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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?

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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

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**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

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- > **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

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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

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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

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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

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- > 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

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- > 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

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- > 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

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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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