

BUYING A FRANCHISE

Checking Out the Franchise Opportunity

- Background Check:** Check the franchisor's credit background with Dun and Bradstreet and your banker. Also ensure that the Better Business Bureau has not received any major complaints against the franchisor.
- Financial Statements:** Request and analyze, if available, the franchisor's most recent financial statements. This is simple if the franchisor is a public company. Smaller franchisors, however, may not want to discuss such information so it may be necessary to rely on information from banks and other credit agencies. Review the pro forma financial statements with the accountant.
- Request Information:** Obtain from the franchisor all the public information available on its operations. If it offers franchises in Alberta or in the United States, detailed documents have already been prepared and should be readily available. If, however, they are reluctant to give them to you, it is a bad sign. However, for smaller regional franchises in Canada, these documents may not exist.
- Trademark:** Ask for a copy of the franchisor's trademark application or registration. Without it, the franchisor can give you no assurance of its ability to protect its own trademark, which could lead to later problems.
- Ask Franchisees:** Request a list of franchisees with their locations and telephone numbers. Discuss with a number of them the much time they spend on the business since this will affect their personal lifestyle. Also have these franchisees assess how well the franchisor has lived up to any promises. Do you feel they are getting something of value for their royalty payment?
- Application:** Complete the application or pre-screening form if required by the franchisor. The franchisor should want to check out your financial background as carefully as you check out their situation. If not, it is a bad sign.

- Legal Documents:** Obtain a full set of legal documents from the franchisor – the franchise agreement as well as registered used agreements, leases or subleases and assignment agreements.
- Deposit Agreement:** If a deposit is required, read the deposit agreement carefully and ensure that it is refundable. If not fully refundable, be sure that you will get at least 80-90% back. At this point, you must be satisfied with the franchisor's credibility and integrity.
- Visit Site:** The franchisor should offer an acceptable sight (if applicable) for your business. Visit the site and analyze all available descriptive material, paying special attention to surrounding population, average annual income and age distribution. For major investments exceeding \$100,000 you may want to call a professional to confirm the franchisor's report.
- Financing Packages:** If your accountant has given you the green light inform your banker fully about your plans. Obtain all the information from the bank, as well as any specific financing packages related to the franchise you are buying. Discuss your eligibility for various loan programs available from the bank.
- Family Discussion:** Inform your spouse and family completely about what you are doing. In many cases, your spouse will be required to guarantee the loan. In addition, you should assume that the whole family may also be physically and emotionally tied up in the business.
- Legal Counsel:** Engage a lawyer who specializes in franchise-related matters to review all of the documents including trademark registration. As well, have an accountant take a final look at the franchise agreement as to any unfavourable tax implications.
- Final Decision:** Finally, as the ultimate decision will rest with you, it is now time to apply as much common sense as possible. Try to answer objectively whether you are reasonably suited to the proposed franchise business. Are you willing to make a total commitment in order to succeed? Be honest with yourself – franchising isn't for everyone.

Source:

The foregoing material was prepared by the Franchise Services Group of the management consulting firm of Woods Gordon.