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Extraterrestrial Expansion-Franchising in
Quebec

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As

a franchise consultant and attorney practicing in the province of Quebec, I was delighted to have been asked to write this article. Having been both a full time legal practitioner in the industry and then franchisor, I believe I have gained a unique perspective on franchising and in Quebec in particular.

I remember about 10 years ago being at a CFA Convention and speaking with a very intelligent and successful franchisor. I asked her why she didn't come to Quebec as the market was ripe for her service. She replied "Quebec-that's like going to Mars!" I was stunned. We in Quebec truly are, a "distinct" society, but Martians-?

Many systems have come to Quebec and prospered, but a greater number have failed. Those who have succeeded have been rewarded with higher ticket averages and the consumer loyalty that only Quebecers can give. The entry price is not cheap but when you look at the size of the market, the return is more than there. Just do your homework first.

To be successful a franchisor must first be willing to make the investment, both in dollars and manpower, which are essential to capitalizing on this market. The fixation that seems to strike fear in the hearts and pocket books of senior management is the French language. French is the official language of the Province of Quebec. You may do bilingual materials but the French must be predominant. The language laws boiled down considerably are that simple. Yes, all your documents need to be translated. This is a one-time start-up cost of doing business. The Franchise Agreement, Operations Manual, marketing materials, and any other materials that franchisees will use in the ordinary course of business, must be available in French. This is a big expense, but the franchisees need to be able to do business here the same as all the others do elsewhere. But, is it not your responsibility as a franchisor, and is it not in your interest, to provide them with all the tools they need to succeed? This investment generally gets recuperated over time from the Initial Franchise Fees. The issue here lies not in the "if" but in the "when". When do you do all this translation? Some wait until they sell a franchise and then proceed. My experience and advice is to translate your materials before you go to market. This shows prospects that you have already made the investment and are committed to doing business in Quebec. That loyalty to the province is very important to Quebecers.

The area of largest impact of the language laws is the packaging of your products. Labeling has to be in French. That's not to say that English is prohibited, but French descriptions, directions and ingredients must be predominant. It's becoming more and more common in this global economy for suppliers to take care of this for you. However, in the event that such is not the case, simple solutions like stickers or package inserts do the trick quite well. The task is not as ominous as it sounds. It

requires planning and organization, but it's not difficult by any means.

Your next task is to engage Quebec based representation in some form. This is the number one reason that franchisor's fail when they come to Quebec. They fail to work with local professionals. Many franchises come having had tremendous success with a marketing strategy in Ontario only to find it totally inapplicable to Quebec. Any concept not willing to adapt itself and its sales strategy for the Quebec market should stay home. We are an entirely different consumer than anywhere else in Canada. I've worked with many national clients and I see the difference. For example, in Ontario, being a home based business concept is a big sales plus. In Quebec, it's really not that important. It's nice but not that high on the list of priorities.

The consumer, whether he is buying a franchise or a product or service, is entirely different from any other consumer in Canada. Quebecers take pride in what they wear and how they appear in public even to go grocery shopping. They are more concerned with value and quality than price, and will spend \$100.00 for dinner on a Tuesday night just because they feel like it. What's most interesting about Quebecers is that they are interested in long term relationships. How many other provinces have consumers interested in loyalty?? When you have a relationship with your client-they are less likely to switch to your competitors over price. There's not much consumer loyalty in any market these days but if you're going to find it anywhere, it's in Quebec.

One way to have local representation is to have a small regional office with a Director of Franchising or a Regional Manager. This one-man office with an address establishes a presence in the market and gives you a base to use for meetings and corporate visits. It's very cost efficient and provides that sense of professionalism and permanence that is reassuring to prospects. This representative should be a mid-level manager with franchising experience as a must. Alternatively there are franchise consultants who typically work on a project fee or retainer basis, and brokers, who work on commission, whom you can engage depending on your needs. You can find a list of valuable Quebec based resources on the website of the Quebec Franchise Council at www.cqf.ca. Quebec has a vibrant franchise industry all its own with well over a 100 home grown franchise systems that operate only in Quebec. Many of them operate some 100 units of their own.

When choosing the actual mechanism for entering the market there are various schools of thought. One mechanism is the master franchise agreement. A master would allow the franchisee to sell franchises. Essentially he becomes you in Quebec, providing all the services to Quebec franchisees that you provide to franchisees in other provinces. Unfortunately, experience shows that this model has not proven successful. There is not enough money to be made by each party in a master where there are still so many possibilities of economies of scale. Others choose the area development route in which one or many, agreements are struck whereby an individual or corporation is granted several years in which to establish a pre-determined number of units in a small but defined territory. An area development agreement with a good solid candidate (has both general business experience and the financial capacity) is always my number one choice. Joint ventures are becoming a popular option too where the franchisor and Quebec franchisee become partners in a venture for Quebec development. Then there's the well tested traditional development route of selling individual units. Regardless of your choice, before you sell any, operate a corporate store for at least 6 months to a year. To many this step is optional. I really believe that if you are going to do business here you should understand the market in all its facets. Otherwise, how can you truly know how whether or not you have a good prospect in front of you? Just because he'd be a good franchisee in Ontario does not make him right for Quebec-or for the trade area his store will be located in? Again, without local representation, and preferably a

corporate store, you have no way of truly assessing the qualifications of your prospects. There is much to know that surveys and graphs can't convey.

As with the entry to any new jurisdiction in the world, an overview of the legislation in your industry will be necessary as there may be relevant rules or regulations affecting your operations. There is no specific franchise legislation here so you do not have to provide a Disclosure Document. The added bonus is that you don't have to translate it either. Most franchisors though do provide it as a gesture of goodwill and also because it does answer most of the traditional questions that franchisees have-so it is a useful exercise. That having been said, if you are going to provide it, then make the goodwill gesture and translate it. It will save you time and money in the end. A free and incredibly important piece of legal advice here to all you franchisors-if you do provide it, DO NOT sign it. If you do you will be bound by all the representations made in it. Seeing as you are not legally bound to provide it, why create a legal obligation by signing it that can only come back later to bite you. In Quebec you are providing it for information purposes only.

The franchise legislation and rules of conduct come from the Civil Code of Quebec. Unlike any other province in Canada, Quebec has coded legislation on all legal matters dealing with business and personal relations set out nicely in one book. Other provinces, that don't have a code, do have legislation in specific areas and govern via case law, that is, how the courts have decided similar cases previously. In Quebec, our Code sets forth all the guiding principles and remedies and the case law interprets it. The most important section of the Code states that all relationships must be conducted in good faith and in the spirit of fair dealing, regardless of whether this provision is in the contract or not.

Insofar as other legislation is concerned, Quebec for example has specific legislation in many areas including pharmaceutical retailing, opticians, travel agencies and real estate brokers to name a few. So your business model or franchise documentation may have to be amended prior to your ability to operate in the Province. This would be true however of any new province you expand into. A plus for the retail concepts is that our retail mall hours are shorter. You will also find our security legislation different. We do not have the Personal Property Security Act (PPSA) but rather other legislation that, summarily, grants a right in all moveable property. Unlike other provinces though, commercial landlords have the legal right to, and always do, register a prior charge against all the assets in the premises, moveable and immovable, generally equivalent to the value of the gross rent for the term of the lease. The franchisor can still register his security interest but he will rank after the bank and the landlord. Practically speaking, this is all moot since in any situation where you need to exercise your security you are in line with prior creditors and there is seldom anything left after the bank and the trustee are paid!

So you see there is no need to fear us. Quebecers welcome new concepts openly. The proper financial investment and full commitment by the senior management team to the expansion plan are the cornerstones of success. Triumph in this market depends largely on ensuring that the franchisees have a local voice that can represent the needs of the market to an out-of-province head office. What I find most surprising is the size of the Quebec market and how Canadian franchisors often will often expand into the United States, Europe or the Middle East before expanding in their own country. Surely the logistics for Quebec expansion have to be easier?

There is certainly enough expertise in the province to ensure that your entry is smooth and well executed. I promise you-we are worth courting-they don't call Quebec "La Belle Province" for nothing!