

THINKING ABOUT BUYING A FRANCHISE? CONSIDERATIONS FOR THE FIRST TIME FRANCHISEE




WHAT IS FRANCHISING?

Franchising is simply a method of distributing goods or services. It involves three elements:

- o the Franchisor: a person or company that grants to others a right or license to engage in business using their trademark or tradename;
- o the Franchisee: the person or company who pays royalties and often an initial fee to get the right from the franchisor to do business under the franchisor's trademark or tradename;
- o the Franchise: technically refers to the contract granting the right or licence to engage in business under the franchisor's trademark or tradename. It is also commonly used to mean the actual business that the franchisee operates.

Franchising can be divided into two broad categories, commonly known as “product franchising” and “business format franchising”. In product franchising the franchisor licences the franchisee to sell the franchisor's trademark products and services, but typically does not provide the franchisee with the entire system for running their business. The franchisor imposes limited controls and provides limited assistance to the franchisee. This type of franchise relationship is similar to a supplier-distributor relationship, the main difference being the identification of the franchisee with the franchisor's trademark.

“Business format franchising” is the most common form of franchising and is characterized by an intimate business relationship between the franchisor and the franchisee. In business format franchising, not only is the franchisee granted a licence to sell the franchisor's particular trademark good and services, but the franchisee is also licenced to use the franchisor's comprehensive business system (format), including the operating and marketing systems. Business format franchising is characterized by comprehensive support provided by the franchisor to the franchisee which may include: site selection and analysis; design and construction; financing services; training; local, regional or national advertising; volume purchasing; operating procedures and operating assistance; and advice, guidance, and continuing support in all aspects of operating the franchise. The effect of business format franchising is that there is almost a complete merging of the



business identities of the franchisor and the franchisee so that the public perceives each individual franchise outlet as part of the larger chain of identical outlets, offering the same goods and services. In order to maintain this public image, the franchisor imposes extensive continuing controls on the franchisee's business operations.

ADVANTAGES OF FRANCHISING

There are a number of advantages of franchising with proven successful systems. With start-up franchise systems, however, some or all of these attributes may not apply.

(a) Reduced Start-up Risk

Perhaps the greatest attraction of operating a franchised business of a proven successful system is the reduced start-up risk. Although no business is guaranteed to be successful (business success depends on a variety of factors, including the individual entrepreneur's commitment and dedication to their business) one has a greater chance of being successful with a franchised business as opposed to a starting up an independent operation. The reason is that someone else has removed most of the trial and error experience inherent in start-up operations. With a franchise, of a proven system, you are buying a proven business method, thus reducing much of the start-up risk.

(b) Be Your Own Boss

Franchising allows individuals to go into business for themselves, but not by themselves. With the support of the franchisor, even those individuals with little or no business experience can usually learn to operate a franchised business quickly and become their "own boss".

(c) Established Product and Services

A franchise provides you with established products and services. Also, established and successful franchises have built-in goodwill, visibility and credibility in the market place, and substantial market share. As a result of these factors, from day one your businesses will have brand-name recognition which may otherwise take years to develop. Moreover, franchises benefit from the franchisor's continuing market research and development, resulting in new products and services and other improvements and refinements to the franchise system.

(d) Mass Buying and Marketing Power

Franchisees benefit from the cost-savings inherent in bulk-purchases and effective local, regional or nationwide marketing programs.

(e) Start-up Assistance and Continuing Support

Franchisees benefit from one or more of the following start-up support systems offered by the franchisor: site selection and analysis; design and construction; training; and grand-opening programs. Also, franchises offer ongoing support such as advertising, operating assistance, ongoing supervision and management, and preferred sources of supplies and financing services (in some cases).

DISADVANTAGES OF FRANCHISING

(a) Strict Compliance with the System

The main disadvantage of franchising is that a franchisee is not completely independent. To ensure uniformity, most franchisors demand strict compliance with the restrictions, procedures and controls set forth in the franchise agreement. Franchisees are not allowed to stray from the system, resulting in a loss of independence and restrictions on their ability to exercise their own business judgment. Restrictions may include site approval, design and appearance standards, the goods and services offered for sale, pricing, geographic sales area restrictions, and the requirement to purchase supplies from approved suppliers (in some cases). Franchisees may also become weary of their operational and procedural obligations under the franchise agreement such as, strict accountability and reporting requirements, audits and inspections and the need to pay fees to the franchisor, whether you're making a profit or not.

(b) Ongoing Fees

In addition to the initial franchise fee, which may be non-refundable and which may cost several thousand up to several hundred thousand dollars, franchisees are required to pay ongoing royalty and advertising fees. Royalty fees are often based upon a percentage of your weekly or monthly gross revenues and, as noted, you often must pay these whether you're making a profit or not.

(c) Rebates

Very few franchisors actually pass along the rebates they receive from suppliers to their franchisees. Consequently, franchisees that are required to purchase from within the franchise system are deprived because they cannot take advantage of the rebates for their own benefit.

(d) Franchisor's Failures Are Your Own

If your franchisor employs poor business practices, poor judgment or poor management, your business may suffer. Also, if other franchisees in the system are performing poorly, the system-wide image of the franchise may be damaged also causing your business to suffer.

INVESTIGATING A FRANCHISE OPPORTUNITY

What You Should Consider Before Selecting a Franchise System


Before making a decision to invest in a particular franchise system, you should carefully consider a number of factors.

How much money do you have to invest?

Your choice of franchise system will in part be determined by how much money you have to invest. You should ask yourself, how much money can I afford to lose? Will you need financing and where can you get it? Do you have additional income to live on while starting your franchise? You will need enough money, not only to open a franchise, but to run it until it is profitable.

Determine your Interests and Abilities

Regrettably, many franchisees frequently base their choice of franchise system on superficialities such as: how much they personally enjoy the product offered by the franchised business; its décor and ambience; or on an overwhelming desire to be in business for themselves. Before deciding on which franchise system to invest in, determine your interests and the type of business you will enjoy working in. Choose something that you will enjoy doing for the next 10-15 years, and more often than not, for long hours. Often, people buy a franchise on the prospect of making huge profits, and find out later that they don't enjoy the business. Also, choose something that matches your skills and



abilities. Many franchise systems require technical experience, relevant education, and relevant skills such as computer or bookkeeping skills. Match the franchise system to your interests, skills and abilities.

Determine Your Goals

Your goals should guide your choice of franchise system. Do you require a specific level of annual income? Are you interested in retail sales or performing service work? How many hours per week are you willing to work? Do you want to operate the business by yourself or hire a manager? Would you like to own several outlets or only one?

Investigating a Franchise

Once a decision to embark on franchising has been made, prospective franchisees must be prepared to devote a **significant** amount of time researching and investigating the franchise and evaluating the strengths and weaknesses of the franchisor. Below is a suggested list of questions and commentary which will assist you in assessing the investment potential of each prospective franchise. While the list is not intended to be complete, it serves as a useful starting point for investigating and evaluating a franchise opportunity.

Preliminary Investigation

Demand

- Is there enough demand in your community for the franchisor's products and services?
- Is the demand seasonal?
- Is there likely to be continuing demand for the product or service in the future?
- Does the product or service generate repeat business?

Competition

- What is the level of competition, nationally and in your community?
- Are the competing companies/franchises well established?
- Do the competing companies/franchises sell the same or similar products?
- Do the competing companies/franchises sell their products or services at the same or lower prices?


Brand Name

- How well recognized is the franchise name?
- Does the franchise have a reputation for providing quality products or services?
- Have consumers filed complaints against the franchise with the Better Business Bureau, the Canadian Franchise Association or local consumer protection agency?

Tip: One of the principal reasons for choosing a franchise is the right to associate with the franchise name. The more widely the name is recognized, the more likely it will be that customers know of its products and services and will be drawn to your store.

Investigate the franchisor's history

If the franchise is located in Ontario or Alberta, the franchisor is legally obligated to provide the franchisee with a disclosure document at least 14 days prior to signing any franchise related document or paying any consideration for the franchise. The disclosure document contains information (as prescribed by law) relating to the franchisor. A prospective franchisee in these provinces may obtain the answers to some, but **not** all, of the questions noted below from the disclosure document. While the disclosure document provides useful information,



it should **not** be relied on as the only source of information. Besides, there is no guarantee that the disclosure document will contain all the information that is required to be disclosed, or that the information will be disclosed accurately. Further, in order to analyze the accuracy and relevance of the information, a prospective franchisee is encouraged to seek the advice of professional advisors. The role of professional advisors in franchising is considered in more detail the final section of these introductory materials.

- How long has the franchisor been in business?

Tip: If the franchisor has little or no experience then his/her promises of guidance training and other support may be unreliable. Also, be careful franchisor's materials that may contain statements such as "we have many years experience in the industry". Although owners may have extensive experience in the industry, their experience may only be in one aspect, or in a limited way which has not given them the know-how to develop a successful franchise system.

- How long has the franchisor been offering franchises?
- How many current franchisees are there?

Tip: If the franchisor has been in business for many years and only has a handful of franchise locations, the system may not be worth a great deal. Also, it would indicate that the franchisor has failed to market the system.

- Does the franchisor own the rights to the system?

Tip: Many local franchisors do not own the rights to their system but are merely local licensees of an out-of-province or international franchise system. Therefore, you will want to know what happens if the local franchisor goes bankrupt or loses his licence. Will the "Mater" franchisor recognize the Ontario franchise? If so, who will run the system and what commitment will they be making?

- What is the background of the franchisor's principals/managers?
- How much direct experience do they have with the business in question?

- Do they understand the business or are they merely promoters?
- What is their experience and history with respect to other business ventures?
- Have they personally had any bankruptcies?
- Have they been involved in any litigation?

Tip: Look for franchises whose principals/managers have been devoted to the franchise system and industry in question. There are many instances where only promoters are involved. One should question the ability of such persons to manage and develop the system. Also, one should question the length of time top management and staff has been with the system or industry. If they are there only to promote the system and then bail out, you should stay away.

- Does the franchisor secure and develop real estate?

Tip: One of the most difficult, time consuming and expensive aspects in the development of any business is the selection, acquisition and development of the location or site. If the franchisor has its own trained people to identify potential sites and if the franchisor takes the lease in its own name and even develops the site at its own expense then, at minimum, the franchisor is willing to place its own credit at risk. Thus, it will be more likely to ensure site selection and development conducted with care. Beware of franchisors that will grant a franchise to anyone, anywhere, so long as the franchisee invests the money to fixture a site. Beware also of franchisors that boast hundreds or thousands of locations opened or to be opened. While multiplicity of locations may do wonders for the franchisor in its efforts to sell more franchises, indiscriminate franchising leaves many franchisee victims behind.

- What are the earnings claims and profit projections?
- On what are they based?
- Are the projections based on franchisor or franchisee-run units?

- How long have the units used for projections been in business?

Tip: Making sense of financial projections and pro forma is never easy. While most franchisors will provide you with financial projections of one kind or another, it is unlikely that any two will follow the same format. Often times the financial projections are out of date or contain material omissions or understatement of expenses. For the uninitiated purchaser, the advice of an experienced financial professional with industry experience is essential. A material misstatement of a key component in the pro forma, can make the difference between success and failure.

- How is the franchise structured?

Tip: The hallmark of many failing franchisors is that affiliated firms provide management and administrative services. A major area of concern is the sale of routine supplies to franchisees. If the supplies are sold through subsidiaries or affiliated companies, the pricing is unlikely to be in the best interest of the franchisee unless the franchise agreement provides in clear language that the franchisee will always receive better than competitive prices on a consistent basis.

- What innovations has the franchisor introduced since first starting the franchising?

Tip: No business can survive or grow without ongoing innovation and improvement. If the franchisor has been in business for a long time and the answer that you receive is glib, you should look at the number of new franchisees in recent years. If the number is low, this may very well mean that the system is in decline.

- How selective is the franchisor when choosing its franchisees?

Tip: In this regard, look at your own case and how demanding the investigation was. A thorough analysis of your personal and financial strength is a good sign that the franchisor knows what makes a good franchisee and invests the time and effort to evaluate applicants. If the only investigation made of you before an offer is extended is whether you have the initial franchise fee in your bank account, you should be wary. As always, when contemplating any investment of this nature, seek experienced professional advice.

- What is the failure rate of the franchisees?

Tip: Many franchisors tend to mislead a prospective franchisee when asked about store failures. They take the position that as long as a store remains open, it is not counted as a failure, despite the fact that one or two or more franchisees may have lost all of their investment. They take the position that any store failures are those of the franchisees, not the location or the franchisor. Ask, not how many locations have failed, but how many franchisees have been terminated or left the system? As a general rule of thumb, **franchisees do not leave successful systems**. If franchisees have a tendency to leave the system any time between three and five years, the system is likely to be unprofitable and prospective franchisees may want to avoid it.

- Does the franchisor operate a large number of corporate stores in addition to franchised outlets?

Tip: In such cases, the franchisor may not only ignore servicing the franchised outlets in preference to their own corporate stores, but may prefer their corporate stores in the supply of merchandise, the quality of the same, the credit terms and so on, to the detriment of their franchisees.

- What is the franchisor's financial health?

Tip: Check the credit history of the franchisor by obtaining a credit report/rating. Also, no franchisor should be afraid to provide you with a banking reference. Further, if the franchise is located in Ontario or Alberta, the franchisor is required by law to provide its financial statements in the disclosure document. An experienced accountant should be retained to assist you in reviewing the financial statements and evaluating the franchisor's financial health.

EVALUATING THE FRANCHISOR AND ASSESSING THE RISK – WHAT QUESTIONS TO ASK THE FRANCHISOR?

Training and Operating Assistance

- What is the nature and content of the training programs?
- Who must attend training?

- Where is the location and what is the duration and additional costs of initial training?
- Who conducts the training and what is their background?
- Who pays for transportation, room and living expenses?
- Are training material provided by the franchisor?
- Is satisfactory completion required?
- What types of ongoing operating assistance is provided (for example, provisions of general advertising and promotional materials, inspection and evaluation of the franchisee performance; administration of the advertising fund, establishment of bookkeeping, accounting, inventory controls and general operating procedures)?
- What, if any, are the costs for this assistance?

Territory and Location

- Has the location of the franchised business been determined?
- Must the franchised business be located within a specific territory?
- Does the franchisor have the right to approve the location of the franchised business?
- Is the franchisee given exclusive territorial protection (not only with respect to other franchisees but also with respect to franchisor-owned locations)?
- Is the franchisee granted the right to open additional locations within the territory?

- Can the franchisee relocate within the territory?
- Is the franchisee granted the right of first refusal with respect to additional territories?
- Can the franchisor change the territory or split the territory under certain circumstances?

Term and Renewal

- What is the initial term of the franchise agreement?
- Is the franchisee given the right to renew the franchise agreement?
- Are there any conditions for renewal of the franchise agreement (for example, upgrading of the premises, execution of the current form of the franchise agreement, renewal fee, etc.)?
- What is the manner of exercising renewal rights by the franchisee (for example, requirement of notice to renew and time frame for renewal)?

Premises

- Who is responsible for the selection and approval of the premises?
- Are the premises to be leased by the franchisor or the franchisee?
- If the franchisee leases the premises, does the franchisor have the right to approve the lease?
- If the franchisor leases the premises, what are the terms of the franchisor's form of sublease for the premises?

- Who is to develop the premises?
- Who is to pay for the cost of development?
- Is the franchisor developing the premises on a turnkey basis?
- Does the franchisor furnish standard layout plans, specifications and drawings for the development of the premises by the franchisee?
- Who is responsible for building permits and authorizations for the development of the premises and the operation of the franchised business?
- If the franchisor develops the premises, who is to pay for any excess over the estimated cost of development?
- What is the time frame of developing the premises?
- Must fixtures, furnishings, equipment, signs etc. be purchased from the franchisor or supplies designated by the franchisor?

Opening of the Franchised Business

- What is the anticipated opening date of the franchised business?
- Does the franchisor give special assistance in connection with the opening of the franchised business (for example, advice, opening advertising, representatives at the opening, additional start-up assistance)?

Authorized Products and Services

- Is the franchisee required to purchase all equipment, products and related accessories and supplies from the franchisor?

- Is the franchisee restricted on goods and services and/or the sources from which they are purchased?
- Are there any restrictions on the distribution and sale of the products or services?
- Is there a minimum that must be purchased?
- Does the franchisor earn income on the purchases? How much does the franchisor earn?
- How are the products distributed?
- How long does it take for orders to be filled?
- Is the franchisor required to approve products sold by the franchisee?
- Are there new products and services under consideration for addition to the franchise? When are they going to be introduced? What is the estimated cost of these new products and services?

Costs and Ongoing Fees

- What are the costs of operating the business (for example initial franchise fee, leasehold improvements, lease deposits, franchise training, travel expense, supplies, advertising and brochures, inventory, staff, other)
- Is there a continuing royalty fee? What is the basis used for calculating this fee? How often and how is this fee to be paid? Is it a percentage of “gross sales”? What is included and excluded in the definition of “gross sales”?
- Is there an advertising fee for regional or national advertising, or both? How is it calculated? How and how often is it to be paid?

Advertising and Promotion

- Has the franchisor established a national or regional advertising program, or both?
- Is there a requirement for the franchisor to account for the advertising fund?
- Can the franchisor charge an administrative fee for managing the advertising fund?
- Is there an obligation on the franchisor to ensure that all franchisees benefit equally from the fund?
- Is the franchisee required to engage in local advertising?
- Is there a minimum amount that the franchisee must spend on local advertising?
- Does the franchisee have the right to approve local advertising?
- What are the arrangements for telephone listings?
- Is the franchisee required to advertise in the white or yellow pages?

Trademarks

- What are the details of the trademarks, including particulars of pending applications and registrations for trademarks?
- Are the trade marks registered?
- Is the franchisee required to enter into a registered user agreement with respect to these trademarks?
- Are there any restrictions on the right of the franchisee to use the trademarks?

- Is there an indemnity of the franchisor in the event of any action for trademark infringement?
- Can the franchisor withdraw or substitute trademarks, and, if so, at what cost to the franchisee?

Operating Manual

- Does the franchisor provide the franchisee with an operating manual setting out specifications, standards and operating procedures for the franchised business?
- Are the provisions of the manual incorporated by reference as part of the franchise agreement?
- Can the franchisee inspect the manual prior to signing the franchise agreement?

Transfer of the Franchised Business

- Is the agreement transferable by the franchisor? The franchisee?
- Is the approval of the franchisor required prior to the transfer?
- Must the proposed transferee be acceptable to the franchisor?
- Are certain transfers permitted (for example, transfers to family members, transfer among partners or shareholders; transfers to wholly owned or controlled corporations, and transfers upon the death or incapacitation of the franchisee)?

Termination

- Under what circumstances may the franchisor terminate the franchise agreement (for example, failure to open the franchised business, failure to satisfactorily complete the training program, termination on the expiration of the lease; insolvency of the

franchisee, conviction of the franchisee of a criminal offence, death or disability of the franchisee, failure of the franchisee to maintain confidentiality, understatement of gross sales by the franchisee, failure to pay amounts owing to the franchisor, misuse of trademarks, failure to report, and failure to comply with any other provision of the franchise agreement)?


SPEAK TO CURRENT AND FORMER FRANCHISEES

Once you have completed your preliminary investigation of the target franchise system, it is essential that you speak to current and former franchisees. You should talk to as many franchisees as possible, particularly the oldest and the newest franchisees, ex-franchisees and **every** franchisee in the locale in which you intend to do business. You should obtain a list of the current franchisees, including addresses and telephone numbers from the franchisor. Never purchase a franchise from a franchisor that is unwilling to provide you with this list (or who provides a partial as opposed to a complete list). Any franchisor that is so afraid of what its franchisees will tell a prospective purchaser does not have anything worth while to sell. If the franchise is located in Ontario and Alberta, franchise law and regulations stipulate that the franchisor must provide in the disclosure document a list of all existing franchisees within the province (including the business address, name and telephone number of the franchisee who operates the franchise) and where there are less than 20 franchises in these provinces, respectively, the list must include information on franchises which are geographically closest to these provinces until information on 20 outlets is provided. You should also visit and talk to franchisees who have left the system and find out why they left.

The following is a list of some questions that you should ask current franchisees.

Support

- What kind of support did they get from the franchisor? Site Selection? Training? Grand Opening? Trouble shooting?
- Did the franchisor assist them in selecting their location and, if so, what did they do to research the feasibility of that location?
- What kind of on-going support do they get from head office?
- What forms of communication does the franchisor use (for example, internet, frequent e-letters, annual conventions, regional training)?



About the Franchisor

- Are you satisfied with the franchisor?
- Is the franchisor fair and easy to work with?
- Does the franchisor listen to the concerns of the franchisees?
- Did you have any disputes with the franchisor? Were you able to settle them?
- Are you aware of any disputes that the franchisor has had with other franchisees, competitors or the government?
- Has the franchisor kept his promises?

Training

- Do they think the training they received was adequate? Could it have been more thorough? Was anything missing in training in their opinion?
- Was the training effective?
- For training, did they need to go to a location far from home, and if so, was travel and accommodation at their own expense?
- What did the training cost them?

Costs

- Had there been any unexpected or “hidden” costs in getting their business launched or in ongoing operations that were never explained by the franchisor?
- How long did it take them to “turn the corner” and show a profit?
- How long did it take for them to pay themselves a salary?
- Is your franchise profitable? What are your gross revenues? Your cash flow?
- Were the franchisors profit projections and earnings claims accurate?

Products and Services

- Are the products or service they sell of good quality?
- Does the franchisor have strong, on-going, protected relationships with suppliers that allow for preferential pricing and optimal delivery of supplies?
- Do they ever have supplier problems and, if so, what are they?
- What sells best? To whom? Who is the competition?

Advertising and Marketing

- How much money do you spend advertising a month?
- Is the regional or national advertising effective?

- Are you getting good value for your advertising dollars?
- Are you satisfied with the marketing and promotional assistance the franchisor has provided?

Operations


- How many hours a week do they work in the business?
- What are their hours of operation?
- How effective are their operational procedures?
- What do they think of the operating manuals? Did the manuals help them? Are the manuals updated regularly?
- How much freedom do they have to make decisions?
- How many part-time and full-time employees do they employ?
- What is the employee turn-over?
- Is it hard to find qualified employees? How are the employees compensated?
- What challenges do they face on a regular basis in the business?
- How much support do they get from head office in meeting these challenges?
- How much support do they get from other franchisees in the system?

- Are they disappointed in any aspect of the business?
- What do they like least about the business?
- Do they intend to buy another franchise? Why, or why not?
- Why did they originally select this franchise? Are those reasons still important to them?
- If they had to do it all over again, would they?
- Would they recommend that you buy a franchise?

THE ROLE OF PROFESSIONAL ADVISORS IN FRANCHISING

The role of professional advisors in franchising cannot be overstated. Franchise agreements are extremely sophisticated and complex legal documents which even lawyers without special training in the area will have difficulty understanding. Don't make the mistake that many franchisees make of hiring "cheap" rather than "good" advice. A prospective franchisee should look to hire a lawyer experienced in franchising to guide them through the potential mine field, **before** signing a franchise agreement.

A lawyer will help you understand your obligations under the franchise agreement and related franchise documents such as the purchase agreement, lease or sub-lease. An experienced franchise lawyer can tell a lot just by looking at the franchise agreement. For example, the more rights that are one-sided or discretionary in the franchise agreement, the greater the likelihood that a franchisee can be hurt. Equally important, a franchise lawyer will review the franchise agreement and collateral documentation with a view of making necessary amendments. Franchise lawyers will have a good sense of what items in the franchise agreement and other documents can be successfully amended in your favour. Furthermore, often franchise documentation is full of surprises, such the franchisors right to sell competing businesses in your territory, the right to refuse renewal arbitrarily, the right to cancel your franchise on spurious grounds, the right to dictate suppliers and uncompetitive prices to you.....the list is endless. At the very least, an experienced franchise lawyer will point out the problematic clauses, so that the franchisee can make an informative decision on whether or not to purchase the particular franchise.



A franchise lawyer who is active in the industry may also have prior experience with the target franchisor, and may be able to provide you with practical as well as legal advice. The lawyer who has dealt with your particular target franchisor will have an inside track on how flexible your franchisor can be. If the franchisor has granted concessions to previous clients, the lawyer will have strong grounds to seek them for you as well. Moreover, a lawyer who practices franchise law will be familiar with the standards in the industry in question, and will be able to advise a prospective franchisee if the terms of the franchise agreement fall within industry standards.


Another professional advisor that a prospective franchisee should be prepared to invest some money in, is an accountant. An accountant will assist the franchisee in understanding and making sense of the financial statements and any financial projections (pro forma) provided by the franchisor. An accountant with experience in the industry will be able to tell you if the costs and profit margin projections are realistic. A key misstatement in the pro forma, can make the difference between success and failure.

CONCLUSION

Franchising is a very common and popular method of distributing goods and services. There are numerous advantages to franchising including but not limited to: the reduced start-up risk; being in business by yourself and not for yourself; dealing with established products and service; taking advantage of the cost-savings inherent in mass-buying and marketing power; and the start-up assistance and continuing support offered by many franchisors. Despite these advantages, franchising does have some disadvantages. The main disadvantages are the need to comply with a franchisor's restrictions, procedures and controls as set forth in the franchise agreement, as well as the need to pay ongoing fees.

Before embarking on franchising take the time to ask yourself if franchising is right for you, but also which franchise system is right for you. Once a decision to embark on franchising has been made, **investigate, investigate, and investigate**. You should be prepared to spend countless hours investigating and evaluating the potential of each franchise system that you are interested in. You should investigate not only the franchisor, but you should also obtain as much information as possible from current and former franchisees. Hopefully this paper will serve as a good starting point and resource for the types of questions that should be asked and need to be answered **before** you sign any agreements relating to the franchise system.

Of course very few individuals can undertake this journey alone. Franchise agreements and related franchise documents are extremely sophisticated and complex legal documents which even lawyers without special training in the area will have difficulty understanding.



Similarly, financial statements and pro forma can be difficult to decipher and evaluate. Experienced franchise lawyers and accountants with experience in the industry in question are an invaluable source of knowledge and information. **No** prospective franchisee should ever sign a franchise document without first consulting a professional advisor.

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