisdictions in Canada and the United States. A clause-by-clause annotation of a sample franchise agreement and a disclosure document is offered to help decode legalese and contract technicalities. Other features include helpful practice tips, flowcharts, sample franchise documents, and the full text of the Canadian franchise legislation.

#### Additional Contents:

- What is Franchising?
- A Brief History of Franchising
- An Introduction to Franchise Law in Canada
- Identify the Parties and Understanding the Business
- The Disclosure Requirement
- Annotated Franchise Agreement
- Annotated Disclosure Document
- The Courts and the Franchise Relationship
- Franchise Disputes, Litiga-

- tion, and Class Actions
- Franchise Alternative Dispute Resolution
- How Should I Own My Business?

### **What No One Ever Tells You About Franchising: Real-Life Franchising Advice from 101 Successful Franchisors and Franchisees**

*Jan Norman*

Franchise organizations have created some of the most recognizable brands and successful businesses in the world. And, with a new franchise opening every eight minutes of each business day, it is clear that people seem passionate about franchising.

Yet franchising is not for everyone, nor does every business idea lend itself to franchising. The most successful franchisors and franchisees have learned the business from the trenches, leveraging both their successes and failures to build a thriving business.

You can learn from the experience of more than 100 franchising pros in *What No One Ever Tells You About Franchising: Real-Life Advice from 101 Successful Franchisors and Franchisees*. Entrepreneurship expert and journalist Jan Norman taps into the successes and failures of franchisors and franchisees to deliver inside advice that focuses on the unique interdependent relationship that exists in franchising. Among the many insights included, you will learn:

- If your business or idea is right for franchising
- How to find a franchise that will fit with your background, experience, and personality
- How to identify hidden costs by conducting a thorough cost analysis
- What the most important negotiating terms are and how they apply to both sides of the relationship

- How to market your business at both the franchisor and franchisee level
- Different ways to maximize the franchisor/franchisee relationship

Whether you are considering franchising your business or purchasing a franchise, the anecdotes and real-life stories in *What No One Ever Tells You About Franchising* demonstrate what it takes to be successful.

#### Additional Contents:

- Getting Started
- Management
- Selecting Franchisees
- Franchise Relationships
- Financing
- Purchasing Issues
- Financing
- Marketing
- Growth
- Overcoming Trouble

### **So You Want to Buy a Franchise: Proven steps to successful franchising in Canada**

*Douglas Gray, Norman Friend*

Studies show that a new Canadian franchise opens every hour and forty-five minutes, and the number and variety of franchises available in Canada keeps growing. So which franchise in which industry is the right fit for you? How do you make sure you are making a wise investment before you sign on the dotted line? This practical, all-Canadian book offers tips and advice to help you to:

- Determine if franchising is the right option for you and your situation
- Assess an available franchise's profitability
- Evaluate marketing and training benefits in a franchise's organizations
- Generate financing for your new franchise venture
- Make sense of a typical

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## Hot Picks

franchise agreement

On the surface, franchising often seems like an easy way to start your own business, but there are many elements to consider. Douglas Gray and Norman Friend provide a range of tools and checklists to help you evaluate franchise opportunities and your own situation, from both a financial and personal perspective. They explain the alternatives to and variations within franchising, and point out pros and cons to the franchisor and the franchisee.

Additional Contents:

- Introduction to Franchising
- Is Franchising for You?
- Evaluating the Franchise
- Underestimating the Franchise Agreement
- Financing the Franchise
- Which Legal Structure is Best for You?
- Business Planning
- Buying an Existing Franchise
- The Ten Golden Rules

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owner with only a great idea. On average, successful franchise systems often have 2-3 years of experience before expanding through franchising. That said, some very successful national franchises have expanded within months of starting their business!

### 3. Operations Manual

You may know very well how to run your business, but can you put to paper (or CD-ROM, as increasingly is the case) a precise set of rules and regulations detailing everything from hours of operation to how to answer the phone to how much to charge customers for a particular good or service? Integral to every franchise investment is an operations manual, which does precisely this. You should ensure that you have the ability to either draft, or to hire somebody to draft an operations manual for your system. Not only will this provide franchisees with a resource in the operation of your business, but this will provide you with the control element necessary to ensure that your franchisees are operating in accordance with your system.

### 4. Trade-Marks

You may have a great brand, concept, good or service, but without a trade-mark, and preferably, a registered trade-mark, your foray into franchising may be short-lived. Trade-marks are the hallmark of franchising - essentially when you sell a franchise, you are selling the right to operate a business under your trade-marks, in accordance with your systems, in a certain place, for a certain period of time. Without that trade-mark, all the franchisee is operating is a similar business selling a similar good or service - arguable in competition with itself! Additionally,

## Featured Website

### Canadian Franchise Association

By Ryan Colp, Junior Business Information Officer, Canada/Nova Scotia Business Service Centre

Ever consider operating a franchise but don't know where to begin or who to contact? One valuable starting point is the Canadian Franchise Association's Web site.

The Canadian Franchise Association (CFA) is a Canada-wide organization of over 400 companies and professionals who support the franchise industry. Having a CFA membership requires a company to comply with the CFA's code of ethics, such as providing potential franchisees with all the information they require in order to make feasible business decisions.

Whether you are interested in franchising, currently active with a franchise or just researching the franchise industry, the CFA's Web site has something for everyone:

### Search Franchising Opportunities

A listing of all CFA members is provided, linking to contact information, Web site addresses, as well as important background information such as a brief company description, the number of franchise and corporate units operating in Canada, how long the company has been in business, franchise fees, training length, and territories the franchise is available to.

### Looking for a Franchise?

*Making the Right Choice* is a great resource for those who are new to the franchising business. In this section the benefits of operating

## Featured Website

a franchise are discussed, as well as information regarding the code of ethics that each organization has to follow in order to become an official CFA member. You can also access a list of important questions that a potential franchisee should consider. However, these questions are just a sample of what is contained in the CFA's Information Kit, which is available for purchase through the CFA's Web site.

The CFA offers a listing of organizations and individuals that can help with specific areas of interest regarding potential franchisees.

### Support Services Categories:

- Accountants
- Executive Search
- Advertising / Graphics
- Franchise Consultants
- Banks / Financial Services
- Franchise Development / Economic Development Offices / Chambers of Commerce
- Business Aids & Services
- Insurance
- Computer / Internet Sales & Services
- Lawyers
- Education / Training
- Mediators / Arbitrators
- Events & Conferences / Facilities
- Printers / Publishers / Publications

### Already in Franchising?

Thinking about becoming a CFA member? Before you apply, you may want to look over the *Member Benefits and Dues Structure* portion of the CFA Web site. You can apply to become a CFA member by printing out the online application form for either the franchisor or franchise support services membership.

Looking for franchise related events in your area? Look no

further than the franchise events calendar. Listed are international, national and regional events relating to everything franchising.

So now that you are operating your franchise, do you know how to effectively advertise your business? You may want to have a look at CFA's Marketing Opportunities section, which includes sponsorship programs, a newsletter, franchise directories, magazines, and information regarding advertising on the CFA's Web site.

If you require more information on the CFA, please visit [www.cfa.ca](http://www.cfa.ca) or contact the CFA at 1-800-665-4232.

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goodwill, which represents much of the value in a franchise, is very difficult to accumulate without that uniformity of branding. You should consult with a lawyer who is either an intellectual property specialist or trade-marks agent to discuss the value and strength of your trade-mark, and to register that mark before you begin franchising. It is far better to "tweak" your mark to a strong one now, rather than two or three years down the road, when you now have to convince 10 franchisees that your initial mark was inherently weak, or worse, in conflict with another.

### 5. Legal Compliance

Three provinces in Canada currently have franchise-specific legislation. If you are hoping to expand within one of those provinces, you will have to comply with the laws in that province. You should consult with a business lawyer who specializes in franchise law before embarking on your franchising journey - and make

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sure you ask what experience they have in expanding a) businesses through franchising and b) franchises in your specific industry. A good franchise lawyer will not only be able to advise you on the legal issues in relation to your franchise operations, but will be able to help guide you with respect to how much to ask for a franchise, what royalty rates to charge, and the best structure for your company in franchising your system.

Consider these topics well - your examination of these issues now, before you are embroiled in a franchisee dispute, will enable you to grow your system in a way that benefits you, your franchisees, and your franchise system!

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