



Canadian Franchise Industry

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Summary

Canada has the world's second largest franchise industry. Franchises benefit from the high number of Canadians who travel to the United States, as Canadians are familiar with U.S. franchise concepts, especially in the food services and retail sectors. Franchisors must recognize that while Canada is very similar to the U.S. market in many respects, there are some regional and demographic issues that must be addressed in order to be successful in Canada.

Franchising In Canada Overview

Canada has nearly 76,000 franchises operating nationwide, operating under more than 1,000 brand names (franchise systems) and contributing US \$100 billion to Canada's GDP. Canada is home to the second largest franchise market worldwide, second to the United States and the largest per capita franchise market, with a national population of only 34.6 million. Within its vast regional franchise landscape, 85% of franchises operating in Canada are located in the three most populous provinces, Ontario, Quebec, and British Columbia. More than 30 industry segments are franchised in Canada, from specialty retail and cleaning services to business training and fitness centers. While initially developed for businesses servicing consumers, franchising is now entrenched in business-to-business industries as well. The fastest demographic of franchise buyers in Canada is women.

Home to many large U.S.-based franchises, over 60% of Canadian franchise systems are Master Licensees of U.S. franchise systems. Most U.S. franchises are successful in Canada once they have correctly adjusted to the Canadian marketplace. U.S. franchises benefit from the brand recognition that occurs from Canadian tourists traveling to the United States.

Canada is not a homogenous country; it is vast both geographically and culturally with major differences among regions. Because of this it is difficult for one master licensee to develop the entire nation; as a result, it is recommended that the license be broken down into regional licenses to better service the needs of each region. The province of Quebec, in particular, which has a different legal system, will have different requirements of franchises and, due to its distinct market characteristics, should be approached differently than other provinces in Canada. For example, Quebec's official language is French, whereas all other provinces use English as their primary languages.

Selected Franchise Sectors in Canada

2009 Top Franchise Sectors and Average Investment per Sector*			
Franchise Sector	# of Concepts	% change from 2007	Investment Min-Max
Automotive (Products, Rentals, Repairs)	56	+ 5.3%	\$25K - \$1.3M (average: \$250K)
Building Services (Construction, Janitorial, Home Improvement, Inspection)	79	none	\$10K - \$887K (average: \$100K)
Business Services (Training, Computers, Telecommunications, Courier, Copying/Printing, Signage)	47	+2.1%	\$14K - \$600K (average: varies)
Children's Services (Child care, Education, Training)	23	+8.6%	\$8K - \$286K (average: \$75K)

Food Services – Café bakery	25	-4.0%	\$80K - \$700K (average: 375K)
Food Services – Quick Service	109	+6.4	\$40K - \$1.4M (average: \$425K)
Food Service – Restaurant	62	+1.6%	\$60K - \$2.9M (average: varies)
Food Services – Retail Food	15	+13.6%	\$60K - \$475K (average: \$375K)
Home Services (Cleaning, Furnishing, Decorating, Landscaping, Lawn care)	28	-3.6%	\$5K - \$1M (average: \$40K)
Personal Services (Beauty, Health and Nutrition, Senior Care)	43	+11.6%	\$1K – \$1.5 M (average: \$200K)
Professional Services (Real Estate, Accounting, Personnel, Employment, Advertising)	29	+6.9%	\$2K - \$2M (average: \$50K)
Recreation (Entertainment, Fitness, Sports)	27	+7.4%	\$10K - \$2.5M (average: \$150K)
Retail – non food (Children’s, Clothing, Gifts, General, Home Electronics, Pet Supplies)	68	NONE	\$3K - \$500K (average: \$250K)
Specialized Services (Dry Cleaning, Environmental Services, Party Rentals, Funeral Homes, Photography, Water Treatment, Wine Making)	25	+12.6%	\$3K - \$574K (average: varies)
Travel (Campgrounds, Hotels, Motels, Travel Agencies)	26	-15.4%	\$18K – \$64.5M (average: hotel - \$30M, travel agency - \$140K)

Source: Canadian Business Franchise Directory 2009, all figures Canadian dollars.

*Each franchise within each sector has a different minimum investment and maximum investment. The numbers in this table reflect the minimum cost of each franchise, as well as the estimated average.

Considerations when Franchising in Canada

1. Trademark – in Canada, trademark rights are regional. This is not to say a trademark needs to be registered to be protected; however, in areas where owners establish themselves, only this geographical area is protected. A trademark will not be protected nationally unless it is registered. This is because the federal branch of government and not the provincial branch of government handles registration.
2. Nationwide, U.S. franchisors may look for master franchisees to develop franchises in different regions. However, this method may not always be successful. To improve the success rate, it is recommended that a different development model be utilized such as:
 - a. Open corporate stores or grant individual franchises.
 - b. Grant area development agreements for specific parts of each province.
 - c. Grant Master franchise agreements for specific provinces or regions in Canada.
 - d. Work in a joint venture with a local businessperson who will take part in the development of the franchises.

3. Canada Oriented Marketing – marketing and promotional programs benefit the Canadian franchises of U.S. based franchisors. Providing support services modeled after those in the US would also go a long way in delivering franchisees more value and enhances their potential to flourish in Canada.
4. Canadian Franchise Association (CFA) - The Canadian Franchise Association is the voice of the franchise industry in Canada, representing over 400 franchise companies and the professionals who support the industry. Members must adhere to all CFA regulations, including the use of the CFA disclosure document guide. Membership is not limited to Canadian franchise concepts, with many U.S. franchises with CFA membership. Please visit the CFA at: <http://www.cfa.ca/>.

Opening a New Franchise in Canada

- 97% of the franchises in Canada pass the five-year stage that is critical for survival and growth; this rate is approximately four times higher than the startup of an independent business
- Average investment in a Canadian Franchise is US\$166,000
- 86% of franchises opened in the last five years are still under the same ownership

Franchise Laws in Canada

Of the 10 Canadian provinces, only Ontario, Alberta, and Prince Edward Island have provincial disclosure requirements. Legislation has been introduced in the provinces of New Brunswick and Manitoba; however, this has not been enacted and is awaiting approval. There has also been discussion that British Columbia is considering similar legislation.

The disclosure requirements within Ontario, Alberta and Prince Edward Island are similar to the U.S. Uniform Franchise Offering Circular (UFOC) requirement. Under the disclosure requirement, the franchiser must disclose all material facts to potential investors. In the U.S, a government agency reviews these disclosure documents; however, no such government agency exists in Canada, as there is no uniform franchise law. The franchise law committee of the Uniform Franchise Commission of Canada has been in the process of developing a uniform franchise law across Canada. In 2005, the commission approved a model Uniform Franchises Act (UFA), a standardized national franchise disclosure law but the federal government has not yet approved this. The UFOC can be used in all states in the United States; however, unless the UFA is adopted Canada-wide, the disclosure document cannot be used throughout the provinces.

Franchise Trends in Canada

The Canadian Franchise Association identifies several “trendsetting” sectors pointing to the baby boomers and women purchasers as the key market. The following six categories are expected to grow in Canada:

- education services
- health and fitness – including home health care, nutrition
- landscaping
- pets – sales/supplies/services
- trucking and logistics

As in the United States, the most important factor for franchise trends is demographics. The Canadian Franchise Association reiterates the importance of the baby boomers, pointing out that the largest market for potential franchisees are people between their 40s and 60s.

As noted above, one of the fastest growing segments of the franchise industry is the “care” industry featuring senior care, pet care, childcare and education. Home health care franchise concepts top the charts as the first of Canada’s aging baby boomers are poised to turn 65, and with this milestone come a variety of new health concerns.

In addition, fitness and healthy food concepts have grown at an extraordinary rate in recent years. Franchise concepts, especially in the food services industry, are stressing their “healthier” aspects.

Canadian franchise trends tend to mirror American franchise trends. However, regional differences often mean that a franchise concept that succeeds in Eastern Canada may not be so well received in Western Canada or vice versa. It is imperative that U.S. franchisors understand the regional differences of Canada.

Best Prospects

In many ways, Canadians are very similar to Americans in consumer habits. Due to the high traffic of visitors between the two countries, Canadians generally have a good knowledge of U.S. franchise concepts, especially in the retail, food service and consumer-oriented industries. A stronger Canadian dollar has helped increase the flow of Canadians traveling and shopping in the United States. The majority of the Canadian population lives within 100 miles of the U.S.-Canada border, increasing the likelihood of cross-border single day shopping trips.

Demographically, Canada is also very similar to the United States. It is expected that a burgeoning retired baby boomer population will require senior care services. Further, it is likely that leisure-oriented franchises will do very well with this segment of the population. Canada, as mentioned, is very regional, with some areas attracting larger numbers of seniors, including Vancouver Island and the Okanagan in British Columbia, lakefront property in Ontario, and Prince Edward Island.

The US Commercial Services also recommend that U.S. franchisors look first to the three most populous provinces (Ontario, Quebec and British Columbia) for their initial expansion to Canada, before expanding further. It should be noted that Ontario has its own provincial disclosure laws for franchisors. Quebec is a primarily French-speaking province, presenting further challenges to U.S. franchisors. British Columbia, as mentioned above, is following Ontario’s lead in considering the implementation of provincial franchise disclosure laws.

Note: We find that having a local, master franchisee for each different region helpful, rather than a national master. Utilizing a local master will help franchisors address and adapt to regional differences in the Canadian population.

Targets for 2010-2011

May 2-4, 2010	CFA Annual Convention, Mont Tremblanc, Quebec
October 23 – 24, 2010	The Franchise Show, Toronto ON’
Jan 22 – 23, 2011	The Franchise Show, Montreal Quebec

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