



# **INTRODUCTION TO FRANCHISING**

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Chapter 1

# Origins and Definitions

The term “Franchising” historically meant a granting of right, an exemption or freedom from servitude

The modern definition: A continuing relationship in which a **franchisor** provides a licensed privilege to the **franchisee** to do business and offers assistance in organizing, training, merchandising, marketing and managing in return for a monetary consideration.

**Franchisor:** Owner of the product, service, or method

**Franchisee:** Affiliated Dealer & Distributor

# Two Unique Features

1. Typically occurs in businesses where there is a notable service component that must be performed near customers.

2. Franchise contracts typically reflect a unique allocation of responsibilities, decision rights, and profits between a centralized principal (the franchisor) and decentralized agents (franchisees) (Combs, Michael, & Castrogiovanni, (2004)).

# Definitions, continued...

- ❑ The **U.S. Department of Commerce** defines franchising “as a method of doing business by which a franchisee is granted the right to engage in offering, selling, or distributing goods or services under a marketing format which is designed by the franchisor. The franchisor permits the franchisee to use the franchisor’s trademark, name and advertising.”

# Definitions, continued...

- ❑ The **International Franchise Association**, the major franchising trade association, defines franchising as “a continuing relationship in which the franchisor provides a licensed privilege to do business, plus assistance in organizing, training, merchandising, and management in return for a consideration from the franchisee.”

# Definitions, continued...

According to the **Federal Trade Commission** the following terms define various legal aspects pertaining to franchising:

- ❑ Franchise means any continuing commercial relationship or arrangement, whatever it may be called, in which the terms of the offer or contract specify, or the franchise seller promises or represents, orally or in writing, that:
  - The franchisee will obtain the right to operate a business that is identified or associated with the franchisor's trademark, or to offer, sell, or distribute goods, services, or commodities that are identified or associated with the franchisor's trademark.
  - The franchisor will exert or has authority to exert a significant degree of control over the franchisee's method of operation, or provide significant assistance in the franchisee's method of operation
  - As a condition of obtaining or commencing operation of the franchise, the franchisee makes a required payment or commits to make a required payment to the franchisor or its affiliate.

# Summary of Definitions

- ❑ Franchising is a method of distributing goods and/or services.
- ❑ A franchise is a right or privilege granted to an individual or a group.
- ❑ A franchise is a legal agreement business two parties.
- ❑ The owner who agrees to grant rights or privileges is referred to as the franchisor.
- ❑ The individual or group to whom the rights or privileges are granted by the franchisor is called the franchisee.
- ❑ The system under which franchisor and franchisee operate is known as franchising.

# Types of Franchise Arrangements

## Product and Trade Name Franchising

- Franchisees are granted the rights to distribute a franchisor's products or services within a specified territory or at a specific location, generally with the use of the manufacturer's identifying name or trademark.

## Business-Format Franchising

- Granting of a license for a predetermined financial return by a franchisor to its franchisees, entitling them to make use of a complete business package, including training, support and the corporate name, thus enabling them to operate their own businesses to exactly the same standards and format as the other units in the franchised chain.

## Dual Concept/Multiple Concept

- Arrangement in which two or more concepts function simultaneously at one location

## Master or Sub-Franchising

- Designed to provide growth of a franchise in areas or locations where original franchisor may not have easy access or a franchisor may not want to get involved. A master franchisee assumes all functions of the original franchisor and acts as sole representative in the region.



# Theories of Franchising



## Agency Theory

- Considers an existence of an agency relationship where one party (the principal/franchisor) hires an individual or an organization (the agent/franchisee) to provide a service.



## Resource Scarcity Theory


- The Resource Scarcity theory postulates that expanding firms use franchising to secure scarce capital (from the franchisees) in a mutually cost effective way. It views franchising as a mechanism to ease financial and managerial constraints on the growth of a business.



# **IMPACT OF HOSPITALITY FRANCHISING ON THE U.S. ECONOMY**

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Chapter 2



***“Hundreds of well-known, iconic brands, and new emerging concepts, serve tens of millions of customers day in and day out, at home and abroad, in every imaginable format.”***

**- Steve Caldera, President & CEO, International Franchise Association**

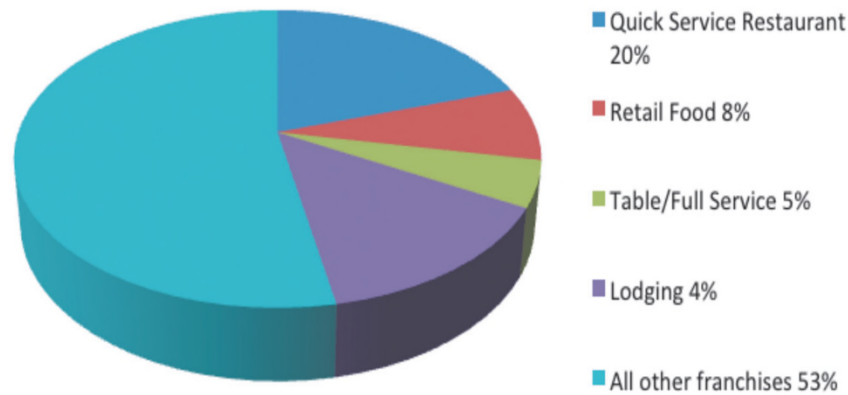
# Introduction to the Chapter

Franchising continues to be a strong and significant contributor to the American economy. As per the Franchise Business Economic Outlook, a report commissioned by the International Franchise Association (International Franchise Association, 2012), most economic reports point to continued growth, albeit at a moderate pace.

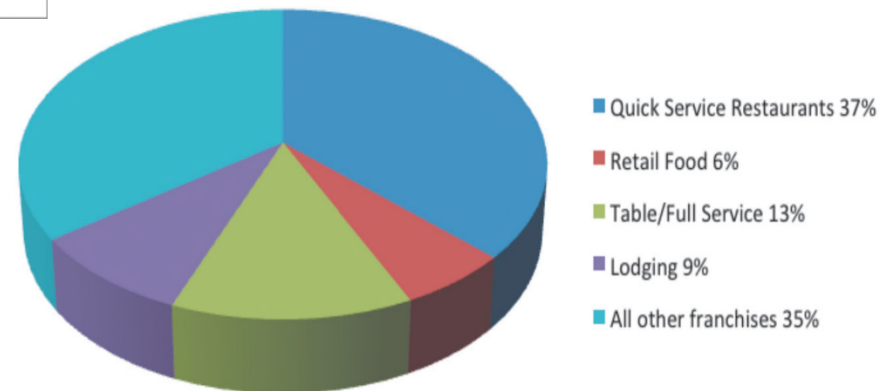
According to the National Restaurant Association, the restaurant industry's annual sales top \$660 billion. The projected sales of \$660.5 billion in 2013 are up by approximately 9% in two years.

# Franchise by Sector Analysis

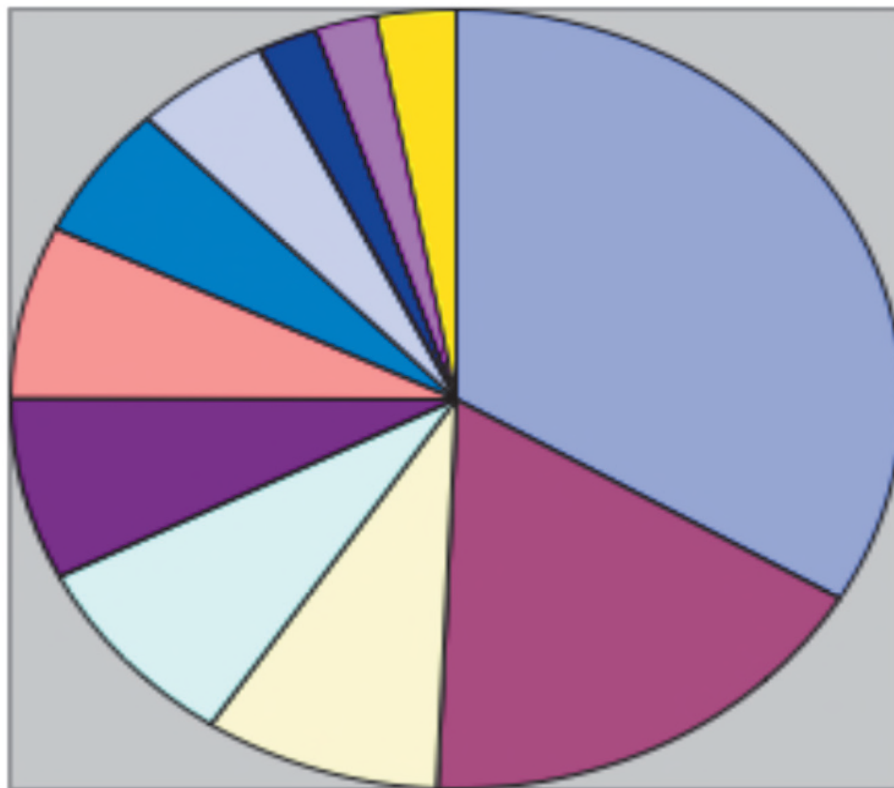
Franchise Establishment Distribution by Sector



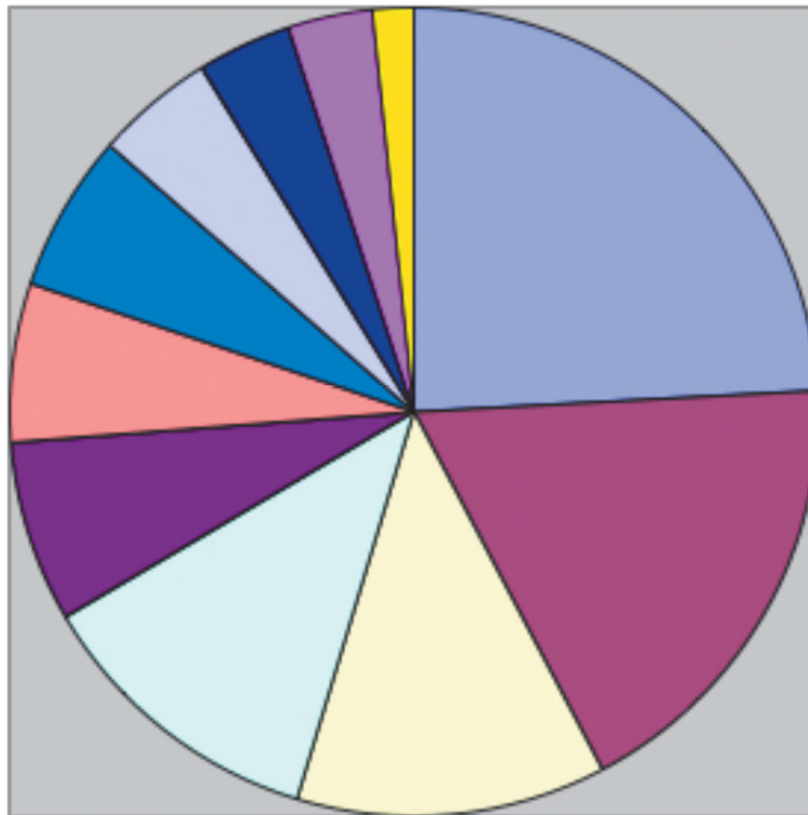
Employment Distribution by Sector



# Segment Shares of Top 100 Sales



# Segment Shares of Top 100 Units



- LSR/Burger
- LSR/Sandwich
- Beverage-Snack
- Pizza
- C-Store
- Casual Dining
- Chicken
- LSR/Mexican
- Family Dining
- Other
- Bakery-Café

## Top Chains 1973

Source: Nation's  
Restaurant News, Top  
100, 2013

Chain	U.S. System wide Foodservice Sales (in millions)	Total U.S. Units
Kentucky Fried	\$1,147.0	4,402
McDonald's	1,033.0	2,272
A&W	309.0	2,480
Burger King	275.0	982
Howard Johnson	258.0	877
Burger Chef	200.0	1,000
Marriott	182.0	1,090
Royal Castle	180.0	154
Denny's	179.0	803
Hardee's	163.0	754



## Top Chains 2013

Source: Nation's  
Restaurant News, Top  
100, 2013

Chain	U.S. Systemwide Foodservice Sales (in millions)	Total U.S. Units	Percent Change in 40 years (1973 to 2013)	
			Sales	Units
McDonald's	\$35,592.7	14,157	+ 3445.6	+1124.5
Subway	12,123.5	25,549	Not listed in 1973	
Starbucks Coffee	9,276.0	11,013	Not listed in 1973	
Burger King	8,585.0	7,183	+3121.8	+731.5
Wendy's	8,215.9	5,817	Not listed in 1973	
Taco Bell	7,500.0	5,695	Not listed in 1973	
Dunkin' Donuts	6,264.8	7,306	Not listed in 1973	
Pizza Hut	5,700.0	7,756	Not listed in 1973	
Chick-fil-A	4,560.3	1,669	Not listed in 1973	
Applebee's Neighborhood Grill & Bar	4,503.5	1,885	Not listed in 1973	

## Estimated Sales Per Unit for Top 10 Restaurant Chains

		EST. SALES PER UNIT (BY FISCAL YEAR, IN THOUSANDS)
LATEST YR RANK	CHAIN	LATEST
1	The Cheesecake Factory	\$10,081.8
2	Maggiano's Little Italy	8,909.1
3	BJ's Restaurants	5,782.0
4	Cheddar's	4,645.1
5	Olive Garden	4,551.5
6	P.F. Chang's China Bistro	4,477.5
7	Ruth's Chris Steak House	4,378.6
8	Texas Roadhouse	4,088.0
9	Red Lobster	3,737.8
10	Golden Corral	3,677.1

Source: Nation's Restaurant News, Top 100, 2013

## Growth in U.S. Franchise Units (Top 100)

LATEST YR RANK	CHAIN	% Change, Latest vs. Preceding
1	Panda Express	23.68%
2	Cheddar's	22.22
3	Firehouse Subs	20.58
4	Jimmy John's Gourmet Sandwiches	17.73
5	Tim Hortons	13.31
6	Five Guys Burger	12.43
7	Burger King	11.46
8	Friendly's Ice Cream	11.11
9	Einstein Bros. Bagels	10.69
10	Moe's Southwest Grill	10.27

Source: Nation's Restaurant News, Top 100, 2013

# Top Franchises

- ❑ Kentucky Fried Chicken broke the billion dollar sales threshold taking the number 1 spot over McDonald's in 1973.
- ❑ In 2013, it stands at 11th rank with \$4,500 million in sales, just below Applebee's Neighborhood Grill and Bar.
- ❑ Recently KFC taps into the growing fast-casual segment with KFC eleven, a prototype restaurant located in Louisville, KY.



# Top Franchises



- ❑ Starbucks started in 1971 as a roaster and retailer of whole bean and ground coffee, tea and spices with a single store in Seattle's Pike Place Market.
- ❑ Today, they connect with millions of customers with 18,000 retail stores in 60 countries.
- ❑ They currently offer 30 blends of single-blended beverages, smoothies and teas; merchandise which include coffee- and tea-brewing equipment, mugs, and accessories; handcrafted beverages; fresh foods; and other consumer products.

# Top Franchises

- ❑ Wendy's International Inc. system includes more than 6,500 franchise and company-owned restaurants in the U.S. and 27 other countries and U.S. territories worldwide.
- ❑ Dave Thomas opened the first Wendy's in 1969 in Columbus, Ohio.
- ❑ Recently Wendy's brand transformation was announced with a new logo and look for the restaurants.
- ❑ The new transformation from a bold restaurant design to innovative food and improved service is re-energizing all the touch points with consumers.



# Top Franchises



- ❑ Taco Bell Corp., based in Irvine, California, is a Mexican-style QSR chain serving tacos, burritos, signature quesadillas, and other specialty items.
- ❑ It serves more than 35 million consumers each week in approximately
- ❑ 5,600 restaurants in the U.S. Since its founding by Glen Bell in 1962, the company's countless innovations have changed the nature of the QSR industry.

# Top Franchises

- ❑ Dunkin' Donuts was launched by Bill Rosenberg in 1950. In 1955 the first franchise agreement was signed and executed in Worcester, Massachusetts.
- ❑ It opened its 10,000th worldwide restaurant in 2012 in Xi'An, China.
- ❑ Dunkin' Donuts debuted its 500th New York City location, a co-branded unit with Dunkin' Brands' sibling Baskin-Robbins.





# Top Franchises



- ❑ Pizza Hut, Inc., based in Dallas, Texas, is the world's largest pizza restaurant company.
- ❑ With more than 7,500 restaurants in the United States and over 5,600 restaurants in 90 countries and territories around the world, Pizza Hut is known as "America's Favorite Pizza."
- ❑ It is on its way to becoming the largest delivery chicken wing chain with more than 3,000 locations.

# Top Franchises

- ❑ Chick-fil-A started in 1946, when Truett Cathy opened his first restaurant, Dwarf Grill, in Hapeville, Georgia.
- ❑ Credited with inventing Chickfil-A's boneless breast of chicken sandwich, Mr. Cathy founded Chickfil-A, Inc., in early 1960 and established restaurants in shopping malls with the opening of the first restaurant at a mall in suburban Atlanta in 1967.
- ❑ Since then, it has steadily grown to become the second largest quick service chicken restaurant chain in the United States, with over 1,700 locations in 39 states and Washington, D.C.
- ❑ In 2012 annual sales were over \$4.6 billion. Chick-fi I-A is still privately held and family owned.



# Top Franchises



- ❑ Applebee's Neighborhood Grill and Bar, Inc., founded nearly three decades ago as Applebee's Services, Inc. operates today the largest casual dining chain.
- ❑ Applebee's Services, Inc., and its affiliates franchise and operate restaurants under Applebee's Neighborhood Grill and Bar and area DineEquity, Inc., brand.
- ❑ After selling 33 locations to franchise in 2012, it reached its goal of becoming an almost-all-franchised brand.



# **PROS AND CONS OF FRANCHISING**

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Chapter 3

***“When we first started franchising, our mission was simple – successful and satisfied partners as a means to develop our concept. Over the years, our franchise partners have been invaluable sources of capital, talent and local market knowledge, and Panera is committed to rewarding their success with personalized support and attention from the company. The close relationships we build with our franchisees are unique and intentional. By requiring our franchise partners to own multiple cafes, we create partnerships where both sides are heavily invested and connected to the brand.”***

**– Todd Burns, VP, Franchise Operations**



# Introduction to the Chapter

**Franchising** presents an exciting opportunity for both franchisor and franchisee, who share a symbiotic relationship.

Many franchisor-franchisee relationship problems can be traced to informational imbalance, which can occur before or after entering into contract.

The franchisor has access to capital; cost sharing with the franchisee; market penetration; economies of scale; motivated workforce; and cost control. The franchisee in turn gets an opportunity to enter a business with proven concept and brand name.

**Franchisees are  
buying an  
established  
business with  
loyal customers**

**To Franchisee**

Established concept  
Tools for success  
Technical and managerial help  
Standards and quality control Minimum risk  
Less operating capital  
Access to credit  
Comparative assessment  
Research and development  
Advertisement and promotion  
Other unique opportunities

**To Franchisor**

Business expansion  
Buying power  
Operational convenience  
Franchisee's contribution  
Motivation and expansion

*Table 3.1 Advantages of  
Franchising*

**Many of these disadvantages may be traced to the relationship between the franchisors and the franchisees.**

*Table 3.2 Disadvantages of Franchising*

<b>To Franchisee</b>	Unfulfilled expectations
	Lack of freedom
	Advertisement and promotion practices
	Cost of services
	Overdependence
	Monotony and lack of challenge
	Termination and renewal
	Other problems
<b>To Franchisor</b>	Lack of freedom
	Franchisee's financial situation
	Franchisee recruitment and selection
	Franchisee retention
	Communication



## Case Study:

### Panera Bread's Loyalty Programs

A typical Panera  
Bread Restaurant



*[Photo courtesy of Panera, LLC.]*

# Panera Bread Franchise

(a) Panera Bread does not sell single-unit franchises, so it is not possible to open just one bakery-cafe. Rather, they have chosen to develop by selling market areas that require the franchise developer to open a number of units, typically 15 bakery-cafes in a period of six years and

(b) prospective franchisees must be well-capitalized to open bakery-cafes and meet this aggressive development schedule in addition to having a proven track record as excellent multi-unit restaurant operators. In addition there are several capital and resource requirements which must be met in order to be considered for franchises.

# Panera Bread Innovation

## Loyalty Program

The chain's biggest innovation was opening pay-what-you-can cafes -- with no set prices, just suggested donations -- in markets that were struggling economically, such as Detroit, Michigan and St. Louis, Missouri (Gasparro, 2013).

## Results

20 percent of patrons paying more than the suggested donation; and another 20 percent gave less or nothing; and 60 percent left the suggested amount. The café found that they were breaking even by this promotion thereby taking in about 80 percent of the retail value of the food, enough to pay expenses.

# Panera Bread Loyalty Program

This program was considered as a loyalty program rather than a discount program. In any case, they serviced over one million people in those cafes. Panera's loyalty program, launched in 2010 grew to 14 million members by 2013, representing 45% of their customer transactions (Gasparro, 2013).

## Conclusion

Innovative marketing and promotion programs are needed during times of economic or social stress.

Restaurant industry, particularly franchises can play a major role in providing community activities based on social responsibility.

Innovative promotions have the advantages of enhancing visibility and demonstrating that franchises are interested in ethical profitability.



# **FRANCHISING AGREEMENTS AND LEGAL DOCUMENTATION**

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## Chapter 4



***There is no substitute for checking the track record of a franchisor by personally talking to at least 100 prior purchasers***

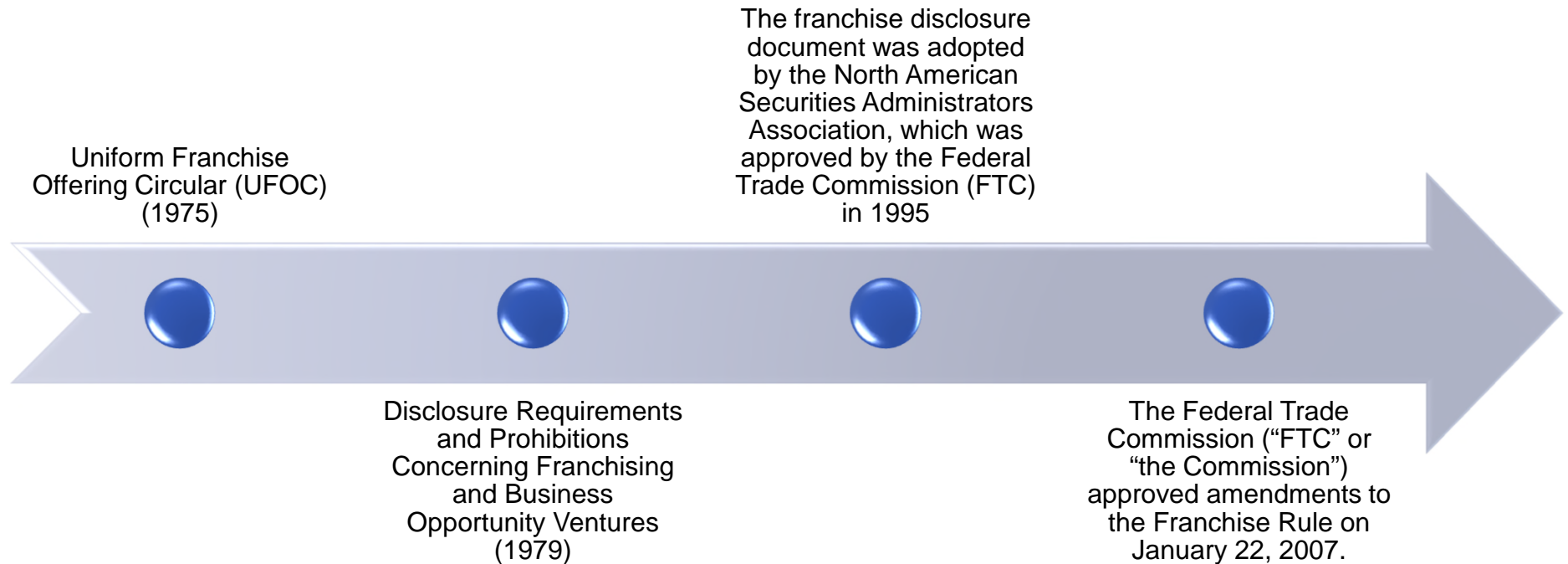
**- FTC [Federal Trade Commission]**

# Introduction to the Chapter

- ❑ Franchising is a legal contract between a franchisor and a franchisee. Therefore, all laws pertaining to contractual agreements apply to franchising.
- ❑ Additional laws pertain to franchising and deal with the franchisor-franchisee relationship; these exist at both the federal and state level.
- ❑ The major trade regulation rule under the jurisdiction of the Federal trade Commission (FTC) is referred to as the ***Franchise Rule***.
- ❑ The FTC's Franchise Rule was adopted in response to widespread evidence of deceptive and unfair practices in connection with the sale of franchises. These practices may occur when prospective franchisees lack a ready means of obtaining essential and reliable information about their proposed business investment.



# History Overview of Franchise Rule



Since July 1, 2007, franchisors could comply with the FTC's disclosure requirements by using any one of the following formats: (1) the original Franchise Rule; (2) the Uniform Franchise Offering Circular ("UFOC"); or (3) the amended Franchise Rule. Once a franchisor selects a disclosure format, it must use that format and no other.

**As of July 1, 2008, however, all franchisors must use only the amended Franchise Rule.**

# Types of Relationships Covered by the Amended Rule

The amended Rule covers the offer and sale of franchises.

As under the original Rule, a commercial business arrangement is a “franchise” if it satisfies three definitional elements. Specifically, the franchisor must:

- ❑ Promise to provide a **trademark** or other commercial symbol;
- ❑ Promise to exercise **significant control** or provide significant assistance in the operation of the business;
- ❑ **Require a minimum payment** of at least \$500 during the first six months of operations.

# Disclosure Documents

- ❑ Franchisors (including any subfranchisors) are responsible for furnishing disclosure documents to each prospective franchisee.
- ❑ A “prospective franchisee” is “any person (including any agent, representative, or employee) who approaches or is approached by a franchise seller to discuss the possible establishment of a franchise relationship.”

## ***Existing Franchisee Sells His or Her Outlet***

The transferee will not be entitled to receive disclosures unless the franchisor plays some more significant role in the sale.

## ***Existing Franchisee Purchases Additional Outlets***

A franchisor is not required to provide a disclosure document to a franchisee exercising a right under the franchise agreement to establish any new outlets (as opposed to selling outlets to others), nor to a franchisee who chooses to keep its existing outlet post-term

## Furnishing Disclosure Documents

### WHAT

While a disclosure document must be “in writing,” that term is defined broadly as “any document or information in printed form or in any form capable of being preserved in tangible form and read.”

### WHEN

Franchisors must furnish prospective franchisees with a disclosure document at least 14 calendar days before the prospective franchisee signs a binding agreement with, or makes any payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

### HOW

Franchisors now have many options as to how they furnish disclosure documents. Under the amended Rule, a franchisor will have furnished a disclosure document in a timely manner if the franchisor has hand-delivered, faxed, emailed, or otherwise delivered to the prospective franchisee a copy of the document by the required date.

# Structure of the Disclosure Document

Section	Overview of What Should be Included
<b>The Cover Page</b>	Contact information, Reference to Item 5 and Item 7 Fees and Investment, Issuance Date, Table of Contents.
<b>ITEM 1: THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES</b>	Franchisor Disclosures, Predecessor Disclosures, Principal Business Address Disclosure, Applicable Government Regulations Disclosure
<b>ITEM 2: BUSINESS EXPERIENCE</b>	Disclosure of the business experience of certain individuals – including directors and principal officers, among others – for the last five years.
<b>ITEM 3: LITIGATION</b>	Disclosure of certain lawsuits involving the franchisor and other entities associated with the franchisor – <i>i.e.</i> , predecessors, parents, and affiliates – in addition to certain lawsuits involving any person identified in Item 2
<b>ITEM 4: BANKRUPTCY</b>	Franchisors must disclose not only the bankruptcy history of the franchisor itself, its affiliates, and predecessors, but also of any of its parents
<b>ITEM 5: INITIAL FEES</b>	Disclosure of any initial fees and any conditions on their refundability. “Initial fees” means “all fees and payments, or commitments to pay, for services or goods received from the franchisor or any affiliate before the franchisee’s business opens

# Structure of the Disclosure Document

Section	Overview of What Should be Included
<b>ITEM 6: OTHER FEES</b>	It requires disclosure of all other fees that the franchisee must pay to the franchisor or its affiliates, or that the franchisor or its affiliates impose or collect in whole or in part for a third party.
<b>ITEM 7: ESTIMATED INITIAL INVESTMENT</b>	Set out in a prescribed tabular format a franchisee's entire estimated initial investment – <i>i.e.</i> , all the expenses required by the franchise agreement and all other costs necessary for a franchisee to commence business.
<b>ITEM 8: RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES</b>	Disclosure of Required Purchases , Optional Purchases, Approval of Alternative Suppliers, Revenue Derived from a "Supplier", Payments to Third Parties, Benefits, Aggregate Reporting, Cooperatives, and Negotiated Prices)
<b>ITEM 9: FRANCHISEE'S OBLIGATIONS</b>	Disclosure of a franchisee's principal obligations in the prescribed tabular format that references the franchise agreement or other relevant contracts, and the disclosure document sections where more information about the particular obligation can be found.

# Structure of the Disclosure Document

Section	Overview of What Should be Included
<b>ITEM 10: FINANCING</b>	Disclosure all material terms and conditions of any financing arrangements. The required disclosures include: (a) the rate of interest, plus finance charges, expressed on an annual basis; (b) the number of payments; (c) penalties upon default; and (d) any consideration received by the franchisor for referring a prospective franchisee to a lender.
<b>ITEM 11: FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING</b>	Disclosure of the franchisor's obligations under the franchise agreement to furnish assistance to franchisees including Pre-Opening Assistance, Continuing Assistance, Optional Assistance, Advertising Assistance, Multiple Brand Advertising. Also included is disclosure of Allocation of Production and Administrative Expenses (Computer Systems, Operating Manuals, training, etc.)

# Structure of the Disclosure Document

Section	Overview of What Should be Included
<b>ITEM 12: TERRITORY</b>	Detailed disclosures concerning assigned territories and applicable sales restrictions
<b>ITEM 13: TRADEMARKS</b>	Disclosure of whether each principal trademark is registered with the United States Patent and Trademark Office (“PTO”), as well as application, renewal, and other related information.
<b>ITEM 14: PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION</b>	Disclosure of information about intellectual property related to the franchise. Franchisors must disclose the types of intellectual property
<b>ITEM 15: OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS</b>	Disclosures stating: any obligation for the franchisee to participate directly in the business that arises from the parties’ franchise agreement, <b>or</b> from any other agreement, <b>or</b> from the franchisor’s practice
<b>ITEM 16: RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL</b>	Disclosure of any restrictions relating to the goods or services a franchisee sells



# Structure of the Disclosure Document

Section	Overview of What Should be Included
<b>ITEM 17: RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION</b>	Summary in the specified tabular format, common provisions of franchisee agreements, including those provisions dealing with termination, renewal, and dispute resolution
<b>ITEM 18: PUBLIC FIGURES</b>	Disclosure of certain information about a public figure's involvement in the franchise system. A public figure means a person whose name or physical appearance is generally known to the public in the geographic area where the franchise will be located.
<b>ITEM 19: FINANCIAL PERFORMANCE REPRESENTATIONS</b>	Representations about financial performance in their disclosure documents. A franchisor electing to make a financial performance representation must, among other things, have a reasonable basis and written substantiation for the representation at the time it is made, and disclose the bases and assumptions underlying the representation.

# Structure of the Disclosure Document

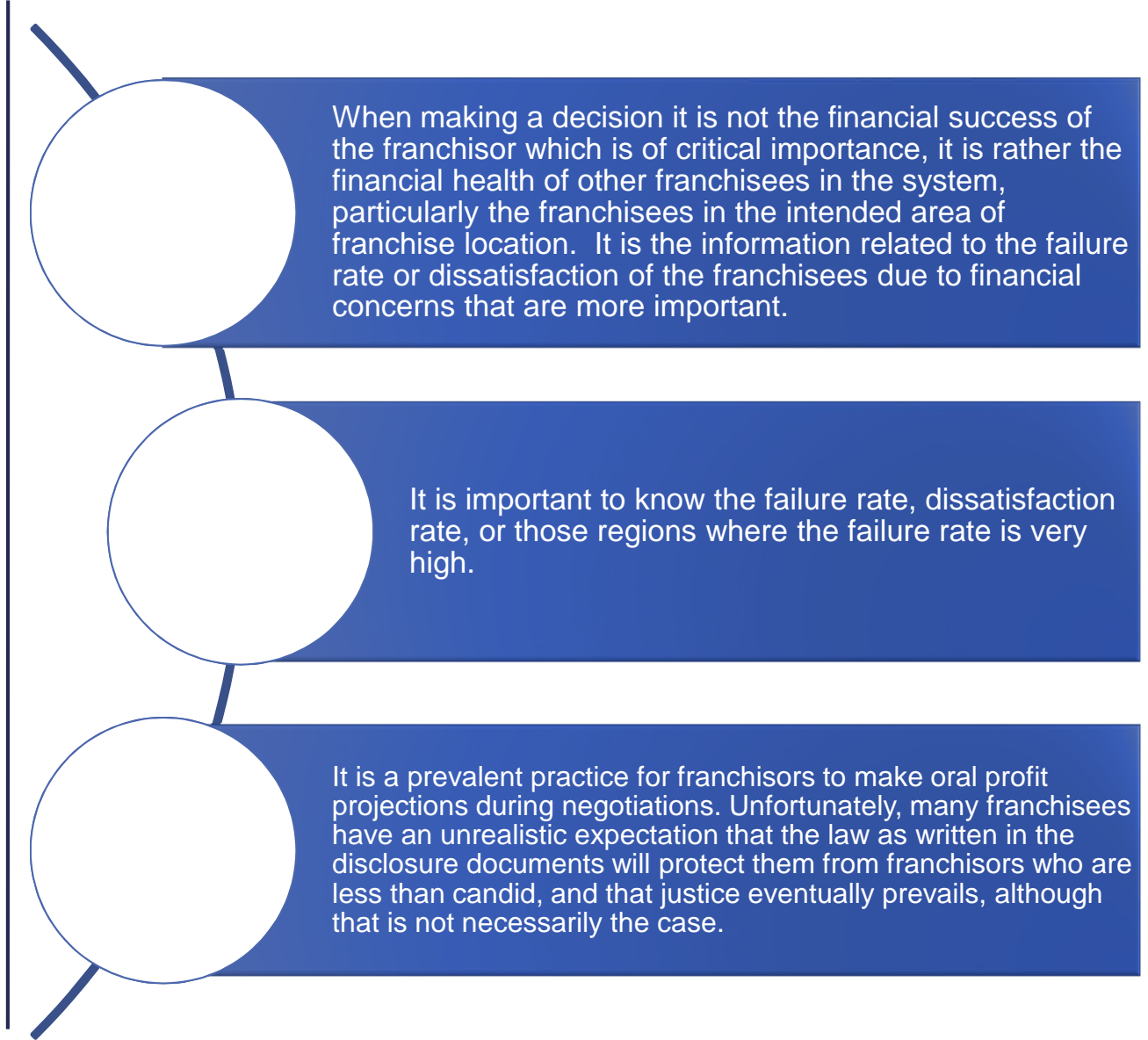
Section	Overview of What Should be Included
<b>ITEM 20: OUTLETS AND FRANCHISEE INFORMATION</b>	Disclosure of statistical information on the number of franchised outlets and company-owned outlets for the preceding three-year period.
<b>ITEM 21: FINANCIAL STATEMENTS</b>	Copies of financial statements audited in accordance with generally accepted accounting principles (“GAAP”) for the most recent three fiscal years to show the financial condition of the franchisor.
<b>ITEM 22: CONTRACTS</b>	Copies of all proposed agreements relating to the franchise offering that the franchisor provides or for which the franchisor makes arrangements.
<b>ITEM 23: RECEIPTS</b>	The amended Rule requires franchisors to obtain a signed receipt for the disclosure document furnished to each prospective franchisee.

# Structure of the Franchise Agreement

The following items constitute the franchise agreement of typical franchise, although this list is not comprehensive and agreements vary to a considerable extent:

- Introduction.
- Duration of the Agreement.
- Fee and Other Payments.
- Responsibilities of the Franchisor.
- Responsibilities of the Franchisee.
- Proprietary Marks
- Operating Procedures and Confidentiality.
- Advertising and Promotion.
- Financial Records.
- Training.
- Insurance.
- Products and Services to Be Purchased by the Franchisee.
- Transferability of the Franchising Agreement.
- Termination.
- Covenants Not to Compete.
- Renewals.
- Miscellaneous Provisions.

## Some things to Consider before making a franchise selection...



When making a decision it is not the financial success of the franchisor which is of critical importance, it is rather the financial health of other franchisees in the system, particularly the franchisees in the intended area of franchise location. It is the information related to the failure rate or dissatisfaction of the franchisees due to financial concerns that are more important.

It is important to know the failure rate, dissatisfaction rate, or those regions where the failure rate is very high.

It is a prevalent practice for franchisors to make oral profit projections during negotiations. Unfortunately, many franchisees have an unrealistic expectation that the law as written in the disclosure documents will protect them from franchisors who are less than candid, and that justice eventually prevails, although that is not necessarily the case.



# **FRANCHISE APPLICATION AND FRANCHISE PACKAGE**

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Chapter 5

***“Franchising is the perfect business model for the first-time entrepreneur, primarily because the groundwork has been done, a solid foundation laid and the framework in place for building your business. The efforts involved in launching a new venture, including concept creation, trade marking, licensing, advertising, marketing, operations and an endless variety of start-up challenges, make investing in a franchise business a very sensible alternative.”***

**-Don Fertman, Chief Development Officer for Subway**



## Application Process

### Step 1

- The application process starts with an inquiry from a prospective franchisee about particular franchise restaurant.

### Step 2:

- If further interested, the prospective franchisee, after reviewing the entire application package, submits a basic franchisee application form.

### Step 3

- In the presence of continuing mutual interest, a representative calls all promising candidates individually to make arrangements to furnish legally required information and, possibly, arrange for an interview

## Application Process

(continued)

### Step 4

- If there is mutual approval and the franchisee meets the minimum financial criteria for net worth and liquidity, he or she may be invited to the corporate headquarters or area offices to continue discussion with the staff.

### Step 5

- If approved, further discussion concerning the geographic location of the restaurant, site development, lease requirements, leasehold development, and renting or buying options takes place.

### Step 6

- After a location is secured by the franchisee by lease, rent, or purchase, and approved by the franchisor, the franchisee and/or representative(s) undergoes an intensive training program in operational methods



# Recruiting Franchisees

One of the toughest jobs for a franchisor is recruiting franchisees that will match with the goals, culture and philosophy of the entire franchise system.

The first step in recruitment is for the franchisors to develop carefully criteria for the profile of a possible successful franchisee which would fit into the system.

For the success of recruitment an honest and sincere effort is required from both parties.

## Operations Packages and Manuals

The operating manual is the most referred to, key manual of a franchise restaurant. Because it outlines all operational aspect of the franchise, the manual is extremely confidential. The advantage of all manuals can be briefly summarized as shown.

- ❑ Manuals clearly explain how each department and functions work within the franchise system.
- ❑ Manuals show franchisees how to be effective, proficient, and successful in running the franchisor's business.
- ❑ Manuals are good marketing tools and also help in developing customer relationship and showing how to make and keep loyal customers.
- ❑ Manuals teach skills and techniques that are employed in the running of the franchise system.
- ❑ Manuals train franchisees and their employees operational matters which are unique to the system, as well as teach the effectiveness and success of franchising as a method of doing business.

## Sample

A sample outline of an operations manual of a franchised restaurant is shown here.

Section	Overview
<b>Introduction</b>	This section should describe the company mission and values.
<b>General Rules</b>	This section should focus on procedures and policies. The basic information related with quality, control and customer relations.
<b>Menus and Menu Plans</b>	For restaurant franchises this is a very important component of operation manual. What is the main concept of the menu should be described, and how menu changes will take place still sticking to the concept should be described.
<b>Equipment Use and Care</b>	Based on the menu the types of equipment needed, how they will be placed, used, and kept performing efficiently should be described. Equipment cleaning and maintenance steps should be outlined.
<b>Food Purchasing</b>	The methods used for purchasing and how to purchaser listed. Regulatory agencies and laws to follow to maintain quality should be listed.
<b>Receiving and Storage</b>	Foods and supplies purchased have to be placed accordingly to the franchise concept. Mechanism of receiving and storage varies with the franchise and franchise concept. All procedures should be listed for receiving, inspecting and storing.

## Sample

A sample outline of an operations manual of a franchised restaurant is shown here.

Section	Overview
<b>Sanitation Requirements</b>	Food safety and hygiene principles should be listed. Safe handling of food and providing food safety for consumers are important aspects for the very survival of restaurant franchises.
<b>Food Preparation</b>	In restaurant franchises, food preparation is very important. All controls such as time and temperature controls are critical. All important operations have to be included in this section of the manual.
<b>Delivery and Service of Foods</b>	Dealing with consumers, service procedures and all aspects of food and service delivery should be included in this section.
<b>Financial Aspects</b>	Dealing with consumers, service procedures and all aspects of food and service delivery should be included in this section.
<b>Financial Aspects</b>	Financial aspects such as food and labor costing, balance sheets, profit and loss statement including forms and method of documentation are included in this section.

## Sample

(Continued)

Section	Overview
Management	Management policies and procedures, including recruitment, performance employees, motivation, and all matters related to human resources are to be included in this section.
Restaurant Operation	Day to day operation such as opening and closing of registers and handling customer feedback rules are to be included in this section.
Marketing	Advertising policies and procedures are important since most of the franchisors require advertising and promotion fees. Marketing procedures, advertisement and promotion guidelines should be listed in this section.
Maintenance	Maintenance of the facilities and sanitation rules are to be listed including all heating, ventilation, and air conditioning requirement for the customers as well as employees.

## Training Manual

Training is one of the major services provided by a franchisor. The training manual should be prepared carefully and tailored to the educational level of the franchisees.

- ❑ **Hands-on training programs** are designed to provide practical experience in the day-to-day operation of the franchise.
- ❑ **Formal training programs** are more comprehensive and involve intensive training of the franchisees.
- ❑ **Ongoing training programs** are provided on a continual basis to the staff of the franchisee, often on site or at corporate headquarters.

# Additional Manuals

## **Marketing Manual**

- The marketing manual describes the marketing philosophy of the franchisor and outlines the procedures for marketing products and services.

## **Advertising Manual**

- Advertising, promotion, signage, and public relations are all outlined in the advertising manual.

## **Field Support Manual**

- The field support manual is a listing and description of field support services provided by the franchisor

## **Quality Control Manual**

- Controlling quality is a major emphasis of any franchisor. Quality pertains both to the food and services offered.



# **FRANCHISEE/FRANCHISOR/ FRANCHISE SELECTION**

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Chapter 6





***Before you invest in a particular franchise system, think about how much money you have to invest, your abilities, and your goals. Be Brutally honest...***


**-U.S. Federal Trade Commission**

## Selection of the Franchisee by the Franchisor

There is no typical profile of a successful franchisee, if such a profile existed, all franchises would be successful.

## Franchisee Qualifications

- ☐ Overall Business Experience.
- ☐ Financial Qualifications.
- ☐ Proven Track Record.
- ☐ An Entrepreneurial Spirit and a Strong Desire to Succeed.
- ☐ Tie-in with Franchisor's Philosophy and Values.
- ☐ Willingness to Devote Full time to the Operation.
- ☐ Willingness to Relocate
- ☐ Successful Completion of Training.
- ☐ Long Term Commitment.
- ☐ An Understanding of the Concepts of Franchising.
- ☐ Willingness to Work with People.



***Talking to current franchisees and franchisees who have left the system within the last year may be the most reliable way for you to verify the franchisor's claims...***

**-U.S. Federal Trade Commission**

## Selection of a Franchisor by the Franchisee

A franchisee is taking a risk in deciding to go with a franchise system. It is not only the financial investment involved, it is the time, effort, and personal commitment that go with the decision.

## Franchisor Qualifications

**Table 6.1 warning signs of less credible franchisors**

- Need Cash for ongoing operations
- No company-owned or model units
- Not selective about franchisees
- Fees out of line; either too much or too little
- Pressure to hurry decision
- Too many promises of success
- No history of past successes in business endeavors
- Working out of home
- No set training program
- Too high initial fees
- Lack of well-planned operational manual
- Too many unresolved questions
- No list of franchisees available as references
- Too many verbal commitments

## **Selection of a Franchisor by the Franchisee**

(Continued)

### **Franchisor Qualifications**

- ☐ Financial Status of the Franchise.
- ☐ Selection Procedures for Franchisees
- ☐ Track Record of Franchisor's Success.
- ☐ Innovative Attributes of the Franchisor.
- ☐ Staff at the Corporate Headquarters of the franchisor.
- ☐ Support Services Provided by the Franchisor.
- ☐ Franchisor's Responsiveness to the Needs of Franchisors.
- ☐ Costs Involved in Franchising.
- ☐ Franchisor's Training Program and Future Assistance.

## **Selection of a Franchisor by the Franchisee**

(Continued)

### **Franchisor Qualifications**

- ❑ **Company-Owned versus Franchised Restaurants.**
  - Franchisors should preferably be in the same business as the franchise they are trying to sell.
  - The franchisor is always aware of the operational aspects of the restaurant and able to solve problems readily.
  - The franchisor is conscious of the costs involved and works hard to control food and labor costs.
  - Company-owned restaurants are indicative of a franchisor's considerable investments in land, buildings, leases, and equipment, which make them work hard to get optimum return on investment.

## **Selection of a Franchisor by the Franchisee**

(Continued)

### **Franchisor Qualifications**

- ❑ Company-Owned versus Franchised Restaurants.
  - It demonstrates the interest in the growth and success of the restaurants by the franchisors which may indirectly benefit the franchisees.
  - The franchisors have an exact idea of how the franchisees may react to proposed changes.
  - The franchisors will be successful in long-term planning for the restaurant franchise rather than dependent solely on selling franchises or on short-term efforts.
  - The company-owned stores can serve as comparative tool assessing the differences between the franchised units and non-franchised ones.
  - Company-owned stores demonstrate the leadership role of the franchisor and inspire confidence among franchisees, providing incentive for franchisees to equate or excel in their performance.

# Selection of a Franchise by the Franchisee

## Self Evaluation

If one is seriously considering owning a franchise, then they should subject themselves to the following self evaluation before committing to any agreement...



## Selection of a Franchise by the Franchisee

The International Association of Franchising, in its publication "Franchise Opportunities Guide," had listed the following challenges of franchising, which nicely sums up the serious consideration that should be given by getting into a franchise business.

### Challenge 1

- Working Within the System.

### Challenge 2

- The Risk

### Challenge 3

- Working With the Franchisor.

### Challenge 4

- False Expectations.

### Challenge 5

- Managing the Business.



# **STANDARD FRANCHISOR SERVICES**

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Chapter 7

***“In working with our franchisees, we aim high to maintain our brand awareness but balance that with innovative marketing, advertising and products that keep us on the top of our game while bringing customers back time and again. The way we look at it, you’re in business for yourself, but you’re never by yourself.”***

**- Pizza Hut**



# Services Provided by Franchisors

- Site selection counseling and assistance
- Assistance in building and equipment
- Training at different levels for franchisees
- Pre-opening and restaurant opening assistance
- Continuing counseling in the operation of restaurant
- Providing operational manuals
- Know-how pertaining to the menu, ingredients/formula, and method of preparation.
- Communication link between franchisor and franchisee
- Assistance in marketing, advertising, and promotion

# Services Provided by Franchisors (continued)

- Permission to use trademark, service marks, and signage
- Franchise development and support
- Product development
- Purchasing and specifications
- Materials development
- Maintenance and inspection of standards and controls
- Operational support of field services
- Counseling on legal matters
- Financial assistance in maintaining and reporting transactions, accounting, and cost analysis
- Research and development
- Facilitating community activities and special events.

# Location and Design

## Site Selection and Restaurant Design

The first step in building a restaurant is its location. Site selection is important because the success or failure of a restaurant depends to a great extent on its location.

## Geographic Distribution of Franchises

As a matter of corporate policy, a franchisor determines the geographic distribution of franchises. Not all franchises operate in every region or every state.

## Training

There are several advantages of having a well-planned and organized training program, some of which are as listed:

- The franchisor is able to explain the concept, philosophy, and operation of the franchise system to the franchisees.
- The franchisee gets hands-on experience in restaurant operation and management as organized by the franchisor.
- Provides prospective franchisees the opportunity to assess if this is the kind of business that he or she would like to invest in or get involved with.
- Indicates the capability, or lack thereof, of the franchisee to successfully operate the franchisor's business.
- By anticipating questions, reduces the number of inquiries from the franchisees when the restaurant is in operation.
- Motivates franchisees to perform at their best level once they understand all aspects of the franchise business.

# Training

(Continued)

- Increases satisfaction of the franchisee as well as the employees working for the franchise units.
- Reduces complaints from consumers and employees.
- Helps maintain quality of products and services based on the standards set by the franchisor.
- Promotes adherence to sanitation standards in all functional areas of the business.
- Reduces breakage and spoilage within the franchise unit operation.
- Reduces number of accidents.
- Creates an identity for the franchisee within the franchise system and fosters development of franchise loyalty.
- Improves operational skills of the franchisee.
- Establishes the franchisor and the franchisee as a team rather than two separate partners.
- Opens a dialogue between the franchisor and the franchisee.



# Types of Training Programs

Potential franchise training or preopening training program

Restaurant Operator Training

Initial opening training program

Crew member training program

Ongoing training programs

# Additional Services

## Marketing Support

- Restaurant franchises rely heavily on advertising and promotion, and a significant portion of the budget is always earmarked for advertising

## Materials Management

- Materials play a key role in the restaurant business. Materials include ingredients, supplies, and equipment.

## Operational Support and Field Services

- Operational support is needed by franchisees for occasional questions and problems.

## Financial Control Assistance

## Research and Development

## Community Involvement Support

# Franchisor's Obligation

## Before the restaurant opens

- Furnishes a description of the general area in which the franchisee may decide on starting an outlet.
  - Notifies whether or not the site proposed by the franchisee and related plans are acceptable.
  - Furnishes standards and specifications regarding building type, access requirements, furnishings, and equipment.
  - Furnishes a list of approved suppliers for equipment and construction materials.
  - Provides training and operating advice. This initial training program is offered to franchisees and some of their designated employees.
- Loans a copy of the operating manual (some franchisors call this by different names)
  - Provides a representative to be present at the opening of the first restaurant.
  - Furnishes a list of approved suppliers for equipment and construction materials.
  - Provides training and operating advice. This initial training program is offered to franchisees and some of their designated employees.
  - Loans a copy of the operating manual (some franchisors call this by different names)
  - Provides a representative to be present at the opening of the first restaurant.

# Franchisor's Obligation

## During the ongoing operation of the restaurant

- Offer continuing training programs deemed necessary for the business by the franchisors. This includes refinement about quality control methods, and research and development.
  - Work to maintain sources of supply for items incorporated in the franchisor's trade secrets, which are essential for operating a restaurant outlet.
  - Make available continuing advisory assistance in the operation of the restaurant.
- Continue efforts to maintain high and uniform standards of quality, cleanliness, appearance, and services at all restaurants
  - Assist in advertising and marketing.
  - Teach how to manage controllable aspects, such as food cost, labor, and inventory. This can be done by training programs, seminars, or by providing written information.
  - Provide counsel on how to best increase sales for the restaurant.
  - Assist in the purchase of commodities and equipment.



# **FINANCIAL ASPECTS OF FRANCHISING**

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## Chapter 8

# Fees

Type	Description
<b>Franchise Fee</b>	The initial fee, also referred to as the <i>license fee</i> , is charged by the franchisor and can range from few hundred dollars to several thousand. Normally, for a well-established franchise restaurant the franchise fee averages \$25,000.
<b>Royalty Fee</b>	The royalty fee, as the name indicates, is the royalty payable to the franchisor on a regular basis for securing rights of franchising.
<b>Advertising Fee/Fund</b>	This fee is payable to the franchisor and is earmarked for advertising and promotion by the franchisor.
<b>Development Fee</b>	A development fee is charged by some franchisors for further development of the franchise units.

## Fees

Options	Development Fees	Franchise Fee	Royalty Fee
Standard Fee	\$10,000	\$20,000	5%
Variable Fee	\$5,000	\$5,000	1%

*Table 8.1 Different  
Types of Fees*

# Fees and Costs (continued)

Type	Description
<b>Renewal Fee</b>	A renewal fee is charged for the renewal of the franchise agreement. Normally this occurs when there is a substantial change in the type of restaurant desired by the franchisee.
<b>Transfer Fee</b>	This fee is charged by the franchisor when a transfer of ownership is desired. This transfer requires prior approval by the franchisor. The transfer fee is paid by the
<b>Opening Costs</b>	Costs incurred for the grand opening of the restaurant franchise are also payable by the franchisee. A representative of the franchisor normally assists in the preopening and grand opening activities and the franchisee is expected to bear all related expenses.
<b>Equipment Costs</b>	Franchisors may require that equipment be purchased through their cooperative, approved vendor or through the franchisor.
<b>Initial Investment</b>	Two of the most common questions asked by franchisees are how much is the initial investment for the franchise and what are the estimated sales and financial projections.



## Fees and Costs

*Table 8.4 Estimated Pre-Opening Costs for a Franchise Restaurant*

Items	Estimated Costs
initial franchise fee	\$20,000
travel and lodging expenses during training	\$5,000-\$10,000
deposits for utilities, business licenses and sales tax	\$500-\$10,000
insurance, security deposits, and other prepaid expenses	\$3,000-\$5,000
initial inventory required for operation (food and supplies)	\$10,000
costs for labor (crew and management) food, and training	\$10,000
uniforms	\$3,000
professional fees	\$10,000
advertising (grand opening)	\$5,000-\$10,000
miscellaneous expenses	\$3,000
<b>TOTAL ESTIMATED PRE-OPENING COSTS</b>	<b>\$69,500-\$91,000</b>

## Example Costs

Restaurant	Franchise Fees	Royalty Fees
Subway	\$15,000.00	8% weekly gross sales
McDonalds	\$45,000.00	4% monthly gross sales
KFC	\$45,000.00	5% monthly gross sales
Papa Johns	\$25,000.00	5% monthly net sales
Jack in the Box	\$50,000.00	5% gross sales
Popeyes	\$35,000.00	5% gross sales
Jimmy John's	\$35,000.00	6% weekly
Auntie Anne's	\$30,000.00	7%
Jamba Juice	\$25,000.00	5.5% (4+stores) or 6%(3 or less)
Hardee's	\$25,000.00	4% gross sales
Church's Chicken	\$15,000.00	5% gross sales
Einstein Bros. Bagels	\$35,000.00	5% gross sales

**Table 8.6 An Example  
of Franchise Fees and  
Royalty Payments**



# **FRANCHISOR – FRANCHISEE RELATIONSHIPS**

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Chapter 9

***“Wendy’s started franchising in 1971 and we have more than 400 franchisees worldwide. Our franchisees have many opportunities to succeed by operating a multi-million dollar business, owning real estate and operating restaurants in non-traditional locations. We have a very strong company and franchise culture. Some franchisees have been in the Wendy’s family for many years, and have passed their business on to their children. This second generation of franchisees is carrying on the same tradition and focus on quality that makes Wendy’s the leader it is today.”***



**- Kris Kaffenbarger, Senior Vice President, Wendy’s  
Business Development.**

## Questions to ask Prospective Franchisees

As in any interview process the evaluation is a two-way process. Franchisees are also evaluating the franchisors.

1. Will you be willing to devote full time to restaurant business?
2. Will you be working as an absentee franchisee?
3. Do you know that running a restaurant requires long hours of work?
4. Do you realize that you may not be able to make profit in the first few years or even more?
5. Do you know that there is no guarantee that the business will profit?
6. Do you mind working during the weekends?
7. Do you understand the symbiotic relationship of a franchise system?
8. Do you clearly understand the difference between royalty and franchise fees?
9. Do you understand the differences between gross profit and net profit?
10. Are you clear on the amount of fees required and payable to the franchisor?
11. Do you clearly understand that all requirements have to be as agreed upon with the franchisor?
12. Do you know about the inspection and quality control procedures?
13. Are you willing to work with the community where the franchise units will be located?

*Table 9.1*

## Questions to ask Prospective Franchisees

(Continued)

14. Do you understand all the legal implications of running a franchise business?
15. Will you be willing to undergo hands-on training in one of our restaurants?
16. Do you understand renewal and termination policies?
17. Do you understand that any personal life changes such as illness, divorce, and other family issues can have an impact on the relationship?
18. Do you understand that the economy can influence the business positively or negatively?
19. Are you clear on the purchasing policy set by the franchisor?
20. Do you agree with the training requirements and participation needs?
21. Do you understand that although you may use the trademark, trade dress, and brand name for the duration of the contract, you do not own them?
22. Do you understand that franchising is based on expansion and do you have the will and interest to expand business as required by the agreement?
23. Do you understand that franchise system requires “give and take” to achieve a “win-win situation?”
24. Are you willing and interested additional responsibilities as and when it becomes necessary?

*Table 9.1 (Continued)*

# Understanding how franchising works

- ❑ The clear understanding as to how franchising works will eliminate a lot of friction and understanding at a later stage. Exaggerated expressions and pressures from franchisors may sometimes lead to development of false expectations by franchisees.
- ❑ In essence solid relationships are based on understanding of all of the abovementioned facts as well as respecting each other's contribution to the success of the franchise system.

# Franchisee Concerns

## Problem

- ❑ Franchisors are making all the money while franchisees are doing all the work.
- ❑ Franchisors are not providing ongoing services that were promised prior to signing the franchise agreement and that were provided during the opening of the franchise.
- ❑ Purchasing requirements are unreasonable, and franchisors are making more profits than necessary by imposing these requirements.
- ❑ Advertising fees are unreasonable. Advertising and promotions are of little or no advantage to the franchisee.
- ❑ Franchisors standards and inspection procedures are unreasonable.
- ❑ Franchisors accept franchisees who are not qualified and not investigated thoroughly prior to signing the agreement.



# Franchisee Concerns

## Problem

- ❑ Franchisor tries to expand too quickly and the system cannot handle the strain.
- ❑ Operating procedures are not clear to the franchisees and many questions are not clearly answered even after months of the restaurant being in operation. The franchisor's representative is not available when needed.
- ❑ Franchisor's responsibilities are not clear. The franchisor seems to have more control and sense of ownership of the franchisee's business than desirable.
- ❑ The expectations of the franchisees were not met by the franchisor, either intentionally or unintentionally
- ❑ Territorial rights are unfair and lead to unfair competition.

# Franchisee Concerns

## Problem

- ❑ Falloff in profits blamed by the franchisees on franchisors.
- ❑ Franchisor gets distracted by other things and franchisees feel abandoned.
- ❑ The franchisor's training program is inadequate and the follow-up training is insufficient.
- ❑ Franchisor's termination and renewal clauses are unreasonable and biased toward the franchisor.
- ❑ Franchisees do not perceive the franchise concept as distinctive enough
- ❑ Franchisor fails to be innovative and does not change to suit consumer trends.
- ❑ Franchisor does not want to change and is unwilling to accept new systems.

# Franchisee Advisory Councils (FAC)

Considering the fragile nature of the relationship, many franchisors are setting up Franchisee Advisory Councils. FAC council members are selected or elected groups of franchisees, who are in touch with the ongoing business.

# Dispute Resolutions

## Negotiation

- This is the first step that can be used for dispute resolution.
- Negotiation is dispute resolution among two parties without the intervention of third parties.

## Mediation

- This is a method of resolving dispute between two parties with the assistance of a mutually selected neutral third party

## Arbitration

- The nature of some disputes that need arbitration such as cases where franchisee is not willing to adhere to the copy or trademark protection or when the impact of the resultant resolution may have an impact on the entire franchise system.

*Fig 9.2 Showing Steps that can be taken to develop sound relationship*

**Arrange for meetings  
at frequent intervals  
with franchisees**

**Recognize, reward,  
and motivate  
franchisees who  
perform well**

**Include information  
about the importance  
of relationship and  
what steps are or will  
be undertaken**

**During the interview  
emphasize the  
importance of  
relationship**

**Make sure that there  
is clear  
understanding of the  
organizational  
culture**

**Field Support  
personnel should  
know and develop  
sound relationship**



# **FRANCHISE CONCEPT DEVELOPMENT**

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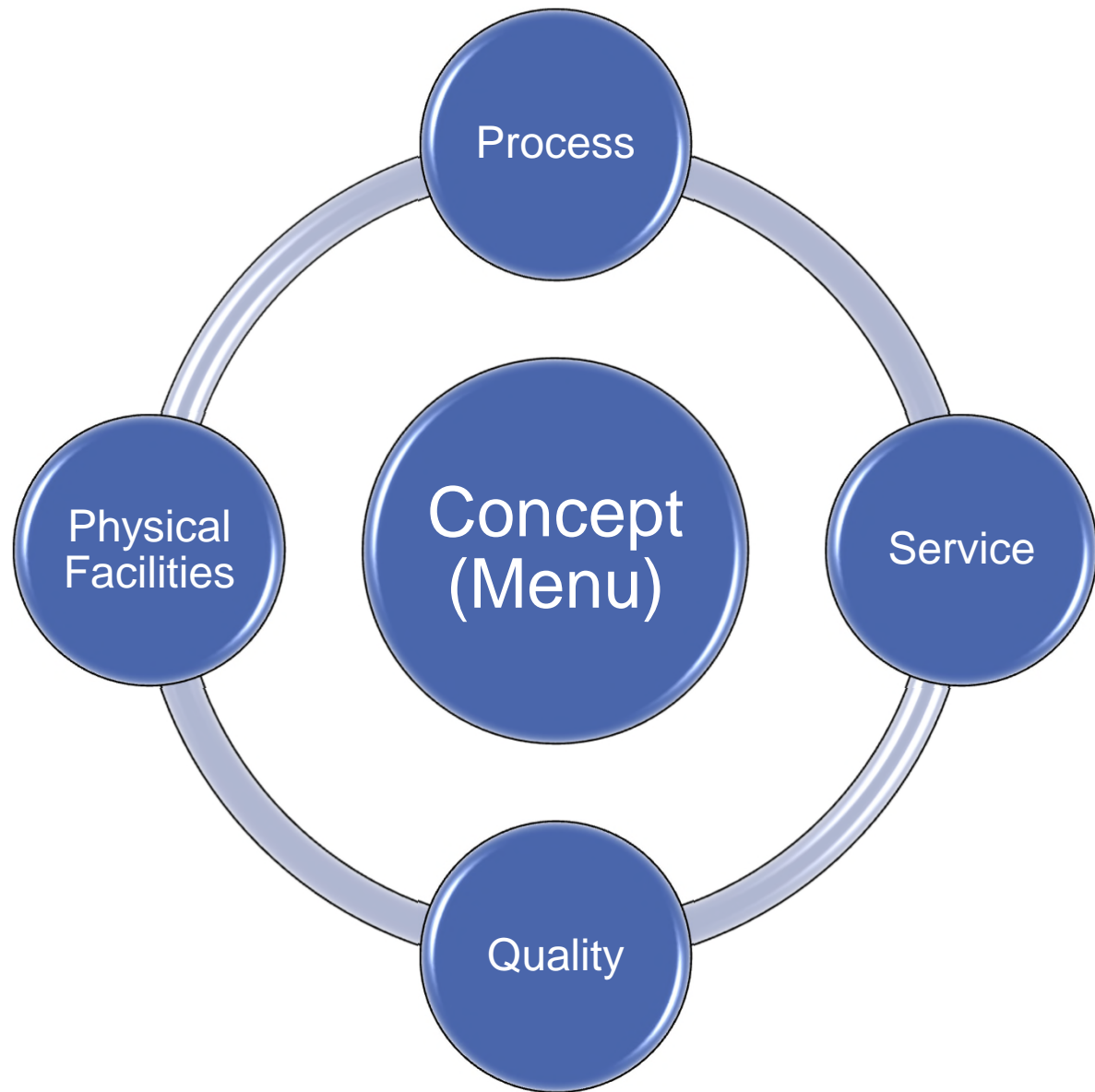
Chapter 10

***“Franchising has been the way for hundreds of our team members to achieve their dream of owning their own business. Ninety percent of our U.S. store owners started their careers as pizza delivery drivers or at in-store positions. We provide the power of the “brand,” but they provide the important stuff: time, commitment, energy, and the “owner’s eye” on the front of the shop, where customers are served.”***



**- Patrick Doyle, Domino's Pizza CEO**

## Restaurant Concepts



*Figure 10.1 Aspects  
Involved in Menu  
Concepts*



## Successful Restaurant Concepts for Franchising

**Simplicity**

**Replication  
Capability**

**Ready  
Availability**

**Quality**

**Serviceability**

*Fig 10.2 Components of  
a Successful Menu  
Concept*

# Food Characteristics

- ☐ Color
- ☐ Texture and Shape
- ☐ Consistency
- ☐ Flavor
- ☐ Preparation Method
- ☐ Serving Temperature
- ☐ Presentation
- ☐ Nutritional quality
- ☐ Food Preference
- ☐ Packaging and Delivery
- ☐ Cost-Effectiveness

## RECIPE TESTING AND STANDARDIZATION

Recipes that are tested for quality Recipes that are tested for quality, quantity, procedures, time, temperature, equipment, and yield are called ***standardized recipes***.

# Layout and Physical Facilities

**Receiving Area**

**Storage Areas**

- **Dry Storage Areas**
- **Refrigerated Storage Areas**
- **Frozen Storage Areas**

**Sanitation Area**

## Example

Picture showing  
chicken processing for  
use in a quick service  
restaurant



*(Photo Courtesy Aquat  
Food Industries, Saudi  
Arabia)*

# Layout and Physical Facilities

## Equipment Selection and Layout

- **Need and Cost**
- **Functional Attributes**
- **Sanitation and Safety**
- **Size, Appearance, and Design**
- **Overall Performance**

# Layout and Physical Facilities

## Planning the Overall Atmosphere

- **Appearance**
  - **Color, Odor, Sound, comfort**
- **Service**
- **Marketability**
- **Management**

# Prototype Unit

A new, tested concept ready for business should be placed in pilot operation. This prototype should be conveniently located and portray the entire concept in its entirety. There can be more than one prototype units distributed at various geographical locations. Consumer reactions to products and services can be tested at prototype locations. All attributes mentioned in this chapter should be considered in planning this prototype unit, which also becomes a model for showing to prospective franchisees. It can also be used for hands-on training of franchisees.

# Domino's Pizza Restaurant: Las Vegas, Nevada



*(Photo courtesy of Domino's Pizza)*





# **SITE SELECTION AND REAL ESTATE**

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Chapter 11

# Site Selection and Restaurant Design

The first step in building a restaurant is its location. Site selection is important because the success or failure of a restaurant depends to a great extent on its location.



After the site selection, the design of the restaurant is the next important matter. Design services are provided by franchisors, as described in the franchise package and information brochures given to potential franchisees.



The complete package, including site selection, building design, interior layout, and décor, is what makes franchising so attractive to potential franchisees.

# Geographic Distribution of Franchises

## Factors Considered in Site Analysis

### 1. Demographics

- Total number
- Age, gender, and ethnicity
- Employment status
- Household size
- Life cycle stage
- Education level
- Housing characteristics
- Psychographic/Lifestyle segmentation
- Income/total wealth
- Population density
- Population trends (growing, static, shrinking, changing)

# Geographic Distribution of Franchises

## Factors Considered in Site Analysis

### 2. Physical Characteristics

- Zoning
- Area Characteristics
- Physical Characteristics
- Building Configuration
- Cost Consideration
- Utilities
- Access
- Position of Site
- Traffic Information
- Availability of Services
- Visibility
- Competition
- Market
- Type of Restaurant and Service

# Geographic Distribution of Franchises

## Factors Considered in Site Analysis

### 3. Activity Generators

- Activity generators refer to those locations which can create a flow of people and traffic due to their location or activities.

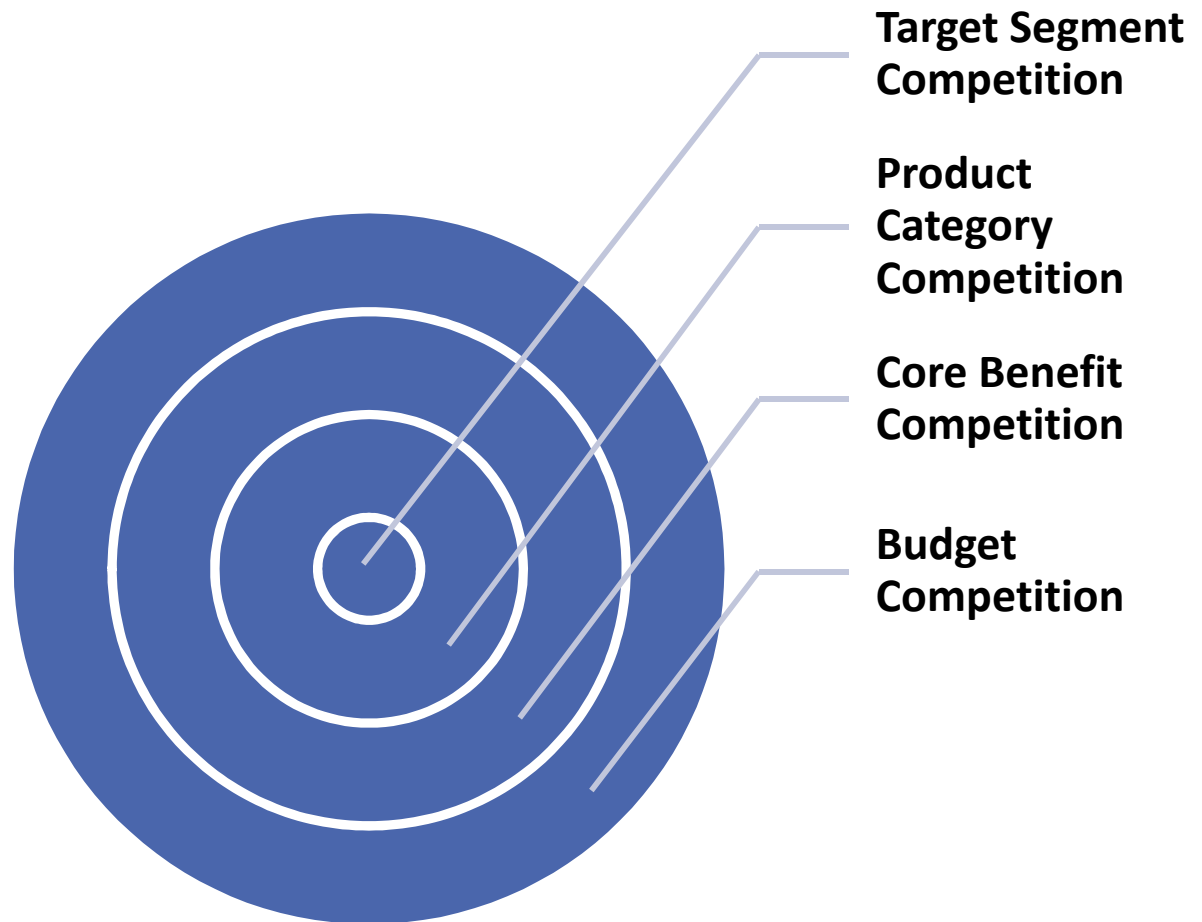
# Geographic Distribution of Franchises

## Factors Considered in Site Analysis

### 4. Competition

- Target segment
- Product category competition
- Core benefit competition
- Budget competition

# Competition



*Figure 11.1 Different types of competition*

# Restaurant Design: Important Factors to be Considered

The following points must be considered in designing a restaurant:

- ☐ The exterior should be inviting and present the signage of the franchise.
- ☐ Exterior portions and entry to the restaurant must be neat, clean, and, possibly, artistically designed.
- ☐ Drive-in facilities must be well planned and should not lead to traffic congestion or jeopardize the safety of the customers.



# Restaurant Design: Important Factors to be Considered (continued)

- ❑ The receiving area should be located away from and preferably out of sight of the main guest entrance or dining areas.
- ❑ Storage areas should be neatly arranged and as close to the kitchen area as possible.
- ❑ All equipment should be located based on the importance and priority of each function.

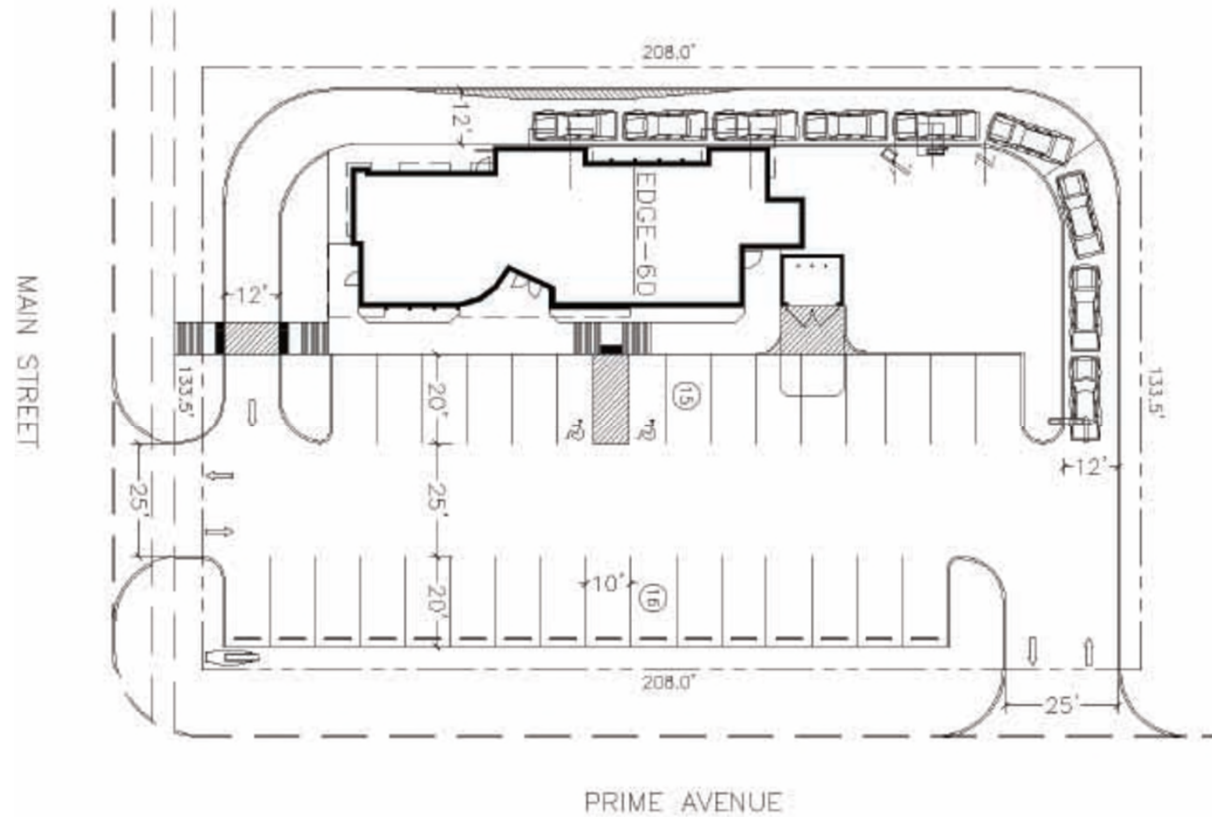
# Restaurant Design: Important Factors to be Considered (continued)

- ❑ Safety of the employees must be considered in placing and operating equipment.
- ❑ The sanitation area and facility must be within reach of all employees.
- ❑ Primary and secondary colors must be effectively combined to provide a lighted, relaxing atmosphere within the restaurant.

# Restaurant Design: Important Factors to be Considered (continued)

- ❑ Comfort of the patrons in relation to the inside temperature, sound, seating, and odor level must be carefully planned.
- ❑ The design and décor must be well coordinated. It is also desirable to have a theme around which the restaurant is planned.

## Site Selection



*Fig 11.2. Typical Site for a Burger King restaurant in the United States.*



# **NONTRADITIONAL FRANCHISES**

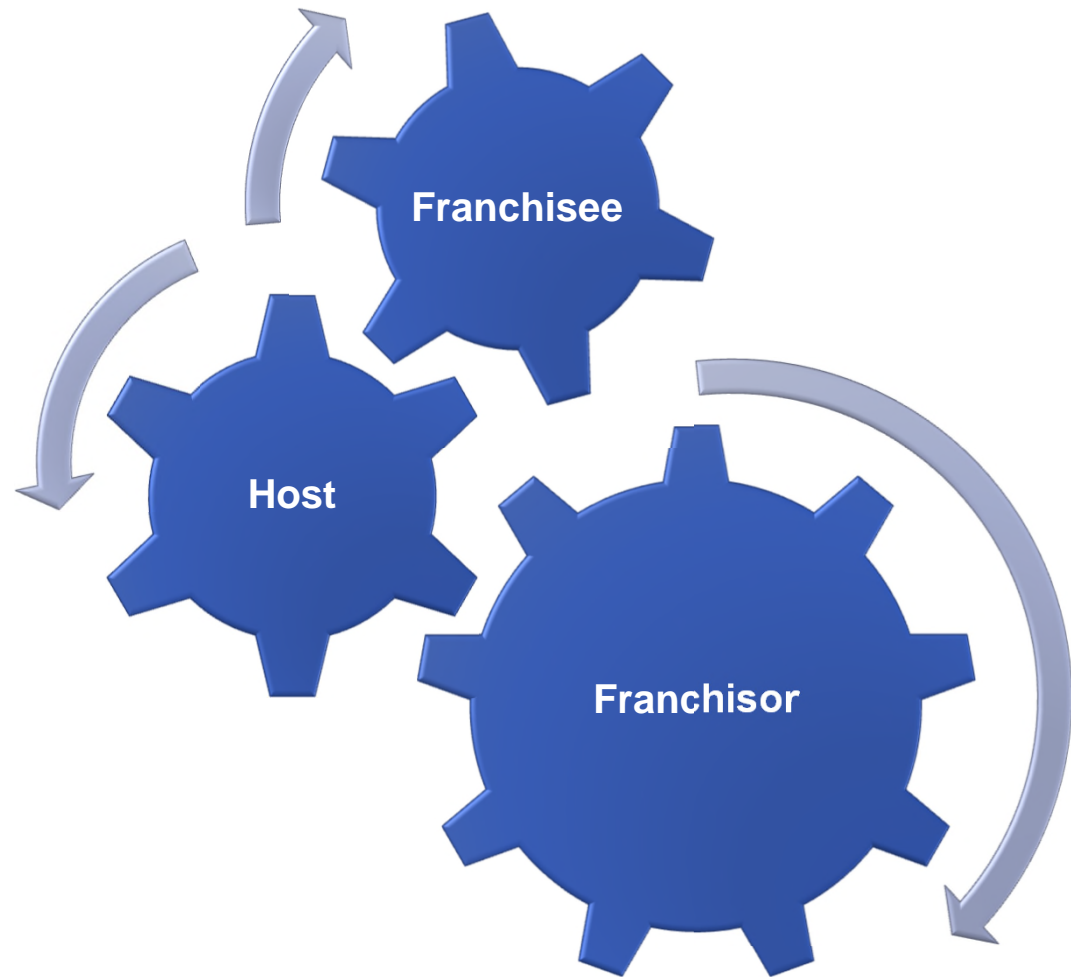
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Chapter 12

***“We believe the airport offers a gateway, frankly, to the rest of the world,” IHOP CEO Julia Stewart said in an interview. “I can’t really think of a better place to start than in Atlanta.”***



## Relationships



*Figure 12.1 Relationships in  
Nontraditional Franchise  
situations*

## **Steps to Consider**

**Select the  
right host**

**Select the  
right  
franchisee**

**Modify the  
concept**

**Provide  
training**

**Consider  
expanding**

*Figure 12.2 Steps to be  
considered in  
nontraditional franchising*



# Type of Restaurant

Another way of classifying nontraditional restaurants is based on the type of restaurant, such as deli, bakery, kiosk, stands, coffee shop, and delivery service only.

- ☐ Coffee Shops
- ☐ Pretzels
- ☐ Bagels
- ☐ Take-out and Delivered Foods
- ☐ Kiosks

# Type of Menu

Nontraditional menu items can form another basis for classifying restaurants. Examples include restaurants that serve specialized or limited menus such as juice bars, tea and coffee shops, ice cream and yogurt shops, potato bars, and vegetarian food outlets.

# Advantages of Nontraditional Franchises

- ❑ The building of the restaurant is quicker and easier because there is an existing facility
- ❑ There are already existing customers whose primary purpose may be different than buying foods, such as in retail stores and gas stations.
- ❑ Because there is always a host, nontraditional franchises piggyback on many business elements such as space, utilities, insurance, and infrastructure.
- ❑ There can be shared labor in some places where host employees can help in simultaneously working for the businesses.

# Advantages of Nontraditional Franchises (continued)

- ❑ Safety is considered as one of the major benefits of the nontraditional franchise. Restaurants in the midst of other retail establishments with lighted facilities and large numbers of people are less likely to be targets of crime.
- ❑ From the franchisee's point of view, the franchise fee for nontraditional franchises is much lower than for others.
- ❑ Nontraditional franchises are cost-effective.
- ❑ It is easier to get financing because the amount and risk involved are considerably less for nontraditional franchises.
- ❑ Advertising and promotion costs are drastically reduced, as there is a customer base already visiting the location.

# Advantages of Nontraditional Franchises (continued)

- ❑ Rental costs or financing for building a restaurant prohibits many interested parties from inventing in such venture.
- ❑ The management of restaurants is much easier with the reduced staff and operational activities; thus, labor and operational costs are greatly reduced.
- ❑ Innovative merchandising techniques can be used, such as displaying food preparation through glass peek-in windows, venting the aroma of baked goods to attract consumers, providing food samples to the consumers, flashing electronic messages, providing specials hours when items are discounted, and using a public address system for advertising.

# Advantages of Nontraditional Franchises (continued)

- ❑ Because many of the nontraditional franchises do not provide seating, costs for purchasing, cleanup, and maintenance are considerably reduced.
- ❑ Specialized menu items designed for carrying out can be developed. This lends to innovation and creativity, which, many franchisees miss in traditional operations.
- ❑ Parking facilities, handicap access facilities, and the need to provide restrooms are major expenses for traditional restaurants that are practically eliminated when a host has already taken care of them.

# Advantages of Nontraditional Franchises (continued)

- ❑ Consumers who are loyal to a brand can conveniently find their favorite food without having to drive to the location for the sole purpose of buying food.
- ❑ Non-traditional locations increase brand recognition outside traditional avenues.
- ❑ Based on the location, nontraditional franchises can reach specific target population with different specialization.
- ❑ Non-traditional franchises also provide an opportunity to franchisor to test market concepts or new menu items, without incurring heavy expenses.
- ❑ Finally non-traditional franchising provides a competitive edge being first to be associated with hosts and getting the first mover advantage.

# Disadvantages of Nontraditional Franchises (continued)

- ❑ Because of the scaled-down operation, there are limited choices of menu items available in these restaurants.
- ❑ Most of the nontraditional franchises are located in heavily traveled areas.
- ❑ Due to the lack of sufficient equipment, space, and labor, the quality of food may be adversely affected.
- ❑ Franchisees of traditional restaurants may find themselves at a disadvantage if they encounter unfair competition from within by new nontraditional franchises close to their location.



# Disadvantages of Nontraditional Franchises (continued)

- ❑ Because of the symbiotic relationship with the host, much depends on the health of its business. If traffic diminishes, the restaurant also suffers.
- ❑ Franchisors may be judged by the company they keep. The decision pertaining to the selection of a location has to be taken very carefully.
- ❑ One of the advantages of nontraditional franchises mentioned earlier is the sharing of labor that can take place at host site.
- ❑ Customers expect the same level of service they associate with the brand name of a franchise, whether the venue is traditional or nontraditional.

# Disadvantages of Nontraditional Franchises (continued)

- ❑ The lack of dining experience, seating, and supplies may turn off loyal customers.
- ❑ Due to the lack of storage facilities, the likelihood of running out of supplies and food is great.
- ❑ The contract with the host must be carefully examined. An increase in lease payments or short-term termination can affect the restaurant business.
- ❑ There are chances of increased competition where more than one branded or non-branded restaurants are present at the same location.



# **COMMUNICATIONS AND PUBLIC RELATIONS**

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## Chapter 13

# Communication

Communications are means by which a sender attempts to inform, persuade and remind about something for which a direct or indirect response or change is intended. Franchisors are in constant communication with franchisees and vice versa.

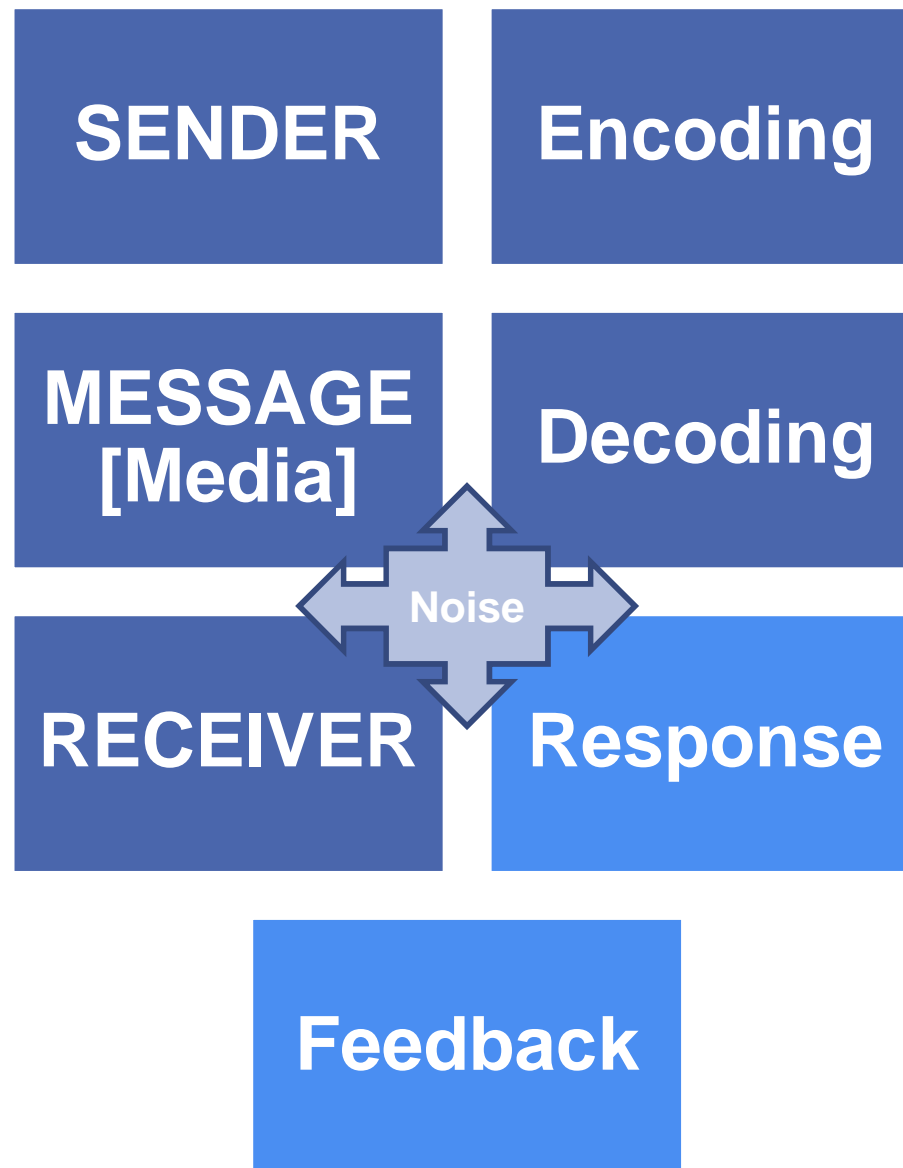


Figure 13.1. Elements in the Communications Process

## Communication

**Select Target Audience**  
**[Franchisees]**

**Determine Objectives**  
**[Information, procedures,  
training, etc.]**

**Select Media**  
**[Oral, written, online,  
audio-visual aids, etc.]**

**Measure Results and  
Assess Response**

*Figure 13.2. Steps involved  
in developing and sending  
communication*

# Effective Communication

This is an era of electronic communication, where online communication has become a necessary part of daily activities. It is being used profusely for personal as well as organizational communication.

# The Importance of Accuracy in Communication

Transmitting clear, precise and accurate messages are extremely important in the success of any communication. For a variety of reasons, even a well planned communication at times may get misinterpreted very easily. It should be noted that words do not necessarily carry intended meaning in themselves and words have different meaning for different people. Both the sender and the receiver should be on the same wavelength for the communication to be effective.

# Barriers to Effective Communication

## **Filtering**

Filtering is the deliberate manipulation of the communicated information to please the receiver(s).

## **Selective Perception**

Selective Perception refers to situations when people selectively interpret communicated information based on their interests, background, experience, feelings, and attitude.

## **Emotions**

Receiver's emotions also have an impact on the decoding of messages. The state of mind, happiness, sadness, denial, all may become barriers to effective communication.

## **Tendency to Evaluate**

The eventual tendency to evaluate messages itself becomes a barrier to communication.



# Barriers to Effective Communication

## **Information Overload**

If the information exceeds the parameters of processing capacity of the receiver, an overload occurs.

## **Defensiveness**

Under certain situations of threats, blame, accountability, prejudice, or pride, individuals may become defensive.

## **Language and Culture**

Language and culture have a major impact on the effectiveness of any communication.

# Barriers to Effective Communication

## **Supportive Communication**

Supportive communication is communication that seeks to preserve a positive relationship between the communicators while still addressing the problem at hand.

## **Supportive communication...**

- ☐ is problem-oriented, not person oriented.
- ☐ is based on congruence, not incongruence.
- ☐ is descriptive and not evaluative.
- ☐ validates rather than invalidates individuals.
- ☐ specific (useful), not global (nonuseful).
- ☐ is conjunctive and not disjunctive.
- ☐ is owned, not disowned.
- ☐ requires listening, not one-way message delivery.

# Communication and Information Technology



# Intercultural Communication

Intercultural communication linkages can occur at three different levels:

## Intra-organizational relationships

- The intra-organizational relationships deal with communication that is related with subjects within the organization such as franchisors to franchisees.

## Inter-organizational

- This relationship deals with external relationships between organizations, such as between members in a channel of distribution.

## Organization-to-Customer

- In any type of service organization, this relationship is of paramount importance.

# Crisis Communication

- ❑ A crisis is a major occurrence with a potentially negative outcome affecting an organization, company, or industry, as well as its publics, products, services, or brand image.
- ❑ A crisis is a disruption that physically affects a system as a whole and threatens its existence.
- ❑ A crisis is a major, unpredictable event that has potentially negative results. It is a low-probability, high-impact event that threatens the viability of the organization and is characterized by ambiguity of cause and effect.

# Public Relations

- ☐ Press releases and media relations
- ☐ Lobbying

# Community Involvement

- ❑ Involvement in community forms an essential component of success of a franchise organization. Actually involvement in community should stem from the mission and goals of a corporation.
- ❑ It has proven time and again that community involvement is helpful in building brand and company image as well as acceptance of the franchise.
- ❑ A creative approach with unselfish motive brings considerable benefits. Projects and activities should be carefully selected aligning interests with the inhabitants of the community.
- ❑ Building positive image and loyal customers by community involvement may prove to be more effective than advertisement and promotion.



# **INTERNATIONAL FRANCHISING**

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Chapter 14



***“ALBAIK has been built on hard work and dedication to the single objective of providing successive generations of loyal customers with high quality chicken and seafood meals, served fast and courteously, in a clean and inviting environment and at the best value for money. Today I am proud to say there are more than 50 ALBAIK restaurants, and with a commitment to being wherever our customers need us we shall continue to expand.”***

**-Ihsan AbuGhazalah, Chairman, ALBAIK Restaurants.**



# Introduction

Franchising in the international market is expanding rapidly; in particular, restaurant franchises have seen a tremendous increase in recent years. American restaurant franchises are now prevalent in almost every corner of the world

# Factors Related to International Expansion

## ❑ Expanded Market

## ❑ Economic and Demographic Trends

- Increased educational levels of local populations round the world
- Technological advancement
- increased willingness of the younger generation to try new products and unconventional types of foods.
- Rapid development of rural areas and the concentration of population in urban and industrial areas
- With the economic growth comes an increase in the available disposable income of the families.
- With all the industrial development occurring around the world, women have entered the workforce in a considerably large numbers.
- There is an increased emphasis on convenience

# Factors Related to International Expansion (continued)

- ☐ Increased Travel and Tourism
- ☐ Quality of Products and Services
- ☐ Technological Advancement
- ☐ Business Management
- ☐ Political Climate

## Expanded Market

Examples of how Coke and Pepsi branded their cans with local restaurant.



*(Photo courtesy Albaik Restaurants)*

# Points to Consider in International Franchising

- ☐ **Political Environment and Legal Considerations**
- ☐ **Language, Culture and Traditions**
- ☐ **Menu Items and Service**
- ☐ **Demographic and Economic Data**
- ☐ **Availability of Resources**
- ☐ **Technology Transfer**



# GOING INTERNATIONAL

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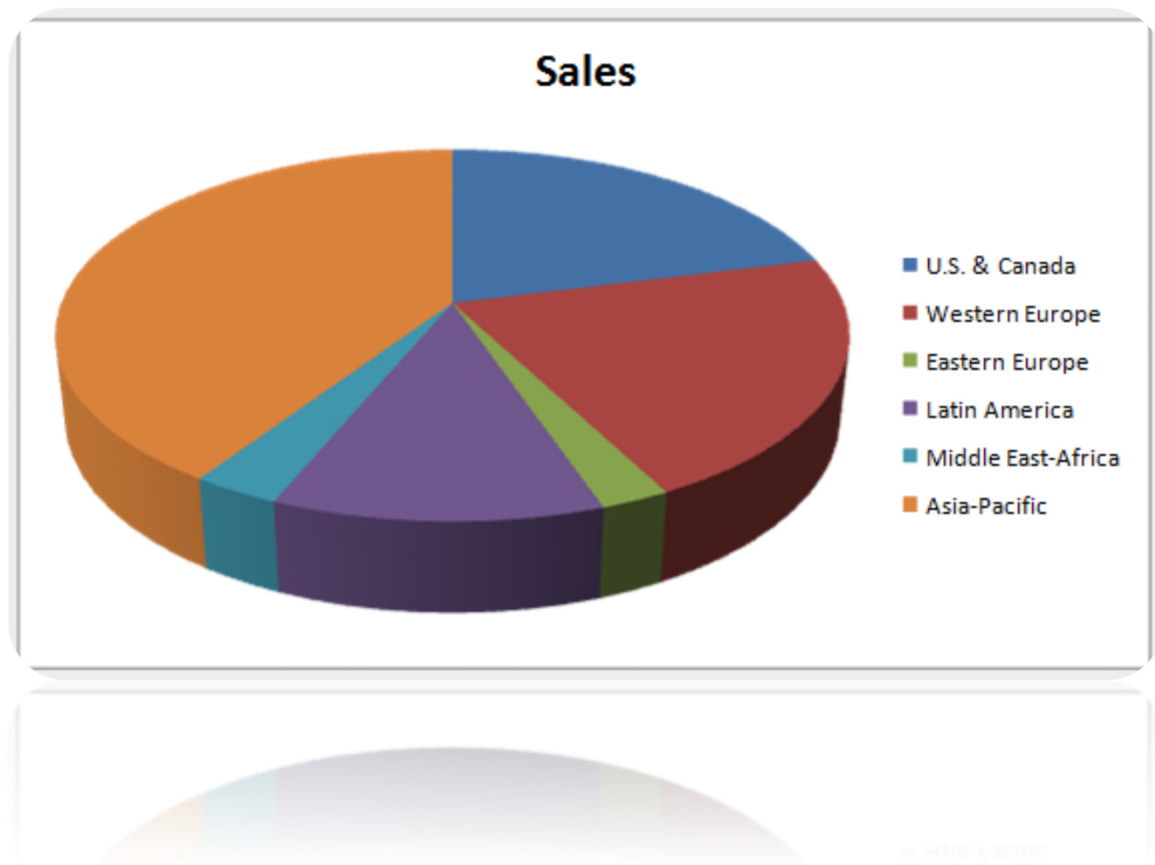
## Chapter 15

# Introduction

Before going international one has to consider the benefits, risks, challenges, and opportunities. Corporations that have entered international market encounter different and unique situations.

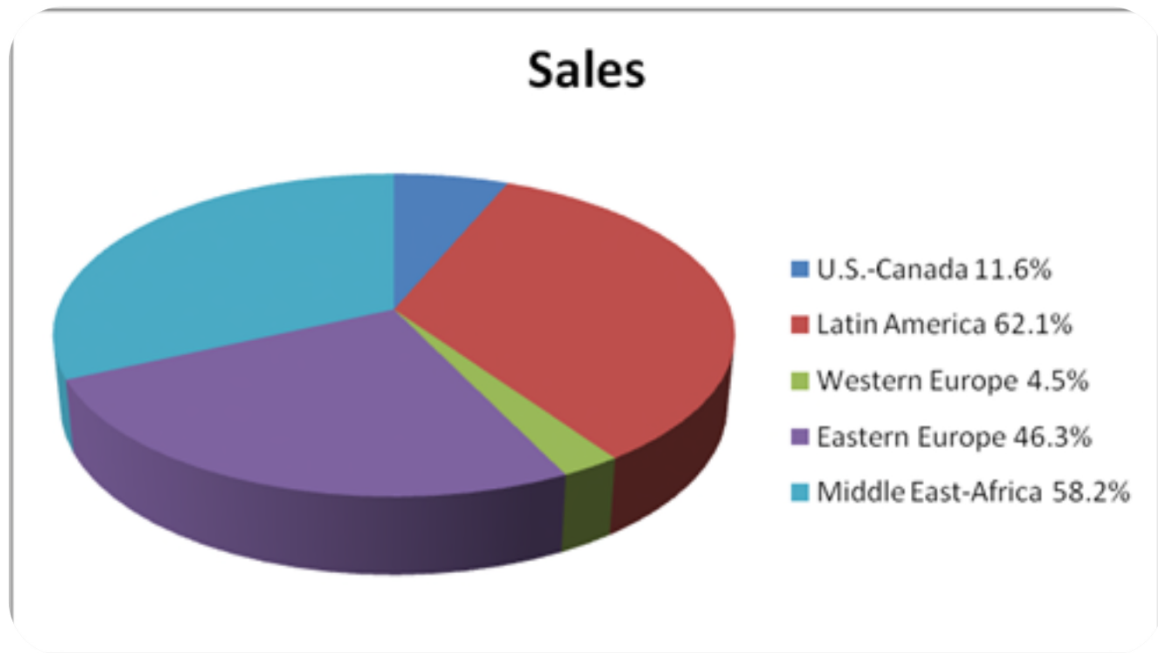


# Sales



*Figure 15.1. International Foodservice Sales (drawn from data) Courtesy Nation's Restaurant News.*

## Sales



*Figure 15.2. International Foodservice Projected Sales till 2017 (drawn from data)*  
Courtesy Nation's Restaurant News

# Reasons for Going International

- ❑ The basic feature of franchising is expansion. Going international provides an opportunity for developing new markets.
- ❑ The increased number of units will add to the income for the franchisors which will also increase with new outlets.
- ❑ With the increase in the revenue the franchisor's corporation will be considered favorably by the investors and share holders.
- ❑ If the home market is saturated, international franchising provides a new venue for growth and development.
- ❑ Since the franchising system has been developed and established, it will be easier to move it internationally.

# Reasons for Going International (continued)

- ❑ Entry into the foreign markets will provide exposure to the brand as well as help in expansion in nearby areas.
- ❑ If there is no competitor in the international country, the franchisor will benefit from the “first-mover advantage.”
- ❑ Getting involved in international businesses increases the brand value thereby increasing the shareholder value.
- ❑ Franchisors invest considerably in developing a concept as well as in the ongoing research and development.
- ❑ Franchises which have gone international enter into a different category, thus having a competitive advantage in the domestic market.

# Points to Consider in International Franchising

- ❑ Before entering an international market, the higher level administrators within the corporation, should be convinced and fully supportive of going to an outside market.
- ❑ Prospective international franchisees should be capable, intellectually and professionally prepared to learn the procedures and other business methods practiced by the franchisor.
- ❑ Required resources should be available for the development of the franchising concept.
- ❑ There should be enough talents, skills, and required technology to showcase and use in the selected foreign market.
- ❑ The method of franchising should be clear in the minds of the prospective franchisees.
- ❑ Local businesspeople should be involved in decision making, planning, and the operation of a franchise.

# Points to Consider in International Franchising (continued)

- ❑ Local population's preferences, food habits, and cultural norms should be considered in planning menus and other related facilities.
- ❑ Franchisors should be sensitive to the needs of the local population and be respectful of their beliefs and practices, both political and religious.
- ❑ Patience and tolerance is needed to follow the required legal steps with as little challenge to prevalent rules and regulations as possible.
- ❑ Franchisors should conduct a good environmental scan, taking into consideration social, political, and economic circumstances of the country.

# Points to Consider in International Franchising (continued)

- ❑ A close examination of the foreign currency exchange situation and the amount of the money allowed in and out of the country is necessary.
- ❑ Consideration should be given to demographic and financial information such as the per capita gross domestic product and the target population in the country.
- ❑ The availability of experienced people, with good knowledge of local businesses, prior to and after entering a foreign market is very important.
- ❑ The demographic data of a country should be considered carefully, with emphasis on the emerging population that can be classified in the middle income and relatively younger age groups.
- ❑ Select menu choices carefully and be flexible and be prepared for menu adaptations and modifications.

# Points to Consider in International Franchising (continued)

- ❑ Consider the competitive advantage by going into a foreign market. Also assess the current and future market competitiveness.
- ❑ Transferability of the operation, training methods, support system, and concept marketability should be assessed.
- ❑ Evaluate intellectual property security, which varies from country to country. Protection of trademark, operational procedures, and other legal aspects should be taken into consideration.
- ❑ A good record of success in the domestic or international market, as evident by franchise documents and other records.
- ❑ A country specific trademark and copyright application should be submitted and approved prior to entering any country. This is one of the most important considerations.



# Pitfalls and Common Mistakes

- ❑ Making decisions based solely on the information available on network sites. Information provided may not be pertinent or applicable for the franchise concept.
- ❑ Lack of clear plan and strategy for conducting business in the selected country.
- ❑ Following other similar franchise concepts without conducting careful research. Cultural challenges, even national origin or company logos can have an impact on the acceptability of a franchise.
- ❑ Assuming popularity based on local cultural and food habits. For example, a well known franchise offering fish sandwiches assumed success in a fish eating population in Southeast Asia. However, it was not considered that the population did not care for frozen cod fillet when fresh fish is available easily.
- ❑ Failing to register trademark and other intellectual properties. Established franchisors had to face long legal battles to protect trademark and trade secrets.

# Pitfalls and Common Mistakes (continued)

- ❑ Not checking background of prospective franchises and/or relying on verbal financial commitment. Also relying on the current business performance of the franchisees in non-restaurant business.
- ❑ Conducting business solely on phone or after a preliminary visit to the country. Things are very fluid in some countries and one visit may not be sufficient to plan entry.
- ❑ Not realizing the infrastructure and availability of facilities. For example, in some countries electric and water supply is not available all the time.
- ❑ Failing to check credentials of the prospective franchisees or master franchisee as well as getting firm commitment based on country specific laws.

# Expansion Strategy

## ***Market penetration***

- Involves getting into a market either to get a market share or establishing presence.

## ***Market Development***

- Entails developing a market either entering alone or with partnership with a local business.

## ***Product Development***

- Strategy involves developing products for a selected market considering consumer preferences.

## ***Diversification***

- Strategy deals with developing new products for the new market

# Methods and Mode of Entry

## Direct Franchising

Direct Unit Franchising

Establishing a Branch.

Development Agreement

- Effective enforcement of and compliance with company's standards
- Control of brand penetration and brand image
- Greater control over franchisees
- Size of proposed country
- Low resources commitment by franchisors
- Significant differences in language, culture, and legal system
- No requirements for a franchisor to establish a branch or subsidiary
- Local tax issues

# Methods and Mode of Entry

## Master Franchising

Situations under which master franchising should be considered are listed as follows:

The ease to support the franchise system by master franchising.

Franchisors would like to expand at a relatively rapid pace.

Franchisors do not have to commit a considerable amount of capital.

The country or region being considered has significant and complex differences in language, culture, and legal systems.

There is a presence of qualified individuals who can run the business at least as well as the franchisors.

Local tax issues and political bureaucracy are complicated.

# Methods and Mode of Entry

## Joint Ventures

Situations for considering joint ventures are listed below:

When there are governmental restrictions on foreign investor ownership.

Opportunities exist that make use of the expertise and resources of the master franchisee.

When there is limited exposure to risk for retaining equity in the franchise business.

Widespread use of English in the prospective country or region.

# Decision-Making for International Franchising

## ❑ Assessment of Environmental Factors

## ❑ Patents, Trademarks, and Copyrights

- A **patent** is a formal legal document that gives an inventor the exclusive right to make, use, and sell an invention for a specified period of time. A **trademark** is a distinctive mark, motto, device, or emblem that a manufacturer affixes to a particular product or package to distinguish it from goods produced by other manufacturer. A **copyright** establishes ownership of a written, recorded, performed, or filmed creative work.

## ❑ Operational Issues

## ❑ Menu Strategy

# Decision-Making for International Franchising (continued)

## ❑ Pricing Strategy

*Skimming price* originates from the deliberate attempt to reach a market which is willing to pay a premium price.

*Penetration* pricing calls for setting price levels that are low enough to quickly gain the market share.

*Price bundling* which offers selected menu items and *value* pricing are common in restaurant business.

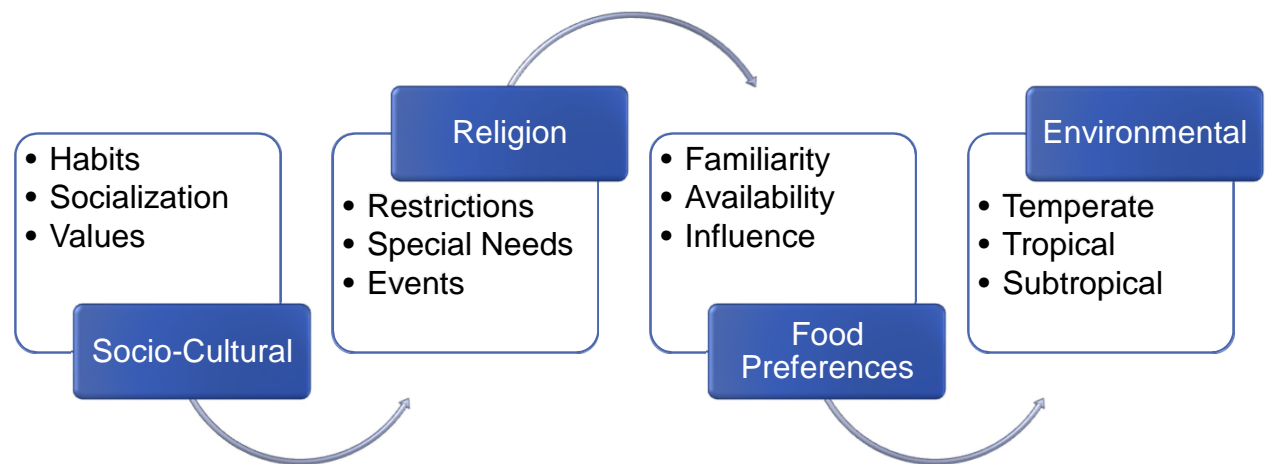
*Big Mac Index* which is based on the prices of Big Mac in different countries are used to compare Price parity as well as a rough estimate of the strength or weakness of a country's currency.



# Decision-Making for International Franchising (continued)

- ❑ **Currency Fluctuations**
- ❑ **Support and Services**

# Decision-Making



*Fig 15.5. Factors to be considered in menu planning and strategy*



# **MARKETING AND ADVERTISING: MANAGING BRAND EQUITY**

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Chapter 16

## The 7 P's of Marketing

Product

Place

Price

Promotion

People

Physical Evidence

Process

# Marketing and Franchise Systems

- ☐ **Physical Evidence and Customer Satisfaction**
- ☐ **Marketing Services**
- ☐ **Advertising**
- ☐ **Marketing Plan**

# Advertising and Promotion Media

- ☐ **Direct Mail**
- ☐ **Newspapers and Magazines**
- ☐ **Road Signs and Billboards**
- ☐ **Radio**
- ☐ **Television and Cable TV**
- ☐ **Public Relations and Publicity**

# Managing Brand Equity

**Brand** as defined by the American Marketing Association, is “a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.”

**Branding refers** to incorporating desirable attribute of a strong brand into the products or services designed by the franchisor.

**Brand equity** is a term used to show the value that is endowed in a product or service.

## Steps in Building Brand Equity

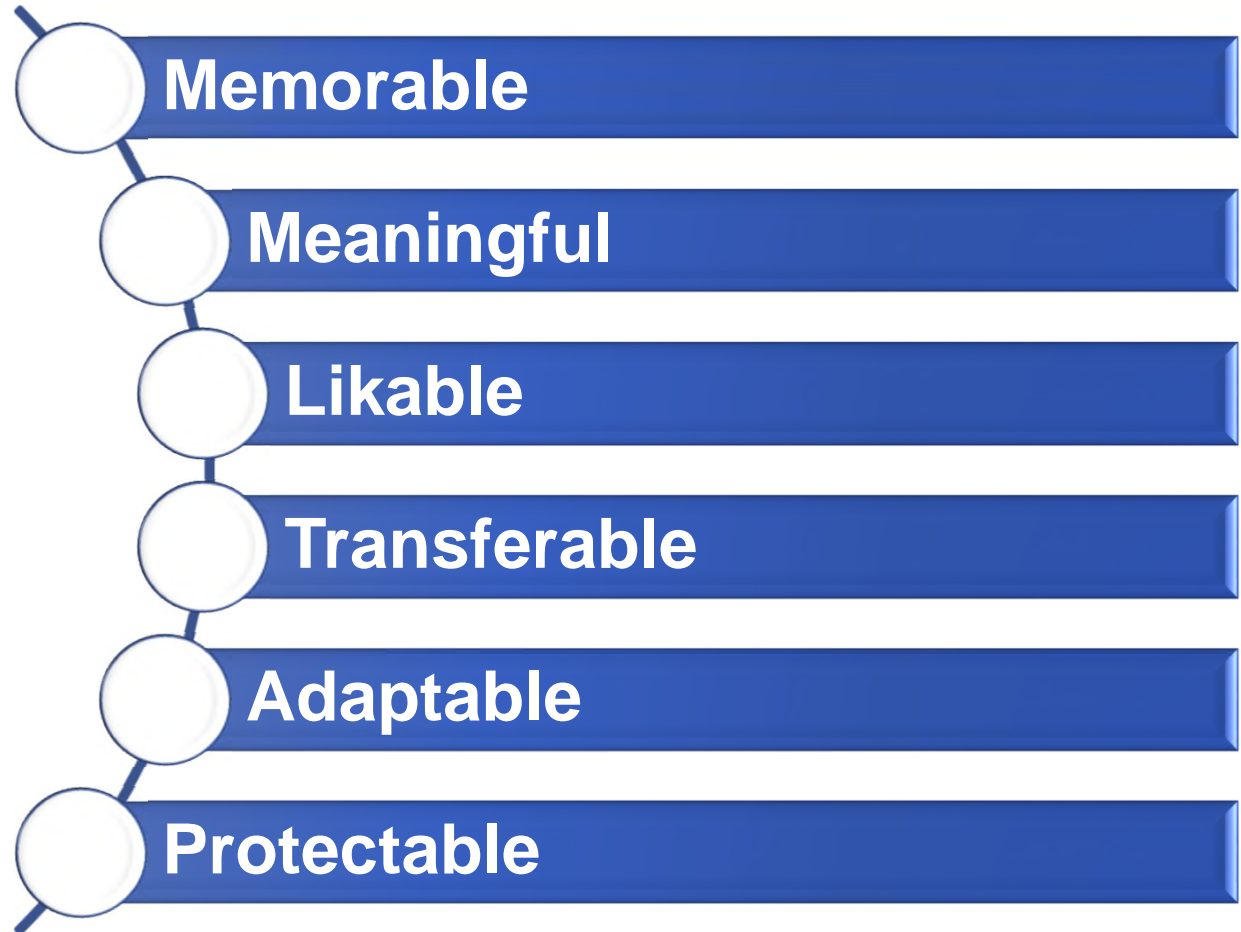
Franchisors and their marketers have a task of building brand equity principally by creating the right brand knowledge of the consumers. It can be initiated by corporations or by consumers. However a reputable franchisor will do their part in building brand equity.

- ❑ Discover some of the elements of the brand which are unique and will contribute to the brand knowledge of the consumer.
- ❑ Once that unique aspect(s) are identified then elements that contribute to the brand should be identified.
- ❑ Base marketing programs to convey the elements discovered as important for consumer knowledge.
- ❑ Find some other affiliated reasons which can be used indirectly to transfer the brand knowledge of the consumer



## Selecting Brand Elements

Although selecting brand elements is the responsibility of franchisor, it is listed here for franchisees to understand as to what constitute brand elements, which will also give idea about brand equity. As mentioned earlier brand elements are URL, logo, signs, jingles, slogans, characters, packaging or signage. These brand elements should be very carefully selected, particularly if the franchise plans to be operational globally. Marketers normally outline six criteria for choosing brand elements.





# **E-FRANCHISING**

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## Chapter 17

# Introduction and Definitions

It is evident that e-business has a prominent role in any type of business which has shown explosive growth which will change the way things are done in the near future as well as the foreseeable future.

Electronic communication can be referred to as a channel of communication used by franchisor or franchisee using information technology.

# Guidelines

**Anti-cybersquatting Consumer Protection Act (ACPA)**

**Uniform Domain Name Dispute Resolution Policy (UDRP)**

Considering all the legal aspects franchisors should plan agreements that takes into account issues that are created by technology.

- Web-based Linking
- Web-site Framing
- Meta-Tags

# Technology and Intellectual Property Rights

## Protecting property rights

- Trade Secrets
- Trademarks
- Patents
- Copyrights
- Online Privacy
- Webinars
- YouTube
- Blogging
- Podcasting

# Problems associated with e-commerce and franchising

- ❑ Territorial restrictions which were in use traditionally causes a problem during to the worldwide accessibility of the networks.
- ❑ The use of domain name and use of trademarks by franchisees becomes a complicated issue.
- ❑ Different countries have differing regulations as far as e-commerce is concerned
- ❑ A significant problem which was very prominent in the earlier days of internet usage was referred to as “Cybersquatting.”
- ❑ With so many social networks and internet discussion groups, franchises are vulnerable to negative comments or cybersmearing.
- ❑ Deep linking can let the visitor enter through other ways rather than through the home page.
- ❑ The problem with the use of virtual non-tangible internet sources is that it is difficult to justify intent or abuse by the offender.
- ❑ Use of trademarks or copyright symbols on home page does not necessarily mean that it is intended for all subsequent pages.

# Advantages and Application of Technology of Franchise Systems

- ❑ Information about franchises, application form, live chats, etc. on line can help in soliciting prospective franchisees.
- ❑ Voluminous materials such as Franchise Disclosure documents, agreement forms etc. can be saved and transferred using technology.
- ❑ Technology use can significantly reduce operating costs while increasing profitability. Even the elimination of manual processes and streamlining operations can save millions.
- ❑ Gross income and royalty reporting can be automated thereby reducing monthly paperwork involving time and materials. Other associated aspect is to use the electronic funds transfer system, which is very convenient, efficient and fast.

# Advantages and Application of Technology of Franchise Systems

- ❑ Business intelligence system can be used to trace any feedbacks on sales, use of products, consumer preferences, and all other related information.
- ❑ New product development and menu mixes can be developed based on customer feedback and sales.
- ❑ Comparative information regarding franchisee performance within the franchise system can be facilitated by using technology.
- ❑ Franchisor and franchisee relationship can be improved by efficient communication and collaboration. Timely information can be provided to franchisees as and when needed.



# Advantages and Application of Technology of Franchise Systems

- ❑ Creating an online platform such as intranet can help in providing timely and confidential information to all concerned parties.
- ❑ Several different databases can be developed to track consumer profiles, track legal and compliance information, and communication history.
- ❑ Consumer Relationship management and marketing can be facilitated using online contacts. On-line advertising and promotional campaigns can be developed particularly building loyal customer base.
- ❑ Providing franchisees dashboards or other similar platforms can help them analyze their performance and allows a comparative study with other franchises or units within their own franchise system or within the same market.