



**Universität
Zürich^{UZH}**

Department of Business Administration - Chair for Entrepreneurship

A Primer in Entrepreneurship

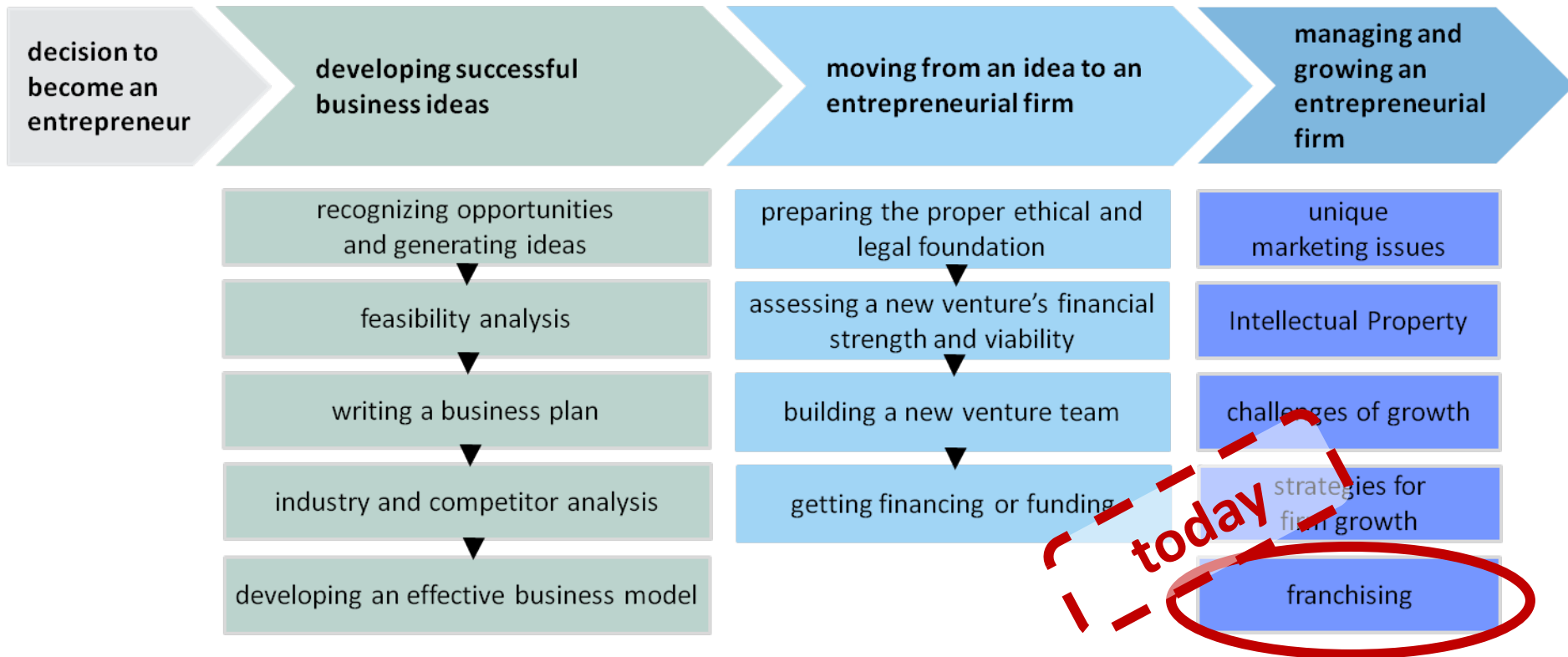
Prof. Dr. Ulrich Kaiser

Chair of Entrepreneurship

Universität Zürich

Fall 2016

Content





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A Primer in Entrepreneurship

Part IV Managing and Growing an Entrepreneurial Firm

Lecture 15 Franchising

Prof. Dr. Ulrich Kaiser
Chair of Entrepreneurship
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Agenda

- 1. What is Franchising and How Does It Work?**
- 2. Establishing a Franchise System**
- 3. Buying a Franchise**
- 4. Legal Aspects of the Franchise Relationship**



Questions



What is franchising?



How does franchising work?



What are important issues?

...to be answered in today's lecture.



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1. What is Franchising, and How Does It Work?

1.1 What is Franchising?

Form of business organization in which a firm that already has a successful product or service (franchisor) licenses its trademark and method of doing business to another business (franchisee), in exchange for an initial franchise fee and an ongoing royalty.



1. What is Franchising, and How Does It Work?

1.2 How does it work?

The word “franchise” comes from an old dialect of French, and means “privilege” or “freedom.”

Many of the most familiar franchises in the United States, including Kentucky Fried Chicken (1952), McDonald’s (1955) started in the post-World War II era of the 1940s and 1950s.



1. What is Franchising, and How Does It Work?

1.2 How does it work?

Form of business growth that allows a business to get its products or services to market through the efforts of business partners (“franchisees”). No magic here.

Product and trademark franchise

Arrangement under which the franchisor grants to the franchisee the right to buy its products and use its trade name.

Business format franchise

Franchisor provides a formula for doing business to the franchisee along with training, advertising, and other forms of assistance. More popular. More often used by entrepreneurial firms.

Examples: Fast-food restaurants, convenience stores, and consulting services.

1. What is Franchising, and How Does It Work?

1.2 How does it work?

Types of franchising agreements

Individual franchise agreement

Sale of a single franchise for a specific location; most common type of franchise.

Area franchise agreement

Allows a franchisee to own and operate a specific number of outlets in a particular geographic area.

Master franchise agreement

Similar to area franchise but with right to offer and sell the franchise in the area.



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2. Establishing a Franchise System

By careful!

Many fraudulent franchise organizations;
many financially ruined franchisees.

Regulation

Highly regulated.

Still popular

Burger King axes 89 franchises over scandals

DPA/The Local
news@thelocal.de

20 November 2014
08:15 CET+01:00

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Burger King employees in Lower Saxony protest against a dismissal in January. Photo: DPA

Following earlier reports of poor hygiene, the fast food giant announced Wednesday that it was terminating contracts for 89 franchised outlets because of continued poor treatment of staff.

The move was effective immediately, Burger King Europe said at its Munich offices. But German franchise holder Yi-Ko said it will keep operating the outlets at least until food stocks ran out.



2. Establishing a Franchise System

2.1 When to franchise?

Two main options for growth

Build company-owned outlets

Costly & risky
Money needs to be raised
Always works

Franchising

Less costly & less risky
Money does not have to be raised
Does not always work;
think of Wal-Mart in India



forbes



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t: What Happened In India?

OCT 16, 2013 @ 07:53 AM

53,573 VIEWS

Walmart: What Happened In India?

**Walter Loeb**, CONTRIBUTOR*I cover major developments in the retail industry.* [FULL BIO](#) ▾

Opinions expressed by Forbes Contributors are their own.

The partnership between Bharti Enterprises and Walmart has been dissolved. Formed in 2007, the joint venture's purpose was to build and operate cash and carry superstores in India under the name Best Price Modern Wholesale. As partners, the two companies jointly built 20 superstores. These superstores are located in major cities such as Amritsar, Zirakpur, Jalandhar, Kota, Bhopai, Ludhiana, Ralpur, Indore, Vijayawada, Agra, Meerut, Lucknow and Jammu.

But the two companies have now agreed to go their separate ways. Bharti will acquire the Compulsory Convertible Debentures held by Walmart in Cedar Support Services, a company owned and controlled by Bharti. Bharti, which operates 212 stores plans, plans to continue growing independent of Walmart. Bharti indicated that it is committed to building a world class operation and will continue to invest in a retail concept called "Easyday." For its part, Walmart will continue to operate the 20 superstores opened since 2007 without the benefit of any partnership.

[ve on Facebook](#)

John Cena Shines As Host Of 'Saturday Night Live' As WWE Exit Remains Imminent

[ve on Facebook](#)

Michael Jordan Heads The Highest-Paid Athletes Of All-Time With \$1.7 Billion

[ve on Facebook](#)

Beginning Of The End For John Cena In WWE: What's Left For Part-Time Superstar?

IBM *Voice*: How To Design Hybrid Clouds For Innovation.

However, there is a problem. The Indian government requires retailers to source 30 percent from small suppliers which is difficult for Walmart to comply with. Another problem is the continuing US investigation of fraud in Mexico, Brazil, China and India. In India, the government is investigating whether a loan made by Walmart to Bharti broke foreign investment rules. Both Bharti and Walmart have denied any wrong doing.

While Bharti and Walmart managements each wished the other well, I suspect that national differences and the challenges of working together broke up this partnership. Walmart entered into the partnership with Bharti in hopes of achieving a liberalization of the Indian market. This hope was not fulfilled and as a result the relationship with Bharti was no longer desirable, according to Scott Price, President and CEO of Walmart Asia.



2. Establishing a Franchise System

2.2 Steps to Franchising a Business

- Step 1: Develop a franchise business plan;
- Step 2: Get professional advice;
- Step 3: Conduct an intellectual property audit;
- Step 4: Develop franchise documents;
- Step 5: Prepare operating manuals;
- Step 6: Plan an advertising strategy and a franchise training program;
- Step 7: Put together a team for opening new franchise units;
- Step 8: Plan a strategy for soliciting prospective franchisees;
- Step 9: Help franchisees with site selection and the grand openings of their franchise outlets.



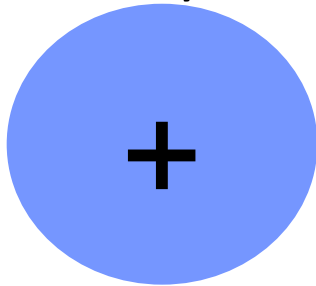
2. Establishing a Franchise System

2.3 Selecting and Developing Effective Franchisees

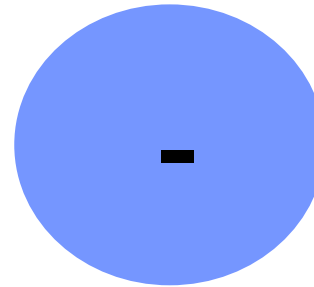
- Franchisee qualities to look for:
 - Good work ethic
 - Ability to follow instructions
 - Ability to operate with minimal supervision
 - Team oriented
 - Experience in the industry in which the franchise competes
 - Adequate financial resources and a good credit history
 - Ability to make suggestions without becoming confrontational or upset if the suggestions are not adopted
 - Represents the franchisor in a positive manner

2. Establishing a Franchise System

2.4 Advantages and Disadvantages of Establishing a Franchise System



- In the life of an organization, capital scarce, rapid-growth is needed to achieve brand recognition and economies of scale. Franchising helps since franchisees provide the majority of the capital.
- More effective for units to be run by franchisees than managers (agency theory).



- Organization allows others to benefit from its trademark and business method.
- Success depends on franchisee; may dilute trademark and brand.



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3. Buying a Franchise

3.1 Is franchising Right for You?

Make: buy existing business
or start from scratch

Buy: do a franchise

- Are you willing to take orders?
- Are you will to be part of a franchise “system” rather than an independent businessperson?
- How will you react if you make a suggestion to your franchisor and your suggestion is rejected?
- What are you looking for in a business?
- How willing are you to put your money at risk?



3. Buying a Franchise

3.2 The Cost of a Franchise

Varying; depending on the franchise fee, the capital and the strength of the franchisor.

Typical cost:

- Initial franchise fee
- Capital requirements
- Continuing royalty payment
- Advertising fee
- Other fees

Käufger Passender, Präsident des Deutschen Franchise Verbands

Verbands.

Die Franchisenehmer, die die Sandwich-Filialen betreiben, haben von Subway Lizenzen erworben und sollen wöchentlich 12,5 Prozent vom Umsatz an das System überweisen – für die Nutzung der Marke, aber auch für Werbung. Das Problem: Zahlreiche Unternehmer in Baden-Württemberg und anderen Bundesländern können nach eigenen Angaben seit Wochen keine Gebühren mehr an Subway zahlen, weil sie sonst Verluste machen würden. Das bekommen De Luca und seine Gebietsentwickler, die an den Gebühren beteiligt werden, direkt zu spüren. Eine offizielle Stellungnahme gibt Subway hierzu nicht. Jedoch räumt Fred De Luca in seiner Botschaft ein: "Viele deutsche Franchisenehmer haben Schwierigkeiten Geld zu verdienen, das ist eine sehr ernste Situation." De Luca nennt die Wirtschaftskrise, den Wettbewerb, aber auch die eigene öffentliche Darstellung und das Marketing als Ursachen. Dabei waren die Sandwich-Träume bislang gewaltig: Subway wollte in den kommenden zehn Jahren die Anzahl der Restaurants in Deutschland auf 1600 verdoppeln. Zum Vergleich: Marktführer McDonald's hat in Deutschland rund 1300 Fastfood-Läden.

ANZEIGE





3. Buying a Franchise

3.3 Finding a Franchise

Thousands of franchise opportunities → how to select?

Periodicals, Web sites, and associations; even in *Wall Street Journal* and *USA Today*.

English | Français

SCHWEIZER FRANCHISE VERBAND
 FEDERATION SUISSE DE LA FRANCHISE
 ASSOCIAZIONE SVIZZERA DEL FRANCHISING
 SWISS FRANCHISE ASSOCIATION

FRANCHISE-NEHMER WERDEN

FRANCHISE-GEBER WERDEN

SYSTEME

KURSE/EVENTS

FACHWISSEN

ÜBER UNS

DAS RICHTIGE RICHTIG MACHEN

TEST FÜR ZUKÜNFTIGE FRANCHISE-NEHMER UND FRANCHISE-GEBER

FRANCHISE-NEHMER Mit Franchising machen Sie sich beruflich selbstständig. Viele sind dafür geeignet - aber nicht alle. Der Test „fit to buy“ (oder der „Blick in den Spiegel“) unterstützt Sie dabei, sich selbst einzuschätzen, ob Ihnen diese Unternehmensform zusagt.

[FIT TO BUY](#)

FRANCHISE-GEBER Die Franchisierbarkeit eines Geschäftsmodelles ist Grundvoraussetzung einer jeden Franchisierung. Ein Franchisegeber muss aber auch im eigentlichen Leistungsprogramm „fit“ sein. Der Test „fit to sell“

MITGLIEDER UND IHRE SYSTEME BESSER KENNENLERNEN

[MEHR >](#)

AKTUELLES

Jahresveranstaltung am 3.12.2015 mit dem Thema Was bewirken wir mit Social Media denn überhaupt?

Wir schauen ins digitale Labor bei **McDonald's** und bekommen eine

EIN FRANCHISESYSTEM

AUFBAUEN,
FÜHREN,
WEITERENTWICKELN

IM KURS DES

SCHWEIZER FRANCHISE
VERBANDS

ERHALTEN SIE DAS
RÜSTZEUG

Lebensfreude
schenken
als
Franchise-Partner
von Home Instead



FIT TO BUY?

Sie sind am Ende des Tests angelangt!

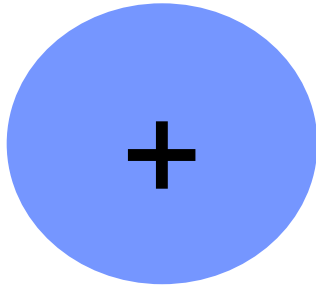
Wenn Sie alle Fragen mit einem klaren "Ja" beantwortet haben, sind Sie dem Ziel einer eigenen Franchise einen wichtigen Schritt näher gekommen.
Dafür gratulieren wir Ihnen.



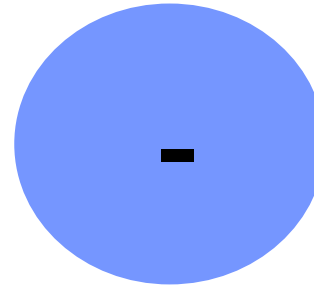
[> Test wiederholen](#)

5. Buying a Franchise

3.3 Advantages and Disadvantages of Buying a Franchise



- Ability to own a business using tested and refined business methods.
Smaller risk of failure.
- Franchisor provides training, technical expertise, and other forms of support.



- Involves cost.



3. Buying a Franchise

3.4 Steps in Purchasing a Franchise

- Visit several of the franchisor's outlets
- Retain a franchise attorney
- Meet with the franchisor and check the franchisor's references
- Review all franchise documents with the attorney
- Sign the franchise agreement
- Attend training
- Open the franchise business



3. Buying a Franchise

3.5 Common misconceptions

- Franchising is a safe investment;
- A strong industry ensures franchise success;
- A franchise is a “proven” business system;
- There is no need to hire a franchise attorney or an accountant;
- The best systems grow rapidly, and it is best to be a part of a rapid-growth system;
- I can operate my franchise outlet for less than the franchisor predicts;
- The franchisor is a nice person—he’ll help me out if I need it.



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4. Franchise Ethics

Majority of franchisors and franchisees are highly ethical individuals who are interested only in making a fair return on their investment.

Dangerous features:

- The get-rich-quick mentality;
- The false assumption that buying a franchise is a guarantee of business success;
- Conflicts of interest between franchisors and their franchisees.



Do you know the answer ?



What is franchising?



How does franchising work?



What are important issues?

...test yourself.



References

Barringer, B. and D., Ireland (2008): Entrepreneurship - Successfully Launching New Ventures, Pearsons Prentice-Hall.



Outlook

