

Franchise North America

Validation Checklist

Disclaimer: The following checklist should not be considered a complete list of topics or questions required as validation prior to acquiring a franchise. It is intended only as a guide for potential franchise buyers. Purchasing a franchise carries risk. Like any investment, purchasing a franchise is not a guarantee of success. Franchise North America recommends enlisting the help of a franchise attorney, business consultant, commercial real estate broker and accountant when investigating franchise systems before investing.

U = UFOC; R = Franchisor; E = Franchisee; ✎ = Independent Research; 📄 = Franchise Agreement						U	R	E	✎	📄
Item 1: The Franchisor										
1) How long has the franchisor been in business? How long has it been offering franchises? How long was the franchisor in business perfecting and developing its system prior to franchising?	U									
2) Is it a subsidiary of another company? If so, who is the parent company? Has that company ever franchised other products or services?	U	R								
3) Does the franchisor own and operate company units to further refine its concepts and to test new products?	U	R								
4) How long has it been on the market?	U	R	E							
5) What makes the product or service unique? Would you buy the product or service on its own merits?	U	R	E	✎						
6) Have you made an assessment of your competitors and competitive products or services in your area?			E	✎						
7) Is the product or service marketable in your territory? Is the price competitive with similar products or services on the market?				✎						
Item 2: Business Experience										
8) Who are the franchisor's directors and officers and what is their business experience? Do they have adequate industry experience?	U	R	E							
Item 3: Litigation										
9) Is there any current litigation pending not listed in the UFOC?	U	R								
10) Does the franchisor have a reputation for dealing honestly with its franchisees? With its customers?	U		E							
11) What is the franchisor's standing with the Chamber of Commerce? The Better Business Bureau? Dunn & Bradstreet? Its bank?		R	E	✎						
12) Have you ever had a serious disagreement with the franchisor? What about? Was it settled amicably?			E							
13) Would you advise anyone to start a franchise with this particular franchisor?			E							
Item 4: Bankruptcy										
14) If there are bankruptcies, what were the reasons and was it relevant to the operation of the franchise?	U	R								

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Item 5: Initial Franchise Fee					
15) The franchisee fee? Is their fee similar to their competition? If higher, what is this franchisor offering to warrant the higher fee?	U			⚡	📄
Item 6: Other Fees					
16) Are the number of fees and their amounts or percentages similar to the franchisor's competition?	U	R		⚡	
17) Are royalty payments based on percentage of gross sales? Are their fees similar to their competition? If higher, what is this franchisor offering to warrant the higher fees?	U			⚡	📄
18) Is a monthly percentage of gross sales required for advertising?	U				📄
19) Are there fees for continuing services provided by the franchisor?	U				📄
Item 7: Initial Investment					
20) What was the total investment required by the franchisor?	U		E		📄
21) Are there any hidden or unexpected costs? Are your payments to the franchisor clearly specified?	U		E		📄
22) Are any fixed yearly payments required by the franchisor?	U				📄
23) Based upon the estimates, do you have enough money to not only open the your franchise business, but also to cover your living expenses until you become able to pay yourself from the business?				⚡	
Item 8: Restrictions on Sources of Products and Services					
24) Have you reviewed the federal/provincial standards and regulations governing the product or service?				⚡	
25) Are you satisfied with the quality of goods supplied by the franchisor? Are you satisfied with the price/quality relationship? How reliable is delivery from the franchisor?			E		
26) Must you purchase your essential supplies from the franchisor or designated supplier?	U				📄
27) Is there a minimum amount of merchandise you must purchase from the franchisor each year?	U				📄
28) What happens if supplies are interrupted? Can you purchase goods from alternate suppliers?	U				📄
29) Are you prevented in engaging in any other business activity for the duration of the contract?	U				📄
30) Are you responsible for the construction or improvement of the premises? If so, will the franchisor provide you with plans and specifications, and can these be changed?	U				📄

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Item 9: Franchisee's Obligations					
31) How selective is the franchisor when choosing its franchisees? Have your qualifications been reviewed?		R			
32) Are there product warranties? Are they your responsibility or the franchisor's?	U	R	E		
33) What types of reports are you expected to provide to the franchisor?	U				📄
Item 10: Financing					
34) Does the franchisor help you finance the purchase of the franchise? What will such assistance cost you?	U	R			📄
35) Can you get credit terms for inventory purchases or will they be COD?	U				📄
Item 11: Franchisor's Obligations					
36) What innovations has the franchisor introduced since first starting?		R	E		
37) How difficult is it to find, train, and retain employees?			E		
38) What kind of management and staff training was provided? Did it meet your expectations? Where was it held?	U	R	E		📄
39) Does the franchisor respond promptly and helpfully to questions you have or advice you seek?			E		
40) Are you satisfied with the marketing potential and advertising assistance that you receive from the franchisor?			E		
41) What advertising and sales promotion is provided?	U				📄
42) Are the nature, duration, cost and extent of your training outlined in the contract?	U				📄
43) Is the franchisor committed to providing an ongoing training program for future employees? What continuing management assistance will you receive? Is such continuing assistance included in the royalty fees or is there an additional charge?	U				📄
44) Will the franchisor work with you on-site in the actual operation of the franchise during the first few weeks?	U				📄
45) Will the franchisor maintain any necessary federal and provincial registrations?	U				📄
46) Does the franchisor help you to select a suitable site? Will the franchisor help you negotiate a lease agreement with a third party? Does the franchisor sign the lease and then sublease to you?	U				📄
47) Does the franchisor provide designs and specifications for layouts and displays?	U				📄
48) Does the franchisor make available its own qualified personnel to help out in an emergency?	U				📄
49) Are the administrative and bookkeeping procedures simple and well run? What manuals and systems are provided?	U		E		📄
50) Will the franchisor help with opening inventory? With purchasing? With inventory control?	U				📄

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Item 12: Territory					
51) What effect will development and expansion have on your dealings with the franchisor?		R	E		
52) To what extent is your trading area exclusive? Will the franchisor be opening other franchised or company-owned outlets near your own? Under what conditions can your sales territory be expanded or contracted?	U	R			📄
53) To what extent can you choose your territory or location?	U	R	E		📄
54) Are you permitted to have multiple locations within your territory?	U	R	E		📄
55) Do you have a profile of the people in your area, including age, income and occupation?		R	E	⚡	
Item 14: Patents, Copyrights, and Proprietary Information					
56) Is the product patented or protected by trademarks or copyrights?	U	R			
57) Have you the right to the franchisor's latest innovations?	U				📄
Item 15: Obligation to Participate in the Actual Operation of the Franchise Business					
58) Are you required to personally participate in the direct operation of the franchise business?	U				
Item 17: Renewal, Termination, Transfer and Dispute Resolution					
59) Can you sell your interest in the franchise with the franchisor's consent?	U				📄
60) Can you keep any profits made from the sale? How is the sales price determined?	U				📄
61) Can you terminate the contract if, for some reason, you have to? If you terminate the contract, is there a penalty cost?	U				📄
62) When and how can the franchisor terminate your franchise?	U				📄
63) How will you be compensated for the goodwill you have built up in the business?	U				📄
64) If you default on the contract, how much time do you have to rectify the situation?	U				📄
65) What happens to the business in the event of your prolonged illness or death? Have questions regarding succession been clearly addressed?	U				📄
66) Is there an arbitration clause regarding defaults?	U				📄

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Item 19: Earnings Claims										
67) Does the franchisor make an earnings statement (i.e., Item 19 in the UFOC)? If so, consider the sample size, the earnings distribution curve in the sample, geographic relevance and difference between gross and net revenue and net profit.	U	R		⚡						
68) How will you establish the sales potential of your territory?		R	E	⚡						
69) Has the franchisor been able to assist you with information such as population statistics and expected growth potential over the next five years?	U	R	E	⚡						
70) Has the franchisor provided a profit and loss framework (without data) from which you can build a best, expected and worst case?		R	E	⚡						
71) What was your background / experience before buying the franchise? Does their background / experience correlate to their success or failure?			E							
72) Would you share some of your monthly costs of doing business (e.g., rent, utilities, advertising, cost of goods, labor, and insurance)?			E	⚡						
73) How long was it before your operating expenses were recovered by revenue?			E							
74) How long was it before the franchise was able to pay you a reasonable management salary?			E							
75) Has your franchise been as profitable as you expected?			E							
76) What have you done to make your franchise successful?			E							
Item 20: List of Outlets										
77) How many franchisees does the franchisor have? Have you discussed its plans for the future development and expansion or diversification?	U	R								
78) How many units have been closed in each of the last three years and why?	U	R								
79) How many units have been purchased back in the last three years and why?	U	R								
80) Are you aware of any franchisees that are unhappy with their business? Do you know why?			E							
81) If the franchisee is unhappy, do you identify with their background, capability, attitude, or commitment? Would you fare differently?				⚡						
Item 21: Financials										
82) What is the franchisor's current financial condition? How percent of revenue comes from franchise fees, royalties and goods sold to franchisees?	U	R		⚡						
83) Have you received the franchisor's recent audited financial statements?	U	R								
84) How much of this product or service is presently sold, and have sales been increasing or decreasing?	U	R	E	⚡						

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Item 22: Contracts					
85) If you could change your contract what would you change?			E		📄
86) Does the contract protect yourself as well as the franchisor? Are the rights and obligations of both parties clearly stated?			E		📄
87) Is the contract specific as to the type and size of operation you are expected to manage?					📄
88) Does the contract cover in detail all the franchisor's verbal promises made during the interview?					📄
89) Can the contract be renewed? If so, on what terms?	U				📄
90) If leasing the location, will the lease be for the same term as the franchise agreement? Can the lease be renewed if you renew the franchise?	U				📄
91) Does the contract prevent you from establishing, owning or working in a competing business for a certain number of years after termination of the contract?	U				📄
92) Before your sign the contract, are you sure that the franchise can do something for you that you cannot do for yourself?				⚡	
93) How much control do you have over the format and cost of local advertising?	U				📄
94) Is there any annual sales quota? Is it attainable?	U				📄
Miscellaneous					
95) What do you like best and least about this franchise?			E		
96) What else should I be asking about?			E		