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FRANCHISING

GUIDE

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Starting a business from scratch can sometimes be overwhelming for first-time entrepreneurs. That's why investing in an already successful franchise may be a good solution for your new business venture.

WHAT IS FRANCHISING?

Franchising is one way to go into business for yourself, but at the same time, be part of an established company. It is a method of doing business, in which the franchisor grants you (the franchisee), the right or privilege to sell a product or service.

Franchising arrangements involve:

- > A continuing relationship between you and the franchisor.
- > A legal contract which describes each party's responsibilities.
- > Assets (tangible and intangible) provided by the franchisor for a fee.
- > The operation of the business by you under the franchisor's name and guidance.

ARRANGEMENTS

There are two main types of franchise arrangements:

- > **Product distribution** – in which you identify with the manufacturer/supplier to some degree, but not entirely.
- > **Business format franchising** – in which you completely identify with and adopt the manufacturer/supplier's product, service or trademark, marketing strategy, operating manuals, standards, and quality control measures. This factsheet focuses on business format franchising.

FORMATS

- > **Single Unit franchise:** The most popular and simplest franchise format, especially for independent entrepreneurs. The franchisor grants you the right to establish and operate a business at a single location.
- > **Area franchise:** The franchisor grants you the right to establish more than one outlet within a certain territory, such as within a suburb, city, province, or even country. Usually, a set number of outlets must be up and running within a set period of time.
- > **Master franchise:** The franchisor grants you the right to not only operate an outlet in a certain territory, but also to sell sub-franchises to others within that territory. Although this arrangement allows a franchisee to expand, it is complex, involving the division of fees and royalties between parties.

RANGE OF OPPORTUNITY

There are hundreds of different kinds of franchise opportunities. Five of the most popular franchise fields and some examples within each include:

- > Fast food outlets, selling hamburgers, fried chicken, pizza, or pancakes.
- > Other food retailers, such as convenience stores or specialty stores selling coffee, ice cream, doughnuts, or muffins.
- > Leisure and travel-related franchises, such as travel agents, sun tan parlors, hotels/motels, recreation and entertainment businesses.
- > Business and personal services, such as party supplies, tools, cars/trucks; consulting services in engineering, marketing, or real estate; employment services, printing or copying services.
- > Professional services, such as franchised accounting offices, legal clinics, medical and dental facilities.

ADVANTAGES AND DISADVANTAGES

As a franchisee, you purchase an established concept, ongoing training and support, and a proven system that has been developed, tested, and refined. You may be able to take advantage of large-scale centralized buying or acquire financing that would otherwise be unavailable to you. However, you must also abide by strict terms and conditions (including the purchase of supplies, often at a higher markup), reporting and inspection requirements. The cost of services provided to you is usually based on your total sales revenue which can amount to 10% or more of your total revenue or an even larger share of your profits. These periodic payments are for royalties and advertising contributions.

SELECTING A FRANCHISE

Manitoba is a province with franchise legislation in force. In most cases a franchisor will be required to provide a Franchise Disclosure Document (FDD) to a prospective franchisee. The FDD will describe the company, its history, and the number and location of outlets. Assess yourself, the franchisor, franchise, and market.

EVALUATING THE OPPORTUNITY: YOU

- > Are you prepared to spend much or all of the remainder of your business life with the franchisor, and is your family behind you and willing to be involved?
- > How much money will you need to buy the franchise and operate it until your income equals your expenses?
- > Where are you going to get financing?
- > Do you have the innate ability, training and experience to work well and profitably with the franchisor, your employees and your customers?

THE FRANCHISOR

- > How many years has the franchisor been in business? Does it have a good reputation? Obtain all the public information available on its operation.
- > Is the franchising firm adequately financed itself? If practical, check their credit background with Dun & Bradstreet or a similar source. Request and analyze their most recent financial statements as well as a list of principal executives. In some cases, franchisor financial statements will be included in the FDD.
- > Has the franchisor given you a list of franchisees with their locations and phone numbers? Have you contacted them?
- > Will the franchisor help with training (management/employees), public relations, capital, credit, merchandising ideas, site selection?
- > Exactly what can the franchisor do for you which you cannot do for yourself?

THE FRANCHISEE

- > Has a lawyer who specializes in franchise-related matters, reviewed and approved the full set of legal documents, including the trademark registration? The contract is the key part of a franchise relationship and should be thoroughly understood by all parties.
- > Do you get exclusive rights in your territory, or can the franchisor sell a second or third franchise in your territory?
- > Is the franchisor connected in any way to any other franchise company handling similar merchandise or services? If so, how are you protected?
- > Under what circumstances can you terminate the contract and at what cost? If you sell your franchise, will you be compensated for your goodwill?
- > Has an accountant reviewed the agreement for tax implications?
- > Is an application deposit required?

THE MARKET

Have you done your market research? For example, what competition currently exists (franchise and non-franchise); five years from now will the population in your territory change and will you see a change in demand?

CONTACTS

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