

2. Consult a franchise specialist

Reviewing franchise opportunities can take time and throw you into the unfamiliar territory of reviewing documents and writing business plans.

A franchise consultant can help you:

- Identify your objectives during self assessment
- Understand the franchisor/franchisee relationship
- Introduce opportunities you may not have considered
- Clearly evaluate franchise opportunities
- Introduce you to franchise lawyers
- Assist with a business plan and arrange financing
- Minimize risk by negotiating conditions in the franchise agreement

3. Speak with franchisors

Maillet says once you narrow down your choices, it's time to research. He suggests asking for a copy of the franchisor's disclosure document. "Speak with existing franchisees," he says. "Attend tradeshow like The Franchise Show or visit the franchisors head office and meet the management and support

staff that you'd be working with. Are you comfortable with them? Do you share the same corporate values and vision?"

He says most established franchisors have a franchise review process clearly defined to help make an informed decision. "Follow their process and ask a lot of questions."

Peter Druxerman, Vice-President of Marketing for Druxy's, a chain of quick service delicatessen restaurants, says they look for franchisees that share the same philosophy. "We're looking for franchisees who truly understand that the ultimate in service will yield the greatest results. All other elements of running a franchise are trainable, but loving and caring for customers is not."

Druxerman advises potential franchisees to understand what they're best at, and look for a business they'll love running and a franchisor they'll enjoy working with. He says, "Most prospects look at a franchise like buying a car. They get turned on by something sexy but don't see if it fits perfectly."

Druxerman says all prospective Druxy's franchisees go through Druxy's "Seven Steps to Success" which include the initial application, a review process, acceptance, and training.

He also says to prepare to follow the system exactly. "Any variations from the system will lessen the results that



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could be achieved. No matter how smart a franchisee is by changing how things are done, even if they are done better, it builds inconsistency in the chain and weakens results. It's the system that binds the various locations and builds customer confidence in the chain. If a franchisee is not prepared to follow every single rule, then don't buy in!"

Murray Oxford, President of Jani-King Canada, says they provide franchisees with a 'turn-key' opportunity with six plans available in a range of investment amounts.

Jani-King, a commercial cleaning franchisor, has over 600 franchises supported by 12 regional offices in Canada.

Oxford says prospective franchisees are walked through a detailed interview and application process designed to give detailed information to the potential purchaser.

"Full disclosure and painting a complete picture is the key to helping prospective franchisees understand the roles and responsibilities involved in operating one of our franchises," says Oxford. "Seeking quality advice from legal and accounting advisors is a must for all prospective franchisees."

Oxford says in the early life of a franchise system, entrepreneurial franchisees may be desirable because the system is in strong growth mode. "As the system develops and becomes well established, franchisees with more of a managerial make-up, who are more inclined to follow a system, and comply

with the system recipe may be a better fit than an individual with a strong entrepreneurial spirit."

He also says the franchisor can look within to measure the characteristics, skill-sets, and personalities of their most successful franchisee, but says franchisors will not get the selection right 100 percent of the time. "Being patient, knowing your franchisees and the needs of your customers, along with some common sense will tip the odds on the side of a successful franchisee/franchisor experience."

Says Oxford, "One of the first steps I would recommend to someone looking at franchising is to seek out Canadian Franchise Association members. CFA member franchise systems represent a broad range of opportunities, and the CFA has valuable information and can provide guidance for anyone seeking a franchise opportunity. We like to say: Look for the CFA sign, before you sign."

4. Talk to an accountant

Rick Chittley-Young, Partner at BDO Dunwoody, LLP says that prospective franchisees should know exactly what an investment will cost and how it will be profitable before signing a franchise agreement.

"They should determine the total financial commitment

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by carefully reviewing the disclosure documents and franchise agreement,” says Chittley-Young.

Prospective franchisees should determine the franchise fee and what it includes, pre-opening expenses, operating expenses, and personal expenses. “Pre-opening expenses are often underestimated, which can result in immediate cash flow challenges,” says Chittley-Young. Pre-opening expenses may include real estate, construction, consulting fees and many other expenditures.

With operating expenses, Chittley-Young suggests having sufficient capital to cover monthly overhead for three months to a year until the franchise is generating profits.

He also suggests having sufficient funds to cover personal expenses for one to two years until the business is running.

He says consulting an experienced franchising accountant reduces financial risks because they can recommend prospects, assist in reviewing documents, and advise on the potential upsides and downsides of the investment to avoid unwelcome surprises. They’ll also help calculate the startup cost and suggest appropriate financing by determining when the franchise will be profitable.

“The most common financial error that franchisees make is to underestimate the amount of working capital needed until the business becomes profitable,” says Chittley-Young.

“It’s also important to include extra funds for contingencies. Seasonal businesses, for example, need sufficient cash to manage through slow months.”

5. Create a business plan

Wayne Maillet suggests developing a business plan with cash flow projections for the first three to five years. “This exercise will cause you to think through the financial model, and can be used to finalize financing with the bank,” says Maillet.

Rick Chittley-Young says lenders expect a detailed business plan outlining the potential of the franchise business. He says the plan should describe the franchise and how the owner intends to make it successful. “It should also describe the services/products that will be sold, the demand for these items, and the customers that will buy them. And it should point out the franchisor’s strengths and track record. “

When it comes to the financial section of the business plan, the potential franchisee should describe their personal financial situation and the financial potential of the business.

He says lenders will expect to see realistic budgets that demonstrate the owner’s ability to manage cash flow. Two key budgeting tools are cash flow projections, which indicate how much cash the franchise will need, when it will be needed,



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and where it will come from, and profit and loss forecasts, which predict anticipated sales, expenses, and profitability.

He says an accountant can assist in preparing the appropriate documents.

6. Talk to a lawyer

Murray Coleman, Partner at Bennett Jones LLP, says it's important to have proper legal and accounting advice early in the process. "Once a person becomes involved with a franchisor on a potential purchase, the process can move quite quickly."

He says a franchise lawyer can explain the conditions in a franchise agreement, such as protected territories, non-competition restrictions, and obligations following the termination of a franchise.

In addition, they can advise if the franchise fee, royalty, and other fees are average for the market.

A franchise lawyer can explain the franchise agreement and outline the legal risks and consequences. The lawyer can also review disclosure documents and provide a snapshot of a franchisor and its activities. "For instance," says Coleman, "a disclosure document may require the franchisor to disclose franchise failures, buy backs and transfers. This information is

very important and may not be apparent to the untrained eye."

He says that though many franchisors claim their agreement is non-negotiable, certain areas may be open for negotiation, which a franchise lawyer can do for you.

7. Meet with the bank

Judy Vandenberg, Manager of the National Franchise Market at RBC Royal Bank says most franchises require financing, whether it's for a new location or for an existing business. Most major banks have divisions that specialize in franchising, like RBC Royal Bank's National Franchise Team, which provides solutions designed to meet the unique needs of franchisees.

"The first step," says Vandenberg, "is to determine the cost of your investment and include the total cost of all expenses." When opening a business, she suggests considering the start up costs and the working capital needed once it's operating.

Next, know how much money you'll invest. The franchisor often requires up to 50 percent of the cost in equity. The difference between the total costs and the cash equity is the amount you'll need to borrow.

Vandenberg also says when submitting a proposal, indicate the period of repayment on the loans. "To do this, consider



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how long it will take after the initial outlay of cash to open business and make your first sale.”

Know how long it will take the business to cover the operating costs. “Be realistic with the projections, or the loans may not cover the expenses.” She also suggests allowing for unforeseen circumstances, such as a delay in opening or a slow ramp-up period.

If you’re unsure about how to calculate costs, speak with your advisors. Your banker can assist you in determining financing requirements and work with you to ensure you start your business on the right foot.

8. Take action

Maillet says stepping outside of one’s comfort zone takes great courage. “To achieve anything in life requires taking action. Have confidence in your abilities and strengths. No matter how much preparation you do, you will not eliminate all the fear. At some point, you simply have to have faith, and the results will follow.”

Once a potential franchisee is ready to purchase, the franchise lawyer can assist in the negotiation and finalization of the franchise agreement and other documents. 🍁

A QUICK GUIDE TO BUSINESS PLANS

Business plans are an important part of the franchising (and financing) process. They are also a great way to clearly describe your vision and goals for your business. But if you’ve never created one before, the process can be daunting. To help guide you through the process, Rick Chittley-Young, Partner at BDO Dunwoody LLP, shares some tips for putting together your business plan for success.

- Begin with a summary describing the franchise you intend to purchase and how you intend to make it a success. Include the background and track record of the franchisor and its franchisees, products/services and your market.
- For many lenders, the management team is the single most important factor in the success of a business. Describe your skills and experience and explain why you are suited to manage this franchise. If there are other people who will be part of your management team, do the same for them.
- Describe the features and benefits of your products or services. Explain how they differ from those of the competition and how they will contribute to achieving sales and revenue targets. Also, outline how you will deliver your products/services to your customers.
- The marketing section should describe your market sector, the competition and future prospects for your business. Itemize your strengths and how you will leverage them, your weaknesses and how you will strengthen them, threats to your business and how you will handle them, and opportunities and how you will optimize them. Estimate the market share you plan to achieve, describe your customer-base and outline your marketing plans.
- In the operations section, describe the business premises and explain how you intend to produce your products/services, referring to location, property, facilities, leases, employees, insurance, technology, equipment and suppliers.
- In the financial section, you need to address the financial potential of the business and describe your own financial situation. Include monthly budget and cash flow projections for the first two years of business. Also include personal financial statements that provide a picture of your net worth.

When you’re done, be sure to review your business plan from a lender’s perspective to ensure the document will assure investors that:

- There is a market for your products/services,
- You and your management team are capable,
- You have the necessary physical and financial resources,
- You have identified challenges and established plans to meet them, and
- You have thought through your plans, timelines and contingencies.

For more information on franchising, FAQ’s, resources and opportunities, visit

<http://www.cfa.ca>

