"A franchise is the best defined as a continuing arrangement between the parent company and an entrepreneur. It allows the entrepreneur to use all the know- how and experience of the parent company, such as the name, logo, production techniques, training methods, and expertise in general."

-------- Steinhoff & Burgess, 1989.

A contract or an agreement for a period of time [may be renewed] by which an individual is granted the right to engage in the business of another [individual/organisation/company] in exchange some benefits mutually agreed upon

The parent company is called the franchisor and the entrepreneur is called the franchisee.

The franchisor will contribute such things as a trademark, a reputation, known products, managerial know- how, training, and perhaps equipment & sometimes financing. The franchisee then operates the business following the rules set by the franchisor.

California Investment Law

"A contract or agreement, either expressed or implied, whether oral or written between two or more persons, by which, a franchise is granted the right to engage in the business of offering, selling or distributing goods or services, under a marketing plan or system, prescribed in substantial part by a franchiser and the operation of the franchisee is business pursuant to such a plan or system substantially associated with the advertising or other commercial symbol, designating the franchisor or its affiliate."

Basic Ingredients of the Franchise

An analysis of the definitions provided by various authorities about franchise show the following ingredients:

a) There is a contractual relationship, with rights and responsibilities of each party defined, for a specified time period.
b) The purpose of the relationship is the efficient distribution of a product or services – or concept – within a particular market area.
c) Both parties combine resources. The franchiser contributes a trademark, an established reputation, products, procedures, manpower, or equipment. The franchisee usually adds operating capital as well as managerial resources for the operation.
d) The contract may outline the specific marketing procedures and practices to be followed.
e) Both the franchiser, and franchisee participate in a common public identity; achieved through trade names or trademarks and possibly reinforced through advertising programs.

Essentially, the franchise contract creates both a legal and economic interdependency between franchiser and franchisee. The franchisee gives up complete freedom in running the business, but in return receive the benefits of marketing support and protection for a product or service.

6.2 Purposes of Franchising

The nature of franchise business is the recent innovation in the form of business. The main purposes that are set to be achieved through franchise business include the following :

1. To restore individual entrepreneurship.
2. To provide an easily recognized and accepted product or service.
3. To compete with big business.
4. To allow consumers to buy good quality items or services at the right price yet still deal with a local merchant.
5. To provide entrepreneurs a means to enter business with a low capital investment and risk.

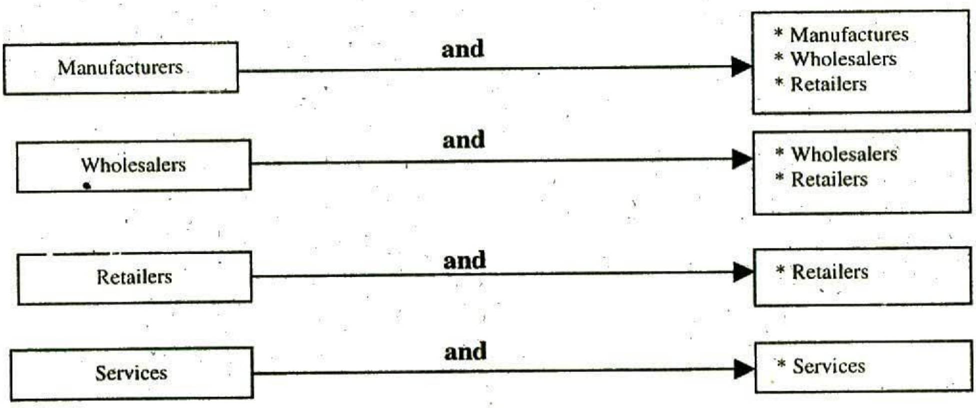
The nature of franchise business usually fits in the process of small business. Entrepreneurial initiatives can get access to extra-territorial business through franchise. One can get to business with much of technical & financial arrangement.

6.3 Types and Arrangements of Franchise

For the last 30 years, franchise business underwent various experiments. Currently, franchises are found in practice as under:

1. Sales type franchise -
   - Suitable for extrovert, the motivator, the two sales person, selling homes industry etc.
2. Store type franchise -
   - Vary from starting foods to books to hardware etc.
3. Service type franchise -
   - Auto repair, lawn care service, sewer cleaning appliance repair, furniture and health care.

Channel Link of Franchising



Franchising Arrangements

	Type	Description
1	Business Format franchises	Based on a specific operating system; consist mainly of retail and service businesses. Franchisor provides franchisee with formal training and continued support.
2	Area franchises	Franchisees that have the right to run franchise on territorial basis; this allows franchisee to develop entire city, state, or region
3	Single-unit franchises	Franchisees that have the right to run franchise at only one site.
4	Multi-unit franchises	Franchisees that have rights to open several franchise units at once.
5	Trade-name franchises	Franchises that develop from supplier relationship in ways similar to distributorship agreement. Franchisorsupply products that franchisee sales under franchised trade mark or logo.
6	Subfranchises	Franchised outlets sold by area franchisees to other business people in their areas.

	Type	Description
7	Piggyback franchises	Two or more franchised businesses that share space to offer a more comprehensive product or service to customers.
8	Convention franchised	Independent businesses that become franchised units of existing franchises.
9	Distributorships	Franchisees that distribute products manufactured by franchisor or some other source.

6.4 Benefits and Problem of Franchise

The type of business through franchise has both benefits & problems to the franchisee. The entrepreneur who starts his venture through a franchise agreement can become a businessperson with little experience & funds but he can not run the same all by his own judgement. He needs to honor wishes of the parent company. Specifically, important benefits & problems of the franchisee can be observed:

Benefits		Problems	
1.	Less stake of capital – installment and or deferred payment facility	1.	Profits need be shared with the parent company
2.	Easy to manage credit	2.	After initial agreement, unfavourable terms often imposed
5.	Management / technical training is obtainable with little/ no cost.	5.	Most of the supplies at a higher prices to be had from the parent in spite of better alternatives
6.	Easy/ cost-free advises/ Consultancy is available	6.	Compliance of the technology . very little scope for any R&D and innovation
3.	Available market & clients	3.	If wants to remain only franchisee, franchise agreement may appear expensive
4.	Promotion & advertisement cost is very minimum	4.	Most important decisions are taken by the parent company, hence no freedom of making such decisions

6.5 Favour Obtainable from the Parent Company

In the previous section, we have come across some limitations of the franchisee caused by the franchisor. But hereunder are presented some favors that a franchisee normally enjoys from his parent franchisor:

- Location selection and advice
- Product, product design, and product development
- Marketing strategy, with emphasis on advertising
- Help in the development of uniform image creating advertising modes & languages
- Initial employee and management training
- Purchase and or construction of a standardized structure
- Store design and equipment purchasing
- Standardized policies and procedures
- Centralized purchasing with savings
- Continued management counseling
- Help in installing standardized accounting & cost control systems
- Develop a set of customer service standards
- Negotiation of leases
- Financing at the start-up and afterwards

It shows that the parent company who is known as the franchisor acts as the patron & guide of the franchisee. In the capacity, the franchisor rightly perceives that success of the franchisee will bring money & goodwill for the parent company. The latter, therefore, seemingly for its own interests cares & properly nurses the franchisee in its promotion in the right track.

6.6 World Famous Franchise Business

Business through franchise increasingly getting popularity because of its relative opportunities & advantages both to the franchisors and to the franchisees. This has made the following franchises most popular in the United States:

Top 10 franchisé in the United States.

Franchise	Parent Company	Industry
1. Domino's Pizza	Domino's Pizza Inc.	Fast food
2. Chem-Dry	Harris Research Inc.	Maintenance/cleaning
3. McDonald's	McDonald's Corp.	Fast food
5. Jazzorcise	Jazzorcise Inc.	Health/Fitness
6. Packy the Shipper	PNS Inc.	Business Services
7. Jani-King	Jani-King int'l	Maintenance/Cleaning
8. Novus Windshield Repair	Novus Franchising Inc.	Auto maintenance
4. Subway Sandwiches & Salads	Doctor's Associates	Fast food
9. Burger King	Pillsbury Co.	Fast food
10. Coverall	Coverall North America	Maintenance/Cleaning

6.7 Points about which to Remain be Careful

From the foregoing discussion we find franchise appears to be blessing to both the parties. But sometimes it may prove to be a curse to the franchisees if carelessly agreements are entered into in a hurried manner. The parties desiring to be involved in franchise business should be cautious about some points as under:

1. Consider the experience and reputation of the franchisor.
2. Ask questions of several existing franchisees. (If names are not available from the company, beware.)
3. Agree on management assistance and promotion.
4. Examine territory. Is a clearly defined, exclusive franchise?
5. Ask if they have participation in the decision for site selection.
6. Find out if they can open other outlets.
7. Make sure they understand terminations, transfers, and renewals.
8. Ask if prices to the customers are predetermined or flexible.
9. Determine if the contract includes a "refine from entering similar business" clause.
10. Be skeptical of franchisors who mainly sell franchises or distributorships (equipment, blue sky or company's name, services) rather than products.

11. Make sure the product or service is proven, marketable, and in demand in your area.
12. Find out the total cost of the franchise (including fees, assessments, etc.)
13. Determine how "locked-in" they would be to exclusive vendors supplies.
14. Audit their own books and not take franchisor's word for profits.

6.8 Procedure for Evaluating Franchise Opportunities

In the previous section, we have seen the matters about which the potential parties willing to enter into franchise should remain vigilant. Hereunder are presented seven steps or procedures. If the parties interested to become franchisees piously follow the under noted procedures, the risks of being in the wrong footing may be minimized to a great extent:

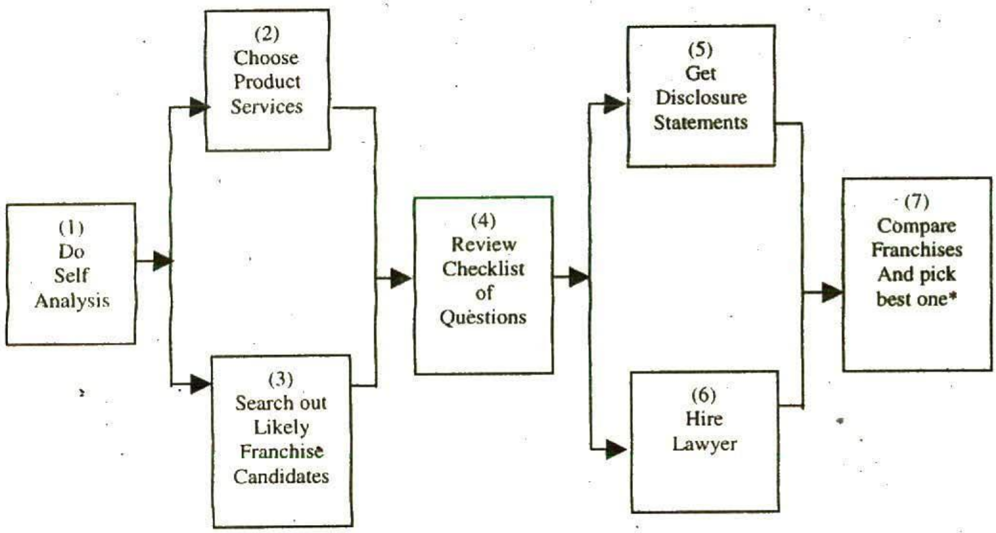


Figure- 6A: Procedure for Evaluating Franchise Opportunities

6.9 Franchise Agreement

The basic features of the relationship between the franchisor and the franchisee are embodied in the franchise contract. This is typically a complex document, often running to several pages in length. Because of its extreme importance in furnishing the legal basis for the franchised business, no franchise contract should ever be signed without legal counsel.

A good basic franchise agreement will stipulate the conditions for both parties, and will contain information on:

1. Fees and initial cost
2. Product service method stipulations.
3. Restriction upon purchase of materials
4. Record Keeping requirements
5. Life of Franchise

6. Termination.
7. Royalties
8. Location and territorial rights
9. Training Provisions
10. Controls of operations and performance standards

One of the most important features of the contract is the provision relating to termination and transfer of the franchise. Some franchisors have been accused of devising agreement that permit arbitrary cancellation. It is reasonable, of course, that a franchisor should have legal protection in the event a franchisee fails in a substantial way to obtain a satisfactory level of operation or to maintain satisfactory quality standards. However, it is important to avoid contract provisions that contain overly-strict cancellation policies. Similarly, it is important that the rights of the franchisee to sell the business be clearly stipulated.

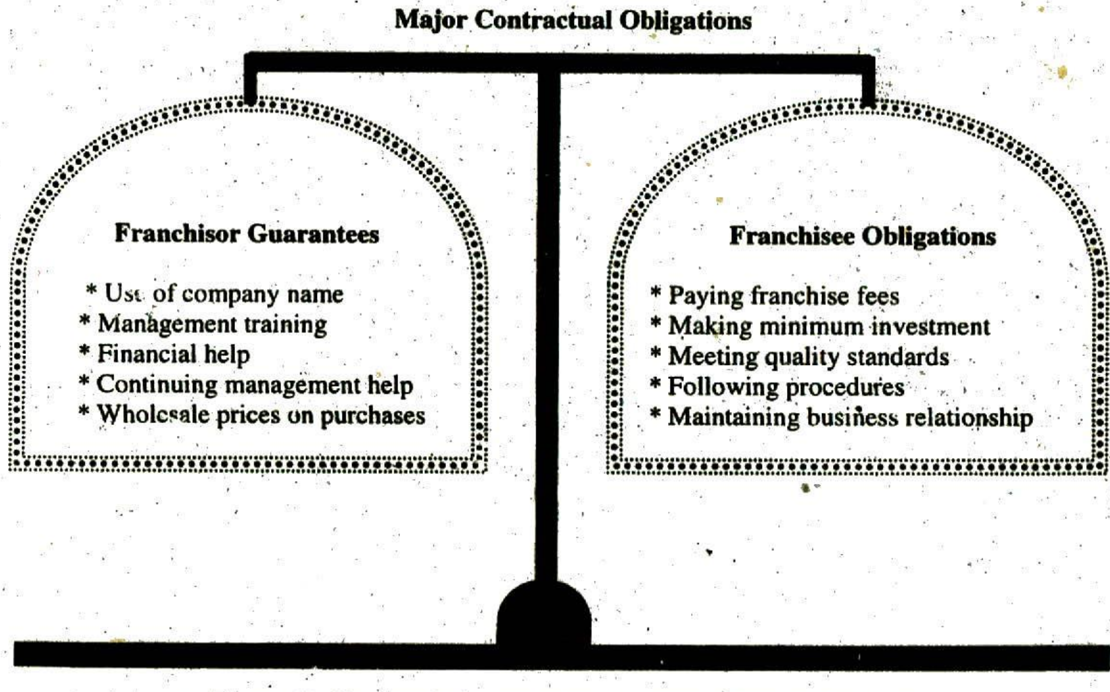


Figure- 6B: Showing the Obligations of the Franchiser and the Franchisee

6.10 Cost of Franchise

Franchise vary in initial fees from a few hundred taka to several hundred-thousand taka, depending on the form of business and agreement. The franchisee must be able to determine the total start-up or turnkey cost required by the franchisor. This may be a total lump sum amount, or a periodical rental to be agreed upon by the franchisor and franchisee. However, usually the initial franchise cost should include:

1. The franchise fee.
2. Land and building costs or lease deposits.

3. The location or site evaluation fee
4. Working capital
5. Bookkeeping and Accounting Fees
6. Legal and Professional Fees
7. Insurance
8. Opening Product Inventory.
9. Utility Charges
10. Payroll.
11. Debt Services.
12. State and Local Licensee, Permits, and Certificates

A Method of Arriving at the Cost of Buying an Existing Business Arriving at Ballpark Price

1. Determine the total net asset value of the business: land, buildings, furniture, fixtures, equipment, accounts receivable (if any), inventory, supplies, etc.
2. Subtract from net assets the total liabilities you will assume (if any). These include accounts payable, unpaid salaries, taxes, etc. This gives the adjusted tangible net worth of the business.
3. Determine the earning power of the business (as it would fit the buyer)
   a. Compute earning power of tangible net worth. Multiply the net asset evaluation by a percentage factor (such as 10 percent). This is what one could earn on the same amount of money invested.
   b. Add the yearly salary that one could make by working elsewhere.
   c. Subtract the total of a and b (earning power and salary power) from the net profit of the existing business (average of the last three years – before owner's salary).
   d. This gives the personal earning power of the business.
4. Multiply earning power (Number 3) by the intangible goodwill factor. This " years of profit" figure would be:

   "-1" – if impact on community has been poor or management has been a detriment.
   "0' – if there is no value to goodwill.
   "1" – if the business has some intangible value, or it is a young business.
   "2" – if the business has had average acceptance in the community.
   "3" – if it is a very good and well-established firm.
   "4" – if it has an excellent reputation and is a well-seasoned business.
5. Add this figure (Number 3 X Number 4) to the tangible net worth (Number 2)
6. This gives an estimate of a fair final price to be paid for the business.

6.11 When Owning a Small Business Through Franchise is not Advisable?

Though franchise businesses, often, are attractive but sometime it may be a problem & unprofitable to the franchisees. As such, a close study of the circumstances is urgently called for to arrive at a correct decision. Under the following situations owning a small business through franchise is not advisable:

1. **No Sizable Demand:** Market study reveals that for convention/cultural reasons, proposed product or service, at present, has no sizable demand within the territory for which franchise is sought.
2. **Unencouraging Buying Habits:** Number of possible customer and their buying habits in the territory is not at acceptable level.

3. **Too Many Litigations:** The parent company is known to have involved in too many litigations with many of its franchisees on different issues, otherwise manageable.
4. **Existent Franchisees:** An unhealthy competition of the same product/service already prevails in the market for the proposed products for which franchise is sought. This occurred for reasons of the existence of a number of franchisees of the same product/service of the same parent company.
5. **No/Declining Goodwill:** The parent company either has no reputation or goodwill or the existent goodwill is on decline.
6. **Unsatisfactory Financial Transactions:** The record of financial transactions of the parent company with their existing franchisees as well as their bankers are known to be not satisfactory.
7. **Unfavorable Terms:** Terms and conditions contained in the contract/agreement are found to be mostly parent company biased and not favorable for the franchisee who has applied for such facility.

6.12 Financial Arrangements for the Franchisees

Franchising has been called the last frontier for the western business. Capital requirements for financing a franchise are usually less than for a similar business initiated independently. The cash investment may range from a few thousand to several lakh depending on the nature of the business.
The franchisee, depending on such factors as his own character, the use pattern of funds, and plan for repayment , has the option of a variety of types of loans from lending institutions. The principal types of bank loans are :

i. Straight Commercial Loans: Usually for 30 to 90 days. . Loans are based on the strength of the submitted financial statements and are generally used for seasonal financing or financing inventory expansion. Normally, lending banks expects this type of loan to be repaid after their purposes have been served, such as when the inventory has been converted into saleable merchandise.
ii. Term Loans: Usually, such loan maturities ranges from one to ten years. The money borrowed is paid back over a fairly long time. In matching the needs of the franchise to the kind of money required, the franchisee thinks of term borrowing as money be repaid in periodic installments out of future earnings.

Banks may grant either unsecured or secured loans. Unsecured loans are normally granted without required collateral on the borrower's credit reputation , may be these are mostly of short term nature. Secured loans , on the other hand, require a pledge of some or all of the franchisee's assets as protection against the risks involved..The forms of security may vary , such as , the ones:

a. Endorsers, co-makers and guarantors may personally give surety for repayment in case of default;
b. Assignment of leases;
c. Ware house Receipts;
d. Trust Receipts; and
e. Chattel Mortgages.

Other collateral type loans offered by banks are loans on the franchisee's accounts receivables, assigned savings accounts, cash surrender values of life insurance policies, and securities such as stocks and bonds.

> "You are the best community which has been brought forth for mankind. You promote what is good and forbid what is evil and you believe in God (Alone)."
>
> **Qur'an [3:110]**

6.13 Checklist for Evaluating a Franchise

Before making final decisions as to the franchise agreement, the concerned persons should have a deeper knowledge of the information as outlined in the present check list.

On the Franchise Opportunity Itself

1. Did your lawyer approve the franchise contract after he studied it paragraph by paragraph?
2. Does the franchise call upon you to take any steps which are, according to your lawyer, un-wise or illegal in your state, country, or city?
3. Under what circumstances and at what cost can you pull out of the franchise contract?
4. If you sell your franchise, will you be paid for your goodwill, or will the goodwill you have built into the business be lost by you.
5. Does the franchise give you an exclusive territory for the length of the franchise?
6. Is the franchisor connected in any way with any other franchise companies handling similar merchandise or services?
7. If the answer to the last question is yes, what is your protection against this second franchisor organization?

On the Franchisor

1. For how many years has the franchisor been in business?
2. Will the franchisor help you with:
   a. A management training program?
   b. An employee training program?
   c. A public relations program?
   d. Merchandising ideas?
   e. Franchising?
3. Will the franchisor help you find a good location for your franchise?
4. Is the franchisor adequately financed so that it can carry out its stated plan of financial help and expansion?
5. Is the franchisor a one-man company with a trained and experienced management team-so that there would always be an experienced person as its head?
6. Exactly what can the franchisor do for you which you cannot do for yourself?
7. Does the franchisor have a reputation for honesty and fair dealing among the local entrepreneurs holding its franchise?
8. Has the franchisor shown you any certified figures indicating exact net profits of one or more going franchises, which you yourself checked with the franchisee?
9. Has the franchisor investigated you carefully enough to assure itself that you can successfully operate one of their franchises at a profit both to them and to you?

On you-the Franchisee

1. How much equity capital will you need to buy the franchise and operate it until your sales revenues equal your expenses?
2. Where are you going to get the equity capital you need?
3. Are you ready to spend much or all of the rest of your business life with this franchisor, offering its product or service to your public?
4. Are you prepared to give up some independence of action to get the advantages offered by the franchise?
5. Do you really believe you have the ability, training and experience to work smoothly and profitable with the franchisor, your employees, and your customers?

On your Market

1. Have you made any study to find out whether the product or service which you propose to sell under franchise has a market in your territory at the prices you will have to charge?
2. What competition exists in your territory for the product or service from non-franchise firms and franchise firms?
3. Will the population in you territory increase, remain static, or decrease over the next five years?
4. Will the demand for the product or service you are considering be greater, about the same, or less in five years?

6.14 Summing Up

A franchise business is a type of business based on a contract or an agreement for a period of time by which an individual is granted the right to engage in the business of another in exchange some benefits mutually agreed upon. A franchise business aims at restoring individual entrepreneurship with the objectives: competing with big business, providing an easily recognized and accepted product or service and thus facilitating the entrepreneurs a means to enter into business with a low capital investment and risk. The main benefits usually enjoyed by the franchise business include: product design, and product development, marketing strategy with emphasis on advertising, initial skill employees and management training, obtain a set of customer service standards, benefits of centralized purchasing with savings, help in installing standardized accounting & cost control systems and the like. The potential franchisee should:

i. Ask for information i.e. initial cost, product service method stipulations, royalties required, location and territorial rights, training etc.
ii. Look into the economic justification or business potential of the proposed franchise
iii. Consult several of the company's current franchise holders to know their satisfaction level & profit experience
iv. Consult the franchise promoter of the locality or the Chamber of Commerce to know the behaviour pattern
v. Engage a franchise lawyer to look into all the provisions of the franchise contract.
vi. The initial cost of the franchise including fees or the cost associated with the right to use trade names, procedures, goods, or services, land and building costs or lease deposits, equipment costs, working capital to cover operating expenses etc whether reasonable and financing sources and terms are within the reach of the frachisee.
vii. Owning a small business through franchise is not advisable under the situations: no sizable demand within the territory, already there prevails acute competition for the proposed products, the franchisor is reportedly involved in too many litigations with the existing franchisees, terms and conditions of the proposed franchise agreement are unfavorable to the potential franchisor etc.

Model Questions

Broad Questions

1. What 'Franchising' stands for? What is its main purpose? Do you think franchising is beneficial?
2. What factors are considered in case of franchising? How many types of franchise there can be? Does it require a specialized process?
3. How authentic the relationship between the franchisee and franchisor can be? What benefits they expect from each other?
4. What are the expected information to be disclosed by the franchisor to franchisee's? What is the standard procedure for evaluating franchise opportunities?

5. What is an agreement? What points should be considered for a good basic franchise agreement? Why?
6. Do you think franchisor and franchisee have some obligations to each other? What creates these obligations?
7. How do you examine a franchise contract? What items must be examined in any franchise contract?
8. In what condition, franchising is advisable and when it is not? While acquiring a franchise, which questions are needed to be answered?
9. Define initial cost. Describe the method through which one should estimate the initial costs of a fitness style franchise..
10. How the costs of franchising are segmented? Do you think a checklist is helpful for evaluating a franchise? How?
11. Franchising presumably creates opportunities for small business. Can a franchise accurately be called an independent business?
12. Why would someone choose to buy a franchise rather than start a venture from the scratch or buy out an existing business?
13. Name the different kinds of franchising systems and describe how do they differ from one another.
14. How would you evaluate a franchise work closely with a lawyer before committing themselves to a franchisor?
15. Assume you are the franchisee of a pet shop. Somebody offers to buy the shop at twice its book value. In your opinion, should you or the franchisor reap the benefit of the difference between what the franchise is worth to the buyer and its worth on the books? Justify your answer.
16. Are all franchises good? In what ways does the disclosure statement reduce the number of dishonest franchisors?

Short Questions

1. Explain mutual dependence in case of franchise business.
2. What purpose a franchise serve?
3. Name some world famous franchise businesses?
4. Indicate the types of channel link of franchising.
5. What benefits can be achieved from franchising?
6. What factors are required to be considered for selecting a franchise?
7. How a franchise opportunity can be evaluated?
8. What information are needed for a reliable basis of a franchise agreement?
9. What obligations the franchisor and franchisee has to each other?
10. In what conditions, owning a small business through franchise is not advisable?
11. Describe the various franchising arrangements between a franchisor and a franchisee.
12. Briefly give an account of the historical development of franchising.
13. How important is franchising in the present economy?
14. Is the franchisee an entrepreneur? Explain your answer fully.

> Method is essential if you would get through your work easily and with economy of time.
>
> **- William Mathews**

Chapter : 7

Small Business Plan

7.1 Merits of a Business Plan
7.2 Causes of Product Failure
7.3 Functions of a Business Plan
7.4 In Search of New Ideas and Products
7.5 Project Formulation
7.6 Elements of the Business Plan
7.7 Steps to Develop a Business Plan
7.8 Pitfalls to Avoid in Making Business Plan
7.9 Checklist of a Business Plan
7.10 Summing Up

The business plan entails taking a long-term view of the business and its environment. A good plan should emphasize the strengths and recognize the weaknesses of the proposed venture. Above all, it should convey a sincerity of purpose and analysis which lends credibility both to the plan and to the entrepreneur putting it forward. For an existing business, this process involves first coming to terms with the personal objectives of the owner/manager, and second, coming to terms with the strengths and weaknesses of the existing business and the opportunity and threats that it faces. A **business plan** is the written document that details the proposed venture. It must illustrate current status, expected needs, and projected result of the new business. Every aspects of the venture needs to be described; the project, marketing, research and development, manufacturing, management critical risks, financing, and milestones or a timetable. A description of all of these facets of the proposed venture is necessary to demonstrate a clear picture of what that venture is, where it is projected to go, and how the entrepreneur proposes it will get there. The business plan is the entrepreneur's road map for a successful enterprise.

In some professional areas the business plan is referred to as a **venture plan**, a loan proposal or an investment prospectus. Whatever the name, the business plan is the minimum document required by any financial source. The business plan allows the entrepreneur entrance into the investment process. Although it should be used as a working document once the venture is established, the major thrust of the business plan is to encapsulate the strategic development of the project in a comprehensive document of outside investors to read and understand.

The business plan describes to investors and financial sources all of the events that may affect the proposed venture. Details are needed for various projected actions of the venture, with associated revenues and cost outlined. It is vital the assumptions on which the plan is based are explicitly stated. For example, increases/decreases in the market or upswings/downswings in the economy during the start-up period of the new venture should be stated. The emphasis of the business plan always should be the final implementation of the venture. In other words, it's not just the writing of an effective plan that is important but also the translation of that plan into a successful enterprise. These fall into two parts: first a statement is needed describing the business. This sounds too simple, but it is needed if a business is to marshal its strengths and not waste its efforts going into areas where it has no