INTERNATIONAL FRANCHISE MANAGEMENT FOR RETAIL CATERING IN INDIA

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BONAFIDE CERTIFICATE

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arabian
fried chicken

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TO WHOM SO EVER IT MAY CONCERN

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ABSTRACT

Since the passage of globalization of Indian economy, India has been pursuing a policy of encouraging foreign institutional commitments in India. The lucrative opportunities unleashed by economic reforms and the continues rapid growth of the Indian economy have attracted numerous multinational corporations making India as one of the most popular destinations for franchising in India. It is anticipated that this trend will grow.

The popularity of franchising also applies to the food retail industry. Multinational corporations like KFC, Mary Brown, Planet Chicken have invested in various franchisee format across India.

This study is a continuum of such a flamboyant scenario in a way that this study has been endeavoured to scan the precedence of a procedures that has to be incorporated while signing a franchisee pact.

Thus this study focuses qualitatively on the operations, design and legal aspects of operating such a food retail outlet in Coimbatore for – Arabian Fried Chicken, a sister concern of Al Baik, Saudi Arabia.

ACKNOWLEDGEMENT

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INTRODUCTION

1.1 Background of the study

Franchising is the practice of using another firm's successful business model. The word 'franchise' is of Anglo-French derivation - from franc- meaning free, and is used both as a noun and as a (transitive) verb. For the franchisor, the franchise is an alternative to building 'chain stores' to distribute goods and avoid investment and liability over a chain. The franchisor's success is the success of the franchisees. The franchisee is said to have a greater incentive than a direct employee because he or she has a direct stake in the business.

1.2 Need for Study

Franchise management aims to teach the details of corporate policy and how to keep a business profitable. It also typically offers instruction on needed skills, including leadership, organization, planning and communication. Franchise is considered as a business model in the crisis period, the reasons to choose this form of business is its capability of expanding markets and products without spending too much cost, capital investment for research, because most of the marketing support is expected to be provided by the franchisor. As this form of business has a great potential as a mode of International entry strategy a study of this nature was felt.

1.3. Statement of the problem

Corporations can suffer when franchise managers aren't properly trained, because one poorly run franchise can reflect poorly on the company as a whole. That makes strong training a highly significant aspect of running a successful franchise. **Hence a "Study on International Franchise Management for Retail Catering in India"** is undertaken.

1.3 About the Organization

Arabian Fried Chicken(AFC) is a Saudi based food retail outlet for poultry foods. Al Baik is a parent company of AFC which provides all the technical knowhow. Arabian Fried Chicken was started in India at Coimbatore in the year 2009.

Al Baik (البيك) is a chain of fast food restaurants in Saudi Arabia that primarily sells broasted chicken and shrimp with a variety of sauce. The chain has 31 branches in Jeddah, along with 6 in Mecca, three in Medina, one in Taif and one in Yanbu. Al Baik is a major consumer of chicken in Saudi Arabia.

Started in 1974 by the late Shakkour AbuGhazalah in Jeddah, Saudi Arabia, ALBAIK® is the result of our founder's long-term dream to own a successful restaurant business that is built on the pursuit of excellence.

ALBAIK® Mission Statement:

To be the market leaders in each and every part of the world that ALBAIK® serves, by satisfying customers' needs for consistent high quality food and service, at the most competitive value possible, by highly motivated professional team members.

1.4 Objectives of the study

A. Primary Objective

To study about International Franchise Management for Retail Catering in India

B. Secondary Objectives

1. To study and explore the concepts and practices of International Franchise system in Indian context
2. To explore and explain about major procedures of franchising in India
3. To identify product of preferences in Indian retail food industry.
4. To explore the major govt policies and legal aspects that is relevant to international franchise in India

1.5 Expected Deliverables

This study focuses on the procedures on acquiring and running a international food retail outlet in India. Though these studies do not concentrate on the real time operations it unfolds the idea of procedural precedence of running such an establishment in India.

- Selecting the right franchisee
- Requisite Checklist
- Successful Resource Planning - Human Resource, Material Management

1.6 Limitations of the study.

1. This study is a qualitative study which focuses upon the procedural precedence only
2. The results obtained from this study cannot be generalised for other type of retail outlets
3. Since the market in this sector tends to be highly volatile, radical changes can be witnessed thus making this study points obsolete.

REVIEW OF LITERATURE

CHAPTER 2

REVIEW OF LITERATURE

2.1 The Evolution of Franchising

During the 1840's, several German ale brewers granted rights to particular taverns to market their ale. This was the beginning of the type of franchising that became familiar to most of us in the twentieth century.

Franchising then travelled from European brewers into the United States. Before franchising there was not much in the way of chain operations, which would eventually form the basis of franchising in the U.S.

Peddlers in early American history, selling items from town to town, were also considered a form of franchising. Licenses were provided to general stores at military outposts as well. These exclusive territorial rights are described in written literature, however specific names are not.

Albert Singer came on the scene in 1851 with the Singer Sewing Machine Company. Singer made use of franchising to distribute his machines over a widespread geographic area. He is the first actual name recognized as an early franchisor. Additionally, Singer was the first to prepare franchise contracts. These documents then became the basis for the modern version of franchise agreements.

In the late 1800's and early 1900's many other forms of franchising took place. Some examples included monopolized franchises for several utilities as well as street car companies. Then as oil refineries and auto manufacturers found that they could sell their products over a larger geographical area, they began to franchise.

Transportation and increasingly mobile Americans were the basis for the establishment of retail and restaurant chains/franchises. As time went on a large number of establishments began to franchise. Some of the well-known franchises include Kentucky Fried Chicken in 1930, Dunkin Donuts in 1950, Burger King in 1954, and McDonald's in 1955.

2.2 Modern Franchising

The modern leading form of franchising, known as business format franchising, became popular post World War II. At that time, those serving in the war returned home and had huge desires for many products and services. Subsequently, the baby boomers became the leaders of the economy and are expected to continue as the driving force for quite some time.

As franchising expanded rapidly in the 1960's and 1970's, also came a large amount of oppressive activity to contend with. There were several companies that were under-funded and poorly managed, therefore going bankrupt leaving many franchisees in a lurch. More upsetting were the fraudulent companies who literally took peoples' money for nothing.

These unfortunate events led to the formation of the International Franchise Association (IFA) in order to regulate the franchising industry. The IFA continuously works in conjunction with the US Congress and Federal Trade Commission (FTC) on improving the industry's relation with franchisees. In 1978, the FTC created the Uniform Offering Circular (UFOC) requiring franchise companies to provided detailed information to potential franchisees. This document was updated in 2007 and renamed the Franchise Disclosure Document (FDD).Franchising continues to be a highly regulated industry in an effort to promote the healthy growth of the economy.

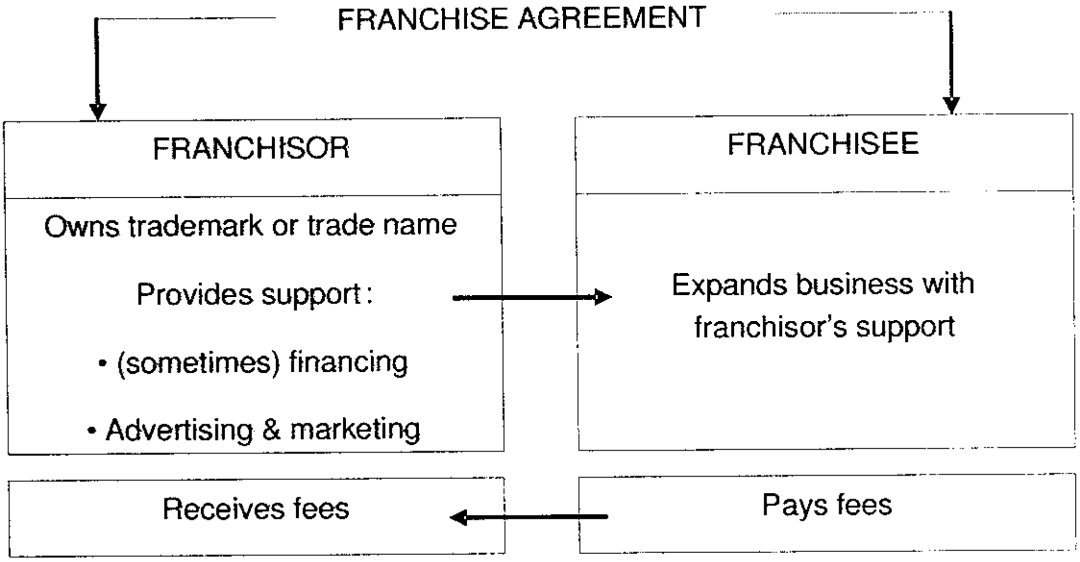

Fig 2.1 – Franchising Model

2.3 Franchising Life cycle

The life cycle of any business goes through the basic four stages of introduction, growth, maturity, and decline. Franchising is no exception.

Introduction: The franchisee needs to go through the necessary introductory stage to ascertain whether or not this is the correct time, product, and/or service to begin operating a franchised unit. The franchisee must take the time to evaluate and analyze all business opportunities which are available. This provides the opportunity for the franchisee to review the activities involved with the franchisors, as well as with several other franchisees in the same business.

Growth: The growth stage occurs from the time of the grand opening generally through the first year or two of operations. At this time, the franchisee works very diligently and hard to develop a strong level of business performance for the specific franchised unit. The initial sales volume of the store may be off and it may require several months of diligent effort to properly promote and develop. The growth stage often levels off after a period of several months or a few years. This becomes a plateau stage for many businesses in general. This is the level at which this business generally may operate throughout the remainder of its lifetime.

Maturity: The plateau stage of a business occurs after the growth stage of a franchise business and is called the maturity stage of this business. During this time period the franchisee will work very diligently to ensure constant sales volume and proper management techniques. The franchisee will often meet with the franchisor to discuss different products or services which will enhance the volume of the business. The franchisee may seek to increase the sales level through the addition of new products or expanded services.

Decline: The final stage of a franchise life cycle is the decline stage. This occurs when the business begins to lose the volume of sales previously attained. This may occur simply because the environment of the business, the local community, is declining in activity and strength. The desire by the consumer for the product may have ebbed and competition may have found a better substitute or a better product.

2.4 Four P's of Franchising

The successful franchisee realizes quite early that there is a necessity of establishing and maintaining high standards and working with the four P's of franchising. These four P's include:

- Product
- Process
- Profitability
- People

Product: The product or service of the franchise operation is probably the most significant and important aspect of the successful franchise. You, as a franchisee, must maintain the high quality and standards of the product or service being provided. It is absolutely essential that you maintain a positive reputation and that you satisfy the customer needs. You must realize the importance of this product or service not only satisfying the current needs of your customers, but also the future needs which they will have in the next 10-12 years.

Process: The business format process is very important to the successful franchisee. These processes which must be carefully developed and supported include: marketing, promotion, brand recognition, management, training, accounting services, and financial support. The franchisee must develop the proper processes to ensure the continued success of the franchise organization.

Profitability: The franchisee is in business to ensure profitability. You are there to make a profit. You are generally desirous of obtaining a profit, not only for the present day but also for a long time into the future. To so do, you must be able to ascertain the profits, revenues, and even costs of goods associated with your specific franchise business. For example, most pizza restaurants have costs of goods sold and labour costs which do not exceed 50% of the total sales for the business. Another example is that certain sit-down quick service restaurants which provide food costs in the 29-32% range and labour costs in the 15-18% range. You need to be able to accurately determine what the important costs of goods sold, labour costs, and expenses are in your specific business.

The franchisee needs also to be able to ascertain all start-up costs, franchising fees, royalty fees, advertising fees, and other fees which must be paid by the franchisee to the specific franchisor. These fees are all explained in great detail in the Uniform Franchise Offering Circular (UFOC). The franchisee should go over this document in great detail to ensure exactly what costs and fees are associated with the operation of the business.

People: The greatest asset of your business will be the people with whom you work. These people are the individuals who will reach and obtain the high standards of performance which you desire within your organization. These people may share your vision if properly explained. These people are the people who will work with you, or against you, in developing your business. You need to personally work with them. You need to develop your programs with their support. Many franchisees spend considerable amount of time away from their desks helping their employees during the peak periods of their business. Many multi-unit franchisees involved in fast food services leave their offices from 11:30-1:30 to help the employees in their different stores. This allows the franchisee to actually work with the different employees but to also help them to see his/her intensive desire to provide quality service and products to the consumer. Quality is infectious. The franchisees needs to install this desire for excellent through example in all employees.

People are your greatest resource. People are your greatest asset.

2.5 Obligations of the parties – India

Franchising of goods and services, foreign to India, is in its infancy. The first International Exhibition was only held in 2009.India is, however, one of the biggest franchising markets because of its large middle-class of 300 million who are not reticent on spending and because the population is entrepreneurial in character. In a highly diversified society, McDonalds is a success story despite its fare differing from the rest of the world.

So far, franchise agreements are covered under two standard commercial laws: the Contract Act 1872 and the Specific Relief Act 1963, which provide for both specific enforcement of covenants in a contract and remedies in the form of damages for breach of contract.

2.6 Common Franchise Terms

Franchise – a license that describes the relationship between the franchisor and franchisee including use of trademarks, fees, support and control

Franchisee – the person or company that gets the right from the franchisor to do business under the franchisor's trademark or trade name

Franchising – a method of business expansion characterized by a trademark license, payment of fees, and significant assistance and/or control

Franchisor – the person or company that grants the franchisee the right to do business under their trademark or trade name

Franchise Agreement – the legal, written contract between the franchisor and franchisee which tells each party what each is supposed to do

Product Distribution Franchise – a franchise where the franchisee simply sells the franchisor's products without using the franchisor's method of conducting business

Royalty – the regular payment made by the franchisee to the franchisor, usually based on a percentage of the franchisee's gross sales

Trademark – the franchisor's identifying marks, brand name and logo that are licensed to the franchisee

UFOC – the Uniform Franchise Offering Circular, UFOC, is one format for the disclosure document which provides information about the franchisor and franchise system to the prospective franchisee

Disclosure Statement – also known as the UFOC, or Uniform Franchise Offering Circular, the disclosure document provides information about the franchisor and franchise system.

DESIGN AND OPERATION OF A FRANCHISE SYSTEM

CHAPTER 3

STEPS IN ESTABLISHING AN INTERNATIONAL FRANCHISE SYSTEM

3.1 Steps of franchising

- Step 1 – Branding
- Step 2 – System
- Step 3 – The Support Service
- Step 4 – The Financial Arrangements
- Step 5 – Recruiting Franchisees
- Step 6 – Becoming a Franchisor

Step 1 – Branding

Your franchise needs to be branded. When people look at a business for sale, the biggest draw to buying into a franchise rather than starting a new business is the value that comes from recognizable branding. If you have a good logo, quality name, and reliable service that is associated with your brand and your product, then not only will customers buy it, but franchisees will buy it, too. Spend the time and money it takes to brand your business well so that it will recognizable and desirable.

Step 2 – System

When someone looks for a franchise opportunity, usually they desire to own their own business but are looking for a business plan or model that is proven to work. When deciding to franchise it is imperative that you develop the system that franchisees will follow. This is important for two reasons; the first is that you want your future franchise owners to succeed for them and you want them to appreciate being a part of your franchise. The second reason is that you want to make sure that your franchise owners are not giving your business a bad name. By providing a system that represents you and your business well, you allow everyone involved in your business opportunity to provide a unified business model that customers will appreciate.

Step 3 – The Support Service

Franchise investors are looking for business for sale because they want assistance. If they had it all figured out for themselves they would be running their own business, not looking for a franchise for sale. It is critical that just as you work to maintain customer service and support with your customers that you develop and maintain service and support with future franchise owners. The number one priority for most franchisees is that the franchisor provides extensive training on how to run the franchise and ongoing support throughout the course of the business to ensure them that they will not be left alone.

Step 4 – The Financial Arrangements

You want your franchise to be a good value. Something that people will want to invest in and feel like they are going to profit from being a part of your business. You also want to make it clear that your business is to be taken seriously, and there is an element of personal investment and risk involved in not putting everything you have into running a franchise. It's important to understand the agreement you will have between franchise owners, what costs you will charge, what percentage of profits or fees will be paid to you to maintain service, support, supply, etc.

Step 5 – Recruiting Franchisees

So you've decided to franchise? That's not going to mean much if there is no one that wants to purchase a franchise from you. Franchising is a whole new level of sales and marketing. There are a variety of websites that provide matching services and lead generation for franchisors. Decide what fees you are willing to pay, what costs you can dedicate to advertising and recruiting and find a way to promote your business. You now have two things to sell, the product or service you provide to your customers and the business as a profitable venture for your franchisees.

Step 6 – Becoming a Franchisor

Now that you are ready to actually franchise there are a few more steps to take. Seek expert advice from Franchise Association. It's invaluable in providing a wealth of unbiased step-by-step information for potential franchisors. Research the market to ensure that products and services are competitive, valuable, and desired in multiple areas. Test the franchise in the form of a pilot operation lasting at least 12 months or longer. The pilot scheme should be undertaken at more than one location in order to test the concept in differing geographical and economical areas. Establish a central management core. This will probably mean turning over your original business to competent successors so that you can focus on managing your operation as a whole. Finally, develop marketing, sales, and advertising strategies to promote the franchise network.

However, the following table depicts the relative viewpoint on the pros and cons of franchising on either sides

Table No: 3.1 Franchisor's view point

FRANCHISOR'S VIEWPOINT	
PROS	CONS
Financial investment and commitment is limited.	Difficulty in finding a suitable person as a franchisee
Reasonable (some times, high) profits and exponential growth of brand equity, without high-capital risks.	Loss of goodwill / dilution of brand, if the franchisee acts independently and does not adhere to certain basic standards
Exploitation of a wider territorial area, not typically within his/its scope.	Breakdown of a trust-based relationship between the parties or difficulty in receiving co-operation from franchisees
Manpower resources looked after by the Franchisee. Consequently, fewer labour problems to cope with.	Franchisee may not disclose complete and accurate income for calculation of franchise fees

Table No: 3.2 Franchisee view point

FRANCHISEE'S VIEWPOINT	
PROS	CONS
Capitalizing and benefiting from the Franchisor's invention / brand / business systems / know-how.	Imposition of controls and supervision by the franchisor.
Elimination of unnecessary expenses due to franchisor's experience and pilot operations.	Heavy initial capital investment, in addition to consideration for using the franchisor's invention / brand / business systems / know-how and receiving the franchisor's services.
Continual assistance from the franchisor while operating the business.	Dependence on the franchisor may hinder the franchisee's personal drive.
Benefit from the franchisor's advertising and promotional campaigns.	Franchisor's policies may affect the franchisee's profitability and business operations.
Benefit from the franchisor's negotiating and bulk purchasing power.	

3.2 Marketing franchising

To the new franchisee, marketing is involved with those business activities that:

1. Identify target markets,
2. Determine target market potential, and
3. Provide a bundle of satisfaction through goods or services to those markets. Marketing is the result of synergy.

3.3 Collecting Marketing Information

The top sources of marketing research for new products or services include the following:

1. Current customers or users
2. Other franchisees
3. Informal poll or potential customers
4. Information on companies in the industry
5. Gut instinct
6. Trade journal and magazines
7. Public libraries
8. Local universities

3.4 Requisites for a franchisee

3.4.1 Assets & Marketing

- Property (Rented/Owned/Leased)
- Licensing
- Brand Trade Marking
- Ingredient Copy Rights
- Supplier Contract
- Cold Storage
- Warehouse
- Interior Design
- Tables & Chairs
- Air-conditioners
- Television
- Audio System
- Sales Counters

- Point of sale machines
- Software
- Display Cabinets
- Vendor Machines
- Display Boards
- Designer
- Broachers

3.5.2 Machinery

- Commercial Pressure Fryers
- Commercial Ovens
- Vaccumized-Cleanser
- Automated Marinate
- Mince & Dicing Machine
- Exhausts & Ventilators
- Work Area Layouts & Fittings
- Utensils & Gas
- Cutlery Requisites

3.5.3 Human resource

- Ware house Management
- Main Production (Main Kitchen)
- Outlet Kitchen
- Counter Sales Representatives
- Cashier
- Scavengers

3.5.4 Post Investment

- Marketing

- Promotions & Offers
- Employee Welfare
- Product expansion

3.6 Operational flow of International franchising with reference to AFC

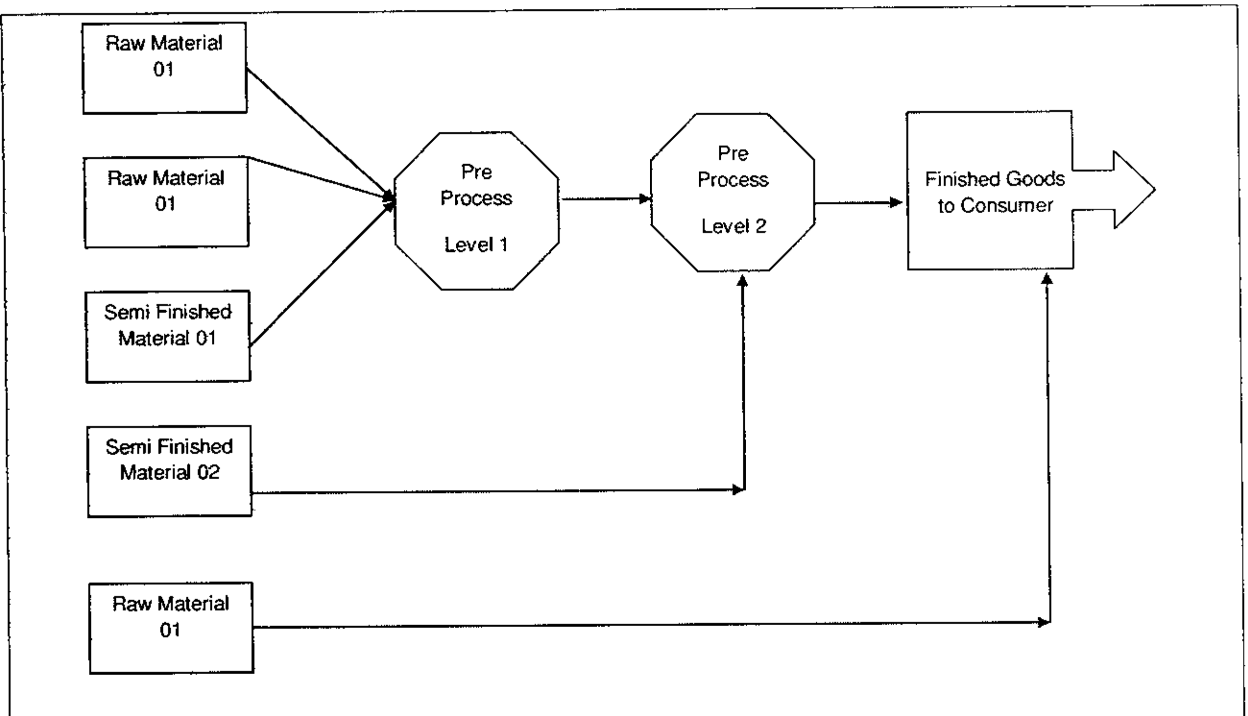

Fig 3.1 Material Flow

3.7 Investment

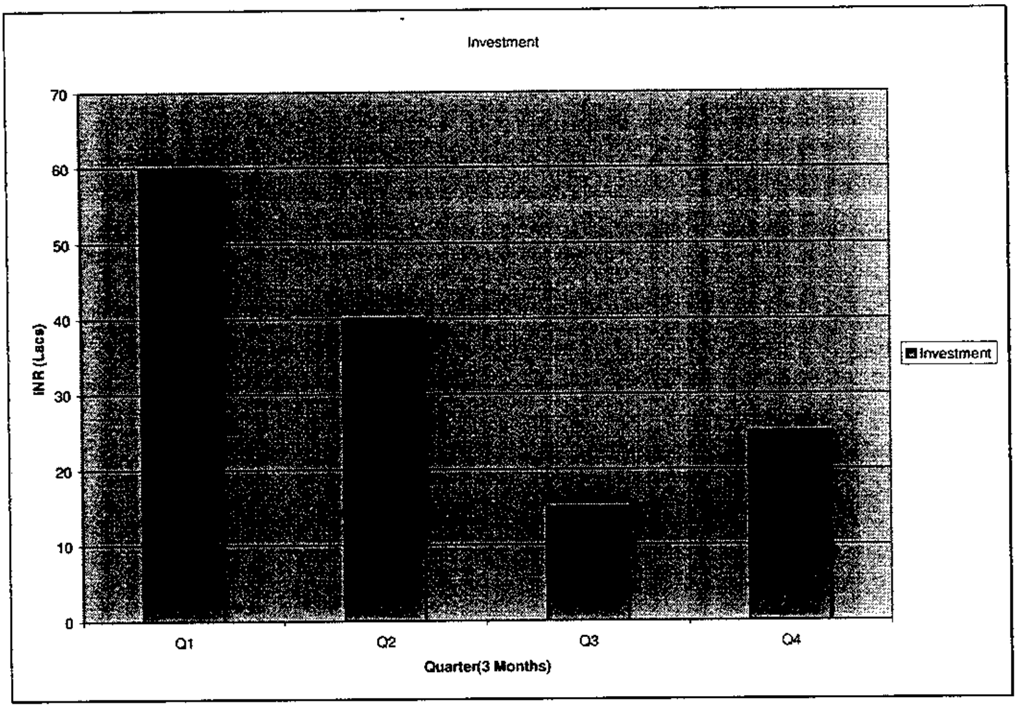

Fig 3.2 Investment Chart

3.8 Human Resource

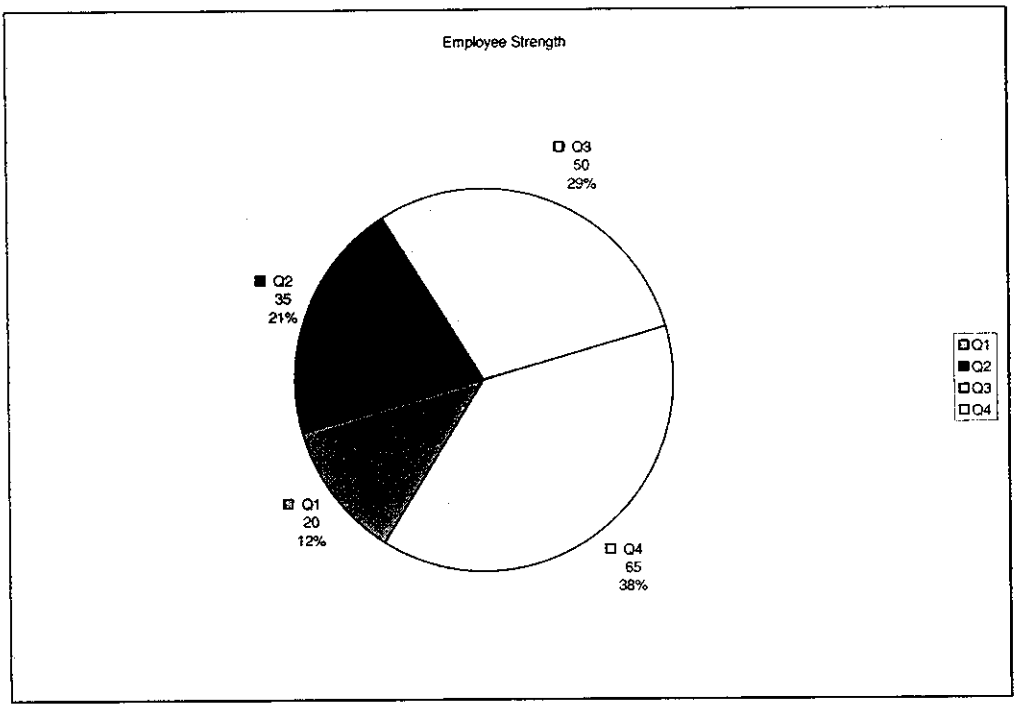

Fig 3.3 Human Resource Chart

3.9 Products

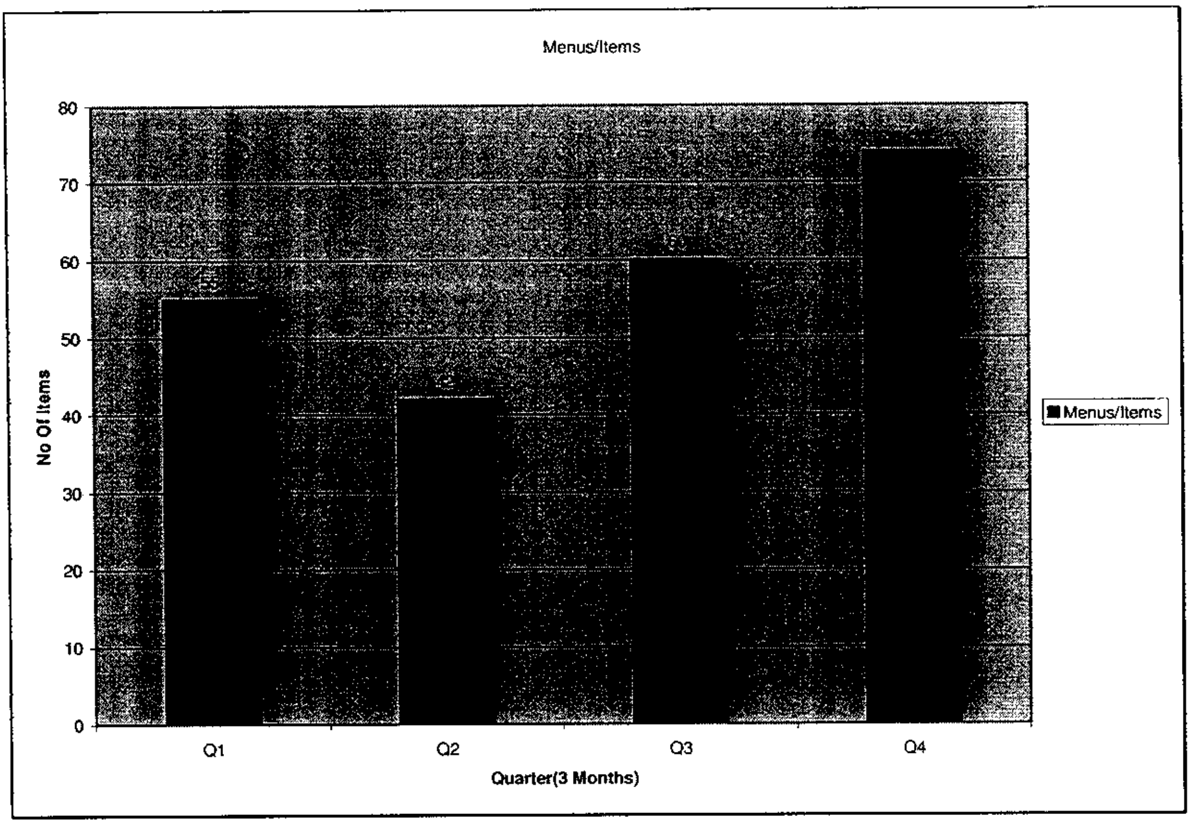

Fig 3.4 Product Chart

3.10 People

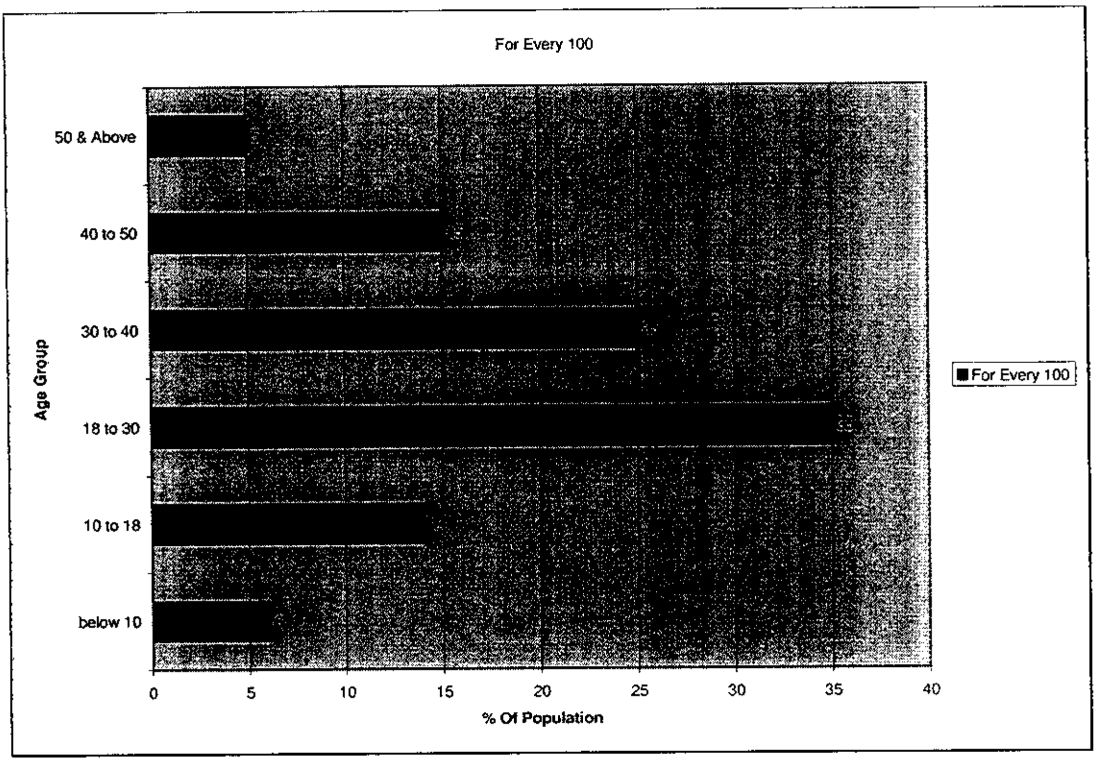

Fig 3.4 Customer Chart (Age Group)

CURRENT ISSUES INDIAN FOOD RETAILING SECTOR FRANCHISING

CHAPTER 4

CURRENT ISSUES INDIAN FOOD RETAILING SECTOR FRANCHISING

4.1 Franchising Advantages

There are many wonderful success stories in franchising: Kwik Kopy, Burger King, Coca-Cola, Speedy Oil Change and Tune-Up, Blockbusters, McDonald's, The Athlete's Foot, and Home Instead Senior Care. These organizations illustrate examples of large successful franchise businesses. Franchising continues to grow and expand into professional operations. Doctors, dentists, accountants, and opticians have also developed franchise systems. A carefully designed and operated franchise system will generally minimize the business risk for both the franchisee and the franchisor.

The franchisee has a number of advantages which they receive from starting a franchising business.

These advantages include:

A. An established product or service: Probably the major advantage to the franchisee is the acquisition or use of an established product or service. The franchisee obtains a business that has an established product or service name. Often the customers are already aware of the name and reputation which the product or service provides. This advantage is of utmost importance to the franchisee because of the tremendous dollars which the franchisor spends to keep the public aware of their fast food, service, soft drinks, or automotive repair services. Many franchisors spend large portions of their advertising budget on national campaigns through television commercials and full-page advertisements in newspapers and magazines. Even small franchisors often use local print or electronic media and point-of-purchase displays to attract customers in the local area. Often a franchisor will share the advertising cost with a local franchisee.

B. Formal Training: Most franchisee training begins with an initial period of days or weeks at a central training facility generally close to the headquarters' office. Holiday

Inns University was built in 1972 at a cost of $5 million and provides training for all Holiday Inn franchisees. The initial training for franchisees will cover all the operating procedures used in the business plus marketing, advertising, promotion, record keeping, inventory control, management, insurance, and human relations. In most cases, the initial training will generally last from 3-4 days to three weeks. This will generally include all the business operations and functions which are necessary to operate the business plus and/or managerial and accounting functions. Because of the extensive formal training offered by franchisors, many do not require prior experience in the industry or business. Some franchisors prefer that their prospective franchisees have zero prior business experience in their specific field of operation.

C. Financial Assistance: Generally at the start-up phase of a business operation, the prospective entrepreneur's sources of capital are very limited. The entrepreneur's ability to borrow funds during this time are generally at the lowest level. Forming a relationship with a franchising operation allows the aspiring franchisee to increase the ability to obtain financial assistance. While most franchisors do not provide direct financial assistance to their franchisees, some do. Some franchisors will allow the franchisees to purchase fixtures and furnishings over an extended period of time. Additionally, these franchisors may provide the land and/or building on a lease basis to the franchisee.

The franchisee generally will be responsible for the payment of all fees associated with starting a franchise business. Estimates for start-up costs are provided by the franchisor in the Uniform Franchise Offering Circular (UFOC). These estimates are generally quite accurate and are based on business start-up costs experienced by prior franchisees. These estimates are generally within 10-15% of what the actual start-up costs may be. The franchisee also benefits because of the association with the franchisor when seeking credit standing with a bank. The reputation of the franchising system may greatly enhance the prospects of the franchisee in obtaining financial support.

D. Marketing and Management: Benefits Many travelers turn into a Holiday Inn, Courtyard By Marriott, or Quality Inn because of prior experience and the reputation of these franchised organizations. Individuals across the country continue to use McDonald's, Burger King, Kentucky Fried Chicken, Wendy's, and Taco Bell because of their expectation of reliable food products. Consumers have a tendency to utilize franchising organizations because of their name, decor, logo, or perceived quality of their standardized product or service. Franchising provides a proven successful business product and/or service identification. Probably one of the greatest advantages of choosing a franchising method of doing business is the opportunity to have access to the marketing and promotional image of the franchise business. Most franchisors promote, advertise, and market their name, logo, product and service with the greatest of abilities and focus their efforts on name recognition. Through the repeated use of advertisements, billboards, and jingles, top-of-the-mind awareness is quite high for many franchised businesses. The franchisee acquires the right to use the franchisor's nationally advertised trademark or brand name. This allows for instant market recognition both locally, as well as with travelling customers.

The franchisor has also developed a standard operating manual and procedures that allow the new franchisees to learn how to operate successfully. The new franchisee learns a successful system and how to replicate that system in a local market. Such programs, however, do not ensure success. The franchisee may lack ambition, desire, or perseverance. Generally the system is strong enough to allow any prospective franchisee the opportunity to succeed if they will provide the "sweat equity" necessary to be a success.

E. Quality Control Standards: Each franchisor imposes certain quality control standards on the franchisee. These standards allow the franchise system to achieve consistency and positive service or product uniformity throughout the entire system. By developing and maintaining high standards, the franchisor does the franchisee a tremendous business service. Franchisees appreciate high standards and learn that these standards of operations and performance are necessary and generally the major reasons for success. The quality standards present a consistent patronage image, help ensure return business, develop employee morale and pride in work, and allow the employees to feel the value of teamwork. These standards, while apparently dictatorial, serve to help both the franchisor and franchisee. Because the franchisees learn to courteously and efficiently serve an appealing meal in an attractive and comfortable atmosphere, they have a better chance to attract and maintain a large clientele which provides increased benefits and profits to the franchisee and larger royalties to the franchisor.

F. Less Operating Capital: Requirement Another major advantage for franchisees is that generally their start-up costs require less initial operating capital because of lower initial costs in starting the business. Most franchisees do not have to pay for architectural designs because these are often provided at a nominal fee by the franchisor. The franchisee also generally pays lower inventory fees because they already know generally what will and will not sell. New franchisees may also be able to receive trade credit from different suppliers because of their association with the franchising system rather than being an independent person. Franchisees also receive the benefit of knowledge relative to store layout, design, and floor space utilization which allows the franchisee to save countless hours and dollars in developing the new business.

G. Opportunities for Growth: Many franchisors provide new franchisees the opportunity to grow, not just with the initial franchise unit, but also by later on purchasing additional franchise locations. A territorial franchise guarantees no competition from other franchisees or corporate stores within the specific geographic boundary. The area development agreement allows the franchisee the possibility of developing new stores within the specified territory during the specific period of time. The franchisee has the opportunity to develop the first store and to allow it to grow and expand throughout its system.

These advantages show that the franchise system is based upon a mutual understanding and trust relationship between the franchisor and the new franchisee. The franchisor has realized that the growth and profitability of the headquarters organization is dependent upon the success of the franchisees. It is to the advantage of the franchisor to provide as many positive and supportive services to the franchisee as they are capable of doing.

4.2 Franchising Disadvantages

The franchise system is designed to work well for both the franchisor and the franchisee. The franchising agreement is a contractual relationship between the franchisor and the franchisee to help build mutually beneficial business operations. This franchise approach helps to develop profits and a healthy and prosperous business life for both the franchisee and franchisor. However, there are some disadvantages to the franchisee which you need to be aware of before beginning your franchising operation.

A. Failed Expectations: Franchising is like a coin--it has two sides. The franchisor's business experience, expertise, trademark, selling methods, and advertising are part of what the franchisee desires to acquire. Often a franchisee sees this business opportunity as a sure bet. This is not true. While the franchise system provides a tremendous opportunity to utilize a successful system in a new location, it does not always succeed. If the location is terrible and/or their are insufficient customers available within the given target market area, then generally the franchise operation will not succeed. If the franchisee expects to only work 10-20 hours a week, to reap huge benefits, then generally the franchisee will not succeed. If the franchisee is doing this only as a financial investment and is providing no hands-on service and leaving the entire operation to a salaried employee, then the probability of success is greatly diminished.

Franchising generally succeeds when the new franchisee correctly adopts the marketing, management, principles and practices what the franchisor is offering.

B. Cost of a Franchise: It is not cheap to start a franchise business. The cost of a franchise generally begins with the franchise fee and then the rest of the start-up costs including land, building, fixtures and furnishings, inventory, signage, and training programs. The final total investment grows rapidly and becomes surprisingly large. The start-up costs for Arabian Fried Chicken (AFC) is now estimated at INR 4,000,000 - INR 7,000,000 depending upon location and building. This is in addition to an initial franchise fee of INR 1,000,000 and a royalty fee of 4% with an advertising fee of 3-6%. On the other hand, you can start a successful restaurant for total start-up costs, including franchisee fee, of INR 3,500,000.

C. Loss of Independence: An apparent frequent disadvantage is that entrepreneurs leave behind the opportunity of having absolute independence. A franchisee will surrender a considerable amount of independence when the franchise agreement is signed. Certain franchisees may wish to change the products or services being offered -- this is often forbidden by the franchise agreement. Franchisees need to realize that they will be following a business operation prescribed to them by the franchise organization. This does not destroy the need for creativity, drive, and high standards on the part of the franchisee. It is only through personal efforts that the franchising system ultimately works.

D. Termination of Agreement : The franchise agreement is originally signed for a specific period of time, generally 10-20 years. Some franchise agreements only last 2-5 years while others go on for perpetuity. Generally, the franchise agreement includes the clause for renewal and without "just cause" by the franchisor then the franchise agreement is automatically renewed for a period of time, often 5-10 years in length. Almost all franchise agreements contain provisions concerning the franchisees transfer of ownership rights to others, termination of the agreement, renewal of the agreement and a covenant not to compete. Any of these provisions may be used by the franchisor if the franchisee fails to follow all of the provisions of the franchising agreement.

E. Performance of Other Franchisees: A disadvantage often overlooked by new franchisees is the performance by other franchisees. If other franchisees begin to lower their standards and diminish the quality of products or services, then this reflects upon the total franchising system. This brings hardships to the franchising program and diminishes the value of the franchising organization throughout the system. The franchisor can not afford becoming lax in managing the franchise system and must maintain quality standards throughout the network. Poor performance ends up reflecting throughout the system and not just in one specific local.

LEGAL ASPECTS OF FRANCHISING

CHAPTER 5

LEGAL ASPECTS OF FRANCHISING

The key format in adhering to the legal binding among the organisations is

- Sign a confidentiality agreement (sometimes)
- Enter into a deposit agreement and pay the deposit (possibly non-refundable so be warned)
- Find a franchise agreement, read it, understand it and then negotiate the terms with the other party and finally, sign it.

5.1 The agreement

Any legal agreement should seek to protect the benefit of all parties involved, including intellectual property and it should accurately reflect the terms agreed. There are no acts of parliament governing franchising so careful negotiation between the parties is paramount.

5.2 Contents of the agreement

If you are a franchisee, try to ensure that the franchise agreement makes sure that the franchisor:

- Trains you and your staff
- Supplies goods and or services
- Is responsible for marketing, advertising and promotions
- Assists in finding suitable premises and helps to fit it out
- Provides management and accounting services.

If you are a franchisor, try to ensure that the agreement makes sure that:

- You can easily monitor the performance of the franchisee
- Protects you from unfair competition
- Protects your intellectual property
- Restricts the franchise regards exercising the rights granted to him by you.

5.3 Intellectual property issues

In a franchising situation, intellectual property includes:

- Trade names
- Goodwill
- Methods of production
- Copyright
- Confidential information.

5.4 Trade names and trade marks

Franchisors should ensure the trade name and trade marks are sufficiently protected by the franchise agreement. But of course the reason the franchisee is going ahead with the business is that in most cases, the goods or services are brand named- they are a known quantity to customers. Therefore it is also in the franchisees best interests to protect the intellectual property from third parties.

5.5 Termination

Franchise agreements should be set up so that they subsist easily over a long period of time. All system and procedures should be in place so that the parties are clear of their obligations and rights. That way, there is only a very small space for error or miscommunication. When a franchise relationship cannot be resolved however, you will need to end it. It could end for a number of reasons including

Breach by the franchisee

Breach by the franchisor

The fixed term has ended and the franchisee decides not to renew

The franchisee sells the business and a new franchise is granted to another party

Both parties agree to end the relationship.

A well written legal agreement, such as those available at Net Lawman, will ensure that the agreement provides for what happens upon termination, for any of the reasons above. So the parties will know how to act and what is expected of them. This ensures as smooth an end as possible. Of course the franchisor will want to protect his business, trade secrets and knowhow and the franchisee will want to maximize his returns.

Termination clauses often include provisions to ensure

- That existing customer contracts are transferred smoothly
- Trademark licenses and so on are canceled officially
- The decor of the premises is changed
- Advertising and packaging materials are returned to the franchisor
- Stationary, literature, and all other promotional materials associated with the franchise are returned to the franchisor
- Operation manuals are returned
- The system is promised not to be used by the franchisee
- Copyright material is not used by the franchisee.

Many of these are dealt with in what are called 'restrictive covenants' or 'non-competition' clauses.

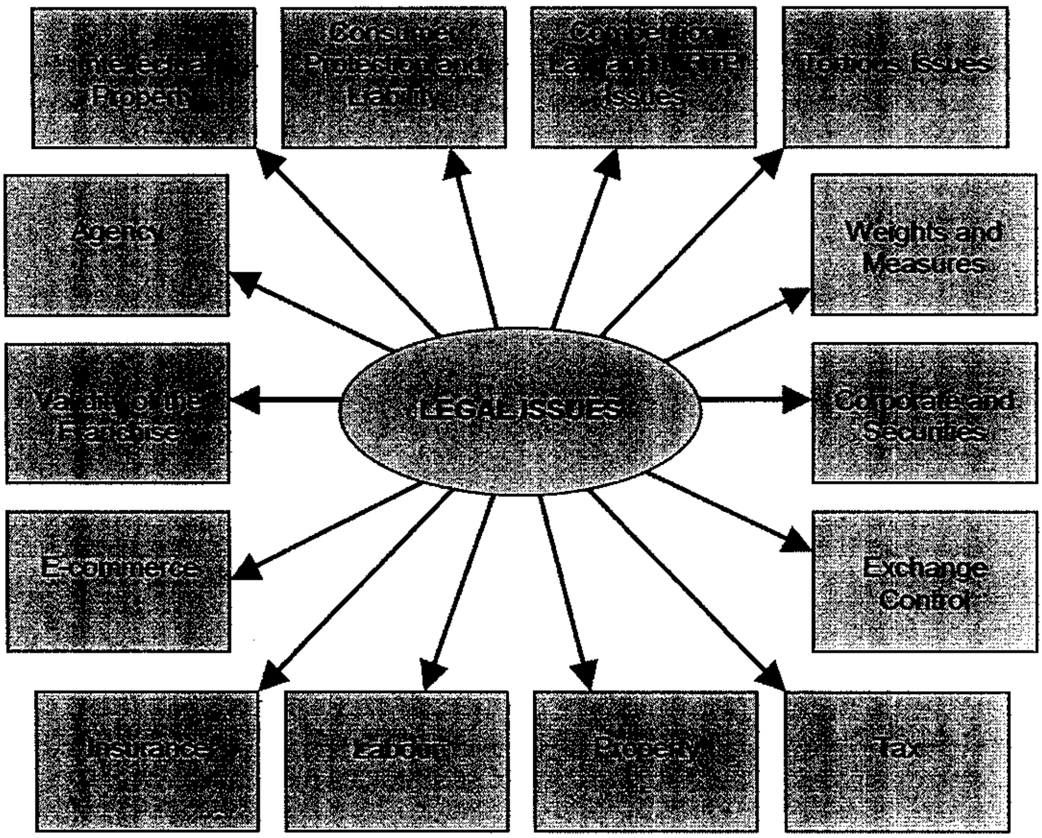

Fig 5.1 Legal Aspect (Legal Issues)

CONCLUSION

CHAPTER 5

CONCLUSION

One of the most important strategic decisions in International business is the foreign market entry and operating strategy. The strategic alternatives vary between complete manufacturing of the product domestically and exporting it to the foreign market on the one extreme and the complete manufacturing of the product to be marketed in the foreign market there itself by the company on the other extreme.

Franchising in current context is considered to be highly successful in the international business because it involves minimal commitment of resources and efforts on the part of the international marketers. It also obtained a proven track record for companies to easily move into these markets very easily.

As International retail franchisee management is concerned, KFC, Planet Chicken, Mary Brown are already in the fray. The success of these franchisee formats is already evident and encouraging. In a way this study is an eye opener for those small and medium companies looking forward to enter into international markets through this sector.

ANNEXURE

ANNEXURE

CHECKLIST BEFORE SIGNING AN INTERNATIONAL FRANCHISEE AGREEMENT

Your New Business Partner

- Is the Franchisor a private company, a public company or a subsidiary of another company?
- Are the Franchisor's financial statements available?
- Do the Franchisor's financial show historically favourable trends?
- Does the financial viability of the Franchisor appear assured for years to come?
- Has the franchise system, under current ownership, ever been placed into receivership or bankruptcy?
- How many years has the Franchisor operated in this industry?
- How long has the Franchisor been franchising?
- Has the Franchisor ever been found guilty or liable in any litigation with Franchisees?
- What business experience does current management have? In this business? In franchising?
- Does the Franchisor manage other franchise systems?
- Does the Franchisor run pilot stores/units?
- Does the Franchisor have corporate stores that may compete with its Franchisees?
- Will other franchise systems, operated by the same Franchisor, be directly or indirectly competing with the franchise I'm interested in?
- What are the Franchisor's plans for expansion?
- Does the Franchisor provide the Franchisee with any financial assistance to help purchase the unit?

What to Expect

- What are the duration and renewal terms of the Franchise Agreement?
- What significant events can cause the termination of the Franchise Agreement?
- What system is in place to resolve disputes between Franchisor and Franchisee?
- How often will I have to provide the Franchisor with financial information? Will it be relatively easy to provide?
- What are the limitations of territorial protection, if any?
- Does the agreement allow me to own more than one outlet?
- Will the Franchisor provide me with projected sales and profits for the location I accept? What are those projections based on?
- Will the Franchisor own or head lease the location?
- What does the training program cover? Will the Franchisor help me recruit and train my staff?
- Will further training or seminars are available after I begin operations?
- How much will any additional training cost me?
- What on-going marketing support can I expect from the system?
- Are there periodic strategy and marketing meetings held for Franchisees?
- How will advertising contribution be utilized?
- How much are my royalty payments? How frequently are royalties paid?
- Do the Franchisees benefit from volume discounts and favourable trade terms from approved suppliers?
- What innovations have recently been introduced to the Franchise System?
- Will the Franchise System reflect the terms of the Franchise Agreement?

Choosing With Care

- How long has this product/service been on the market?
- What are the results of market tests, if any?
- What is the target market for this product/service?
- How strong is the demand for this product/service in my territory?
- Would I buy the product/service?

- Is the product/service easy to copy?
- Is the product/services are currently on the market?
- Is this product/service competitive?
- Is the product/service properly packaged?
- Is the product/service a fad? A luxury item? A staple?
- Is it a seasonal product?
- If the product/service is seasonal, will my cash flow be sufficient to carry me through the off-peak season?
- Does the product/service fit my territory?
- Who backs up the product/service warranties or guarantees?
- Is the product/service subject to legislative restrictions?

Building Your Network

- What was the total start-up cost?
- Were there any hidden or unexpected costs when purchasing the franchise?
- Have there ever been problems with the delivery of equipment, fixtures or inventory?
- How long does it take before the business reaches breakeven point?
- Do the Franchisees communicate with each other directly?
- How long did it take other Franchisees' operations to generate sufficient funds to pay them a salary?
- Was the Franchisor's training adequate?
- Have any Franchisees had any serious disagreement with the Franchisor?
- Are Franchisees satisfied with the marketing and advertising support they receive?
- Are Franchisees satisfied with the terms of the Franchise Agreement?
- Would Franchisees end this franchise system to anyone considering it?

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