



The Franchise Commitment: Scotiabank Guide to Choosing a Franchise

At Scotiabank, we recognize the important contribution that franchised businesses are making to our economy. As a result, we have negotiated banking and financing arrangements with some of the most established franchisors, which are designed to meet the unique requirements of their franchisees.

If, after going through this guide, you conclude that franchising will help you meet your business objectives, then inquire about our franchise financing program. From basic deposit accounts, credit card services, and commercial loans to sophisticated electronic cash management, Scotiabank has the banking services to help you make it.

Introduction

You are about to make one of the most important business decisions of your life. Committing your money to operating a franchise business is no small step. But you'll put more into it than just your money. You're going to have to invest all your hard work, creativity and entrepreneurial spirit to make it work. And it's important to know that each franchisor is different and has different expectations of its franchisees. Each has its own kind of support to offer and in turn expects varying degrees of conformity to its procedures. To help you decide which, if any, franchise system is right for you, we've put together this overview of the franchise concept, and a checklist of the crucial questions you should ask the franchisor, existing franchisees and most importantly, yourself. We don't have all the answers. But by using our questions, you should be better able to decide what's right for you.

The Franchisor

Your New Business Partner

Before you invest in a particular franchisor, you should know everything you can about them — their past record, where they're at now, and more importantly, where they plan to be in the future.

It's up to you to decide the strengths and weaknesses of the franchisor. But keep in mind that when it comes to arranging financing with a bank, experience favours the franchisor that has been around a long time, is run by experienced management, demonstrates financial strength, has enjoyed smooth relations with their franchisees and keeps in touch with their market — the franchisees' customers.

The following questions should help you assess the franchisor's stability, financial strength, and their feel for the market. Taken together, they amount to a single question: how good a business partner will this franchisor be? Or put another way, am I getting value for the money I invest in the franchise fee?

The answers will be different for each franchisor, and what is right for you might not be right for another franchisee. What is important is that you know who you're doing business with, and why.

- Is the franchisor a private company, a public company or a subsidiary of another company?
- Are the franchisor's financial statements available?
- Do the franchisor's financial statements show historically favourable trends?
- Does the financial viability of the franchisor appear assured for years to come?
- Has the franchise system, under current ownership, ever been placed into receivership or bankruptcy?
- How many years has the franchisor operated in this industry?
- How long has the franchisor been franchising?
- Has the franchisor ever been found guilty or liable in any litigation with Franchisees?
- What business experience does current management have? In this business? In franchising?
- Does the franchisor manage other franchise systems?
- Does the franchisor run pilot stores/units?
- Does the franchisor have corporate stores that may compete with its franchisees?
- Will other franchise systems, operated by the same franchisor, be directly or indirectly competing with the franchise I'm interested in?
- What are the franchisor's plans for expansion?
- Does the franchisor provide the franchisee with any financial assistance to help purchase the unit?



The Franchise System

A New Business Model

Operating a franchise means becoming a part of a system. If you're a dyed-in-the-wool entrepreneur, a maverick, then you could well find franchising a little restricting. On the other hand, if you've already worked in a large organization but are looking to be your own profit centre, then franchising could be what you're looking for.

The system you'll work under is laid out in the form of a franchise agreement. This is what you sign, what you are bound to operate by, and what you'll have to live with as a franchisee. So make sure you examine it carefully and be sure it suits you. The services of a lawyer or other competent professional advisor are highly recommended.

The franchisor charges an up-front franchise fee. Try to determine what you're paying for, to reconcile with yourself that you are receiving value for your fee.

Remember that you're buying a method of doing business, and one of the things you should expect for your time and money is that the franchisor will run their end of the business with excellence. While you should also do your own investigation, you're depending to a great degree on the franchisor for site selection, forecasting sales projections, marketing and advertising support, training programs, and more.

The Franchise Agreement

What to Expect

Answering the following questions can help you assess whether you're getting a good deal and what you can expect from the franchisor.

- What are the duration and renewal terms of the franchise agreement?
- What significant events can cause the termination of the franchise agreement?
- What system is in place to resolve disputes between franchisor and franchisee?
- How often will I have to provide the franchisor with financial information? Will it be relatively easy to provide?
- What are the limitations of territorial protection, if any?
- Does the agreement allow me to own more than one outlet?
- Will the franchisor provide me with projected sales and profits for the location I accept? What are those projections based on?
- Will the franchisor own or 'head lease' the location?
- What does the training program cover? Will the franchisor help me recruit and train my staff?
- Will further training or seminars be available after I begin operations?
- How much will any additional training cost me?
- What ongoing marketing support can I expect from the system?
- Are there periodic strategy and marketing meetings held for franchisees?
- How will my advertising contribution be utilized?
- How much are my royalty payments? How frequently are royalties paid?
- Do the franchisees benefit from volume discounts and favourable trade terms from approved suppliers?
- What innovations have recently been introduced to the franchise system?
- Will the franchise system reflect the terms of the franchise agreement?

Your Product or Service

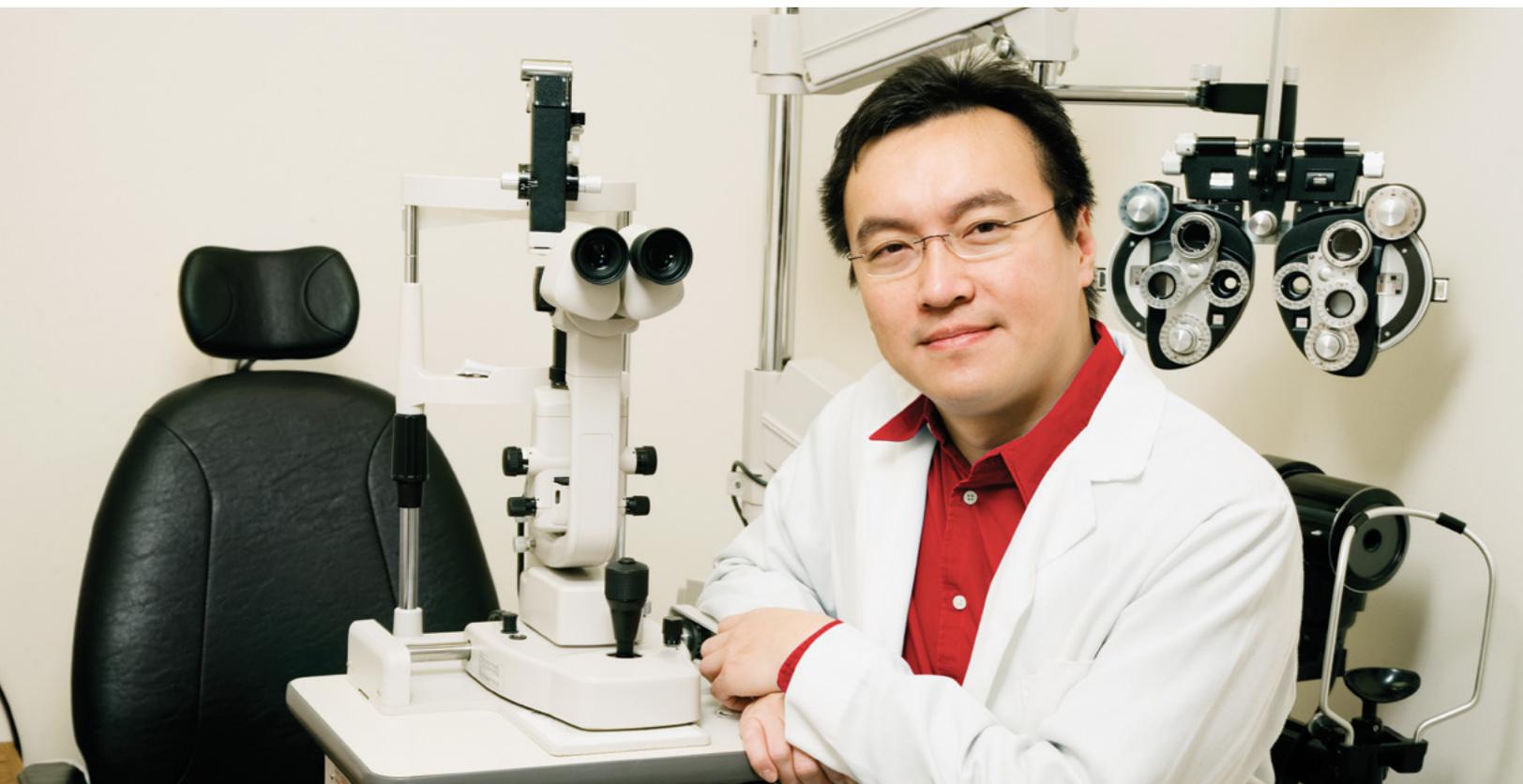
Choosing With Care

As a potential franchisee you should know everything there is to know about the product or service the Franchise system delivers.

Naturally, an exclusive product, or one that is of superior quality or value is a good business bet. But these aren't the only criteria for judging the competitive strength of the product or service. There are good profits to be made or lost in products which are not essentially different from others in the market — except in how they are marketed. One franchise can be much the same as another, but if its marketing is superior, it can overpower the competition.

So when you try to assess the competitive strength of the product or service you're interested in, keep your focus wide. Consider everything it takes to deliver that product or service to customers. Then ask yourself how well your prospective franchisor does all of those things.

- How long has this product/service been on the market?
- What are the results of market tests, if any?
- What is the target market for this product/service?
- How strong is the demand for this product/service in my territory?
- Would I buy the product/service?
- Is the product/service easy to copy?
- Is the product/service currently on the market?
- Is this product/service competitive?
- Is the product/service properly packaged?
- Is the product/service a fad? A luxury item? A staple?
- Is it a seasonal product?
- If the product/service is seasonal, will my cash flow be sufficient to carry me through the off-peak season?
- Does the product/service fit my territory?
- Who backs up the product/service warranties or guarantees?
- Is the product/service subject to legislative restrictions?



Building Your Network

People who are already operating franchises can help you. Try to get to know them, and profit from their experiences. For instance, existing franchisees are a good source of information about the franchisor — you'll get to hear it from the other side.

If the franchisor is not responsive to the individual or collective needs of their franchisees you may not wish to get involved. On the other hand, if the franchisor receives nothing but glowing reports from their franchisees, you've probably picked a winner.

Try to get a feeling for how becoming a franchisee affects your life. It is a major business commitment, but it's also a personal and family commitment too. Now is the time to make some decisions about the time, effort and money you'll put into a franchise. Are you prepared to make the commitment?

- What was the total start-up cost?
- Were there any hidden or unexpected costs when purchasing the franchise?
- Have there ever been problems with the delivery of equipment, fixtures or inventory?
- How long does it take before the business reaches the break-even point?
- Do the franchisees communicate with each other directly?
- How long did it take other franchisees' operations to generate sufficient funds to pay them a salary?
- Was the franchisor's training adequate?
- Have any franchisees had any serious disagreement with the franchisor?
- Are franchisees satisfied with the marketing and advertising support they receive?
- Are franchisees satisfied with the terms of the franchise agreement?
- Would franchisees recommend this franchise system to anyone considering it?

Planning for the Future of Your Business

We strongly recommend that prospective franchisees prepare a business plan including financial plans, setting goals and forecasting both financial growth and the expansion of their business.

To assist you in writing your business plan, we've created the Scotia PlanWriter™ *for business*, which is absolutely one of the fastest ways to put your ideas to paper. Download a free copy of this software from our web site, www.scotiabank.com/businessplan.