



**Universität
Zürich** ^{UZH}

Department of Business Administration - Chair for Entrepreneurship

A Primer in Entrepreneurship

Prof. Dr. Ulrich Kaiser

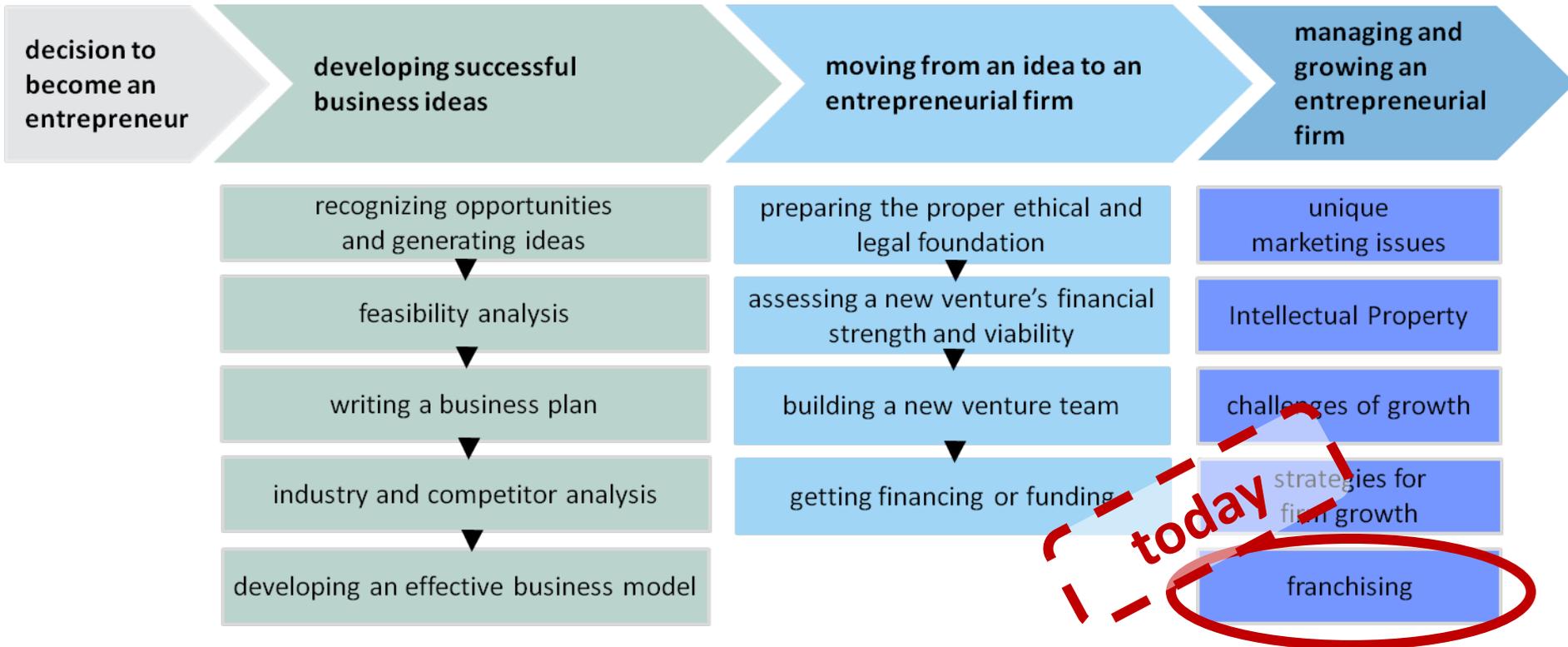
Chair of Entrepreneurship

Universität Zürich

Fall 2015



Content





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Department of Business Administration - Chair for Entrepreneurship

A Primer in Entrepreneurship

Part IV Managing and Growing an Entrepreneurial Firm

Lecture 15 Franchising

Prof. Dr. Ulrich Kaiser
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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.

Product and trademark 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



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



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.



manager magazin online

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Genuss

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MEHR ZUM THEMA

- Tim-Hortons-Übernahme
Buffett hilft Burger King beim Steuern sparen
- Milliarden-Übernahme
Burger King will ins Steuerparadies Kanada flüchten
- Nach Wallraff-Report
Burger King führt Tariflohn in Skandal-Filialen ein
- Yildiz-Filialen
Burger King schließt Restaurants wegen Hygienemängeln
- Ergün Yıldiz
Burger King tauscht Geschäftsführung nach Wallraff-Bericht aus



Mehr zum Thema Einzelhandel
Alle Artikel, Fakten und Hintergründe

ANZEIGE

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- ▶ **Junior-Berater (m/w) Technolo...**
Zürich, Basel, Bern, Genf, ...

19.11.2014

NACH HYGIENE-SKANDAL

Burger King kündigt 89 Ekel-Filialen



DPA

Verabschiedet sich vom umstrittenen Franchisenehmer Yi-Ko: die Fastfood-Kette Burger King

Im Mai hatte die Yi-Ko Holding für einen Hygieneskandal gesorgt - nun trennt sich Burger King vom umstrittenen Franchisenehmer. Neben erneuten hygienischen Problemen geht es vor allem um schlechte Arbeitsbedingungen.



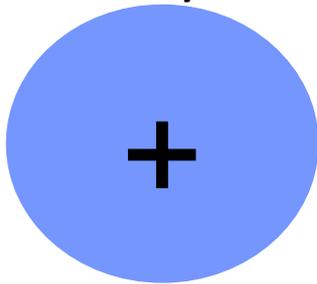
2. Establishing a Franchise System

2.3 Selecting and Developing Effective Franchisees

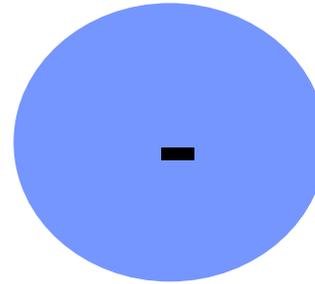
- Franchisee qualities to look for:
 - Good work ethic
 - Ability to follow instructions
 - Ability to operate with minimal supervision
 - Team oriented
 - Experience in the industry in which the franchise competes
 - Adequate financial resources and a good credit history
 - Ability to make suggestions 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



3. Buying a Franchise

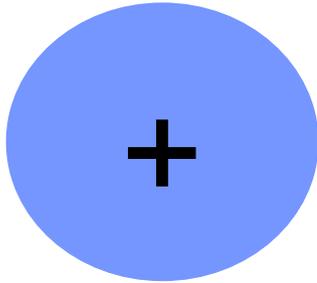
3.3 Finding a Franchise

Thousands of franchise opportunities → how to select?

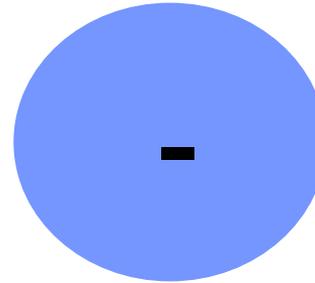
Periodicals, Web sites, and associations; even in *Wall Street Journal* and *USA Today*.

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

