

Information Sheet

Franchising

What is a Franchise?

A **franchise** is the agreement or license between two legally independent parties which gives:

- a person or group of people (franchisee) the right to market a product or service using the trademark or trade name of another business (franchisor)
- the franchisee the right to market a product or service using the operating methods of the franchisor
- the franchisee the obligation to pay the franchisor fees for these rights
- the franchisor the obligation to provide rights and support to franchisees

Types of Franchise

Type	Description
Product Distribution Franchise	Product distribution franchises simply sell the franchisor's products and are supplier-dealer relationships. In product distribution franchising, the franchisor licenses its trademark and logo to the franchisees but typically does not provide them with an entire system for running their business. The industries where you most often find this type of franchising are soft drinks, automobiles and gasoline. Some familiar product distribution franchises include: Coca-Cola, Goodyear Tires, Ford Motor Company.
Business Format Franchise	Business format franchises, on the other hand, not only use a franchisor's product, service and trademark, but also the complete method to conduct the business itself, such as the marketing plan and operations manuals. Business format franchises are the most common type of franchise. Some popular business format franchises include: McDonald's, Dairy Queen, Comfort Inn, H & R Block.

How Do You Investigate a Franchise?

Like starting any business, buying a franchise involves a risk. Studies show that successful franchisees:

- conduct their own marketing research
- use their own financial and legal advisors
- develop thorough marketing and business plans
- have prior work experience in the industry

Prospective franchisees must devote a vast amount of time researching the franchises available and evaluating the strength of the franchisors.

What Are The Criteria For Selecting A Franchise?

Before buying any business, you must carefully consider many factors that are critical to your success before you start:

Factors	Description
Cost	How much money will this franchise cost before it becomes profitable?
Your abilities	Do you have the technical skills or experience to manage the franchise?
Demand	Is there enough demand in your area for the franchisor's products?
Competition	How much competition do you have, including other franchisees?
Brand Name	How well known is the franchise name?
Training & Support	What kind of training and support does the franchisor provide?
Franchisors Experience	Has the franchisor been in business long enough to have established the type of business strength you are seeking?
Expansion Plans	Is the franchisor planning to grow at a rate that is sustainable?

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Advantages and Disadvantages of Franchise

Advantages	Disadvantages
A franchise provides franchisees with a certain level of independence where they can operate their business.	The franchisee is not completely independent. Franchisees are required to operate their businesses according to the procedures and restrictions set forth by the franchisor in the franchisee agreement.
A franchise provides an established product or service which may already enjoy widespread brand-name recognition. This gives the franchisee the benefits of a pre-sold customer base which would ordinarily takes years to establish.	These restrictions usually include the products or services which can be offered, pricing and geographic territory. For some people, this is the most serious disadvantage to becoming a franchisee.
A franchise increases your chances of business success because you are associating with proven products and methods.	In addition to the initial franchise fee, franchisees must pay ongoing royalties and advertising fees.
Franchises may offer consumers the attraction of a certain level of quality and consistency because it is mandated by the franchise agreement.	Franchisees must be careful to balance restrictions and support provided by the franchisor with their own ability to manage their business.
Franchises offer important pre-opening support such as site selection, design and construction, financing, training, grand-opening program	The term (duration) of a franchise agreement is usually limited and the franchisee may have little or no say about the terms of a termination.
Franchises offer ongoing support such as training, national and regional advertising, operating procedures and operational assistance , ongoing supervision and management support increased spending power and access to bulk purchasing	

Useful Links

Organization	Website
International Franchise Association (IFA)	www.franchise.org
Canadian Franchise Association (CFA)	www.cfa.ca

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Toronto City Hall
100 Queen St. West, Main Floor
416-392-6646

North York Civic Centre
5100 Yonge St., Main Floor
416-395-7434

Scarborough Civic Centre
150 Borough Drive, Main Floor
416-396-7169

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