Franchising in Retail

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Franchising

- A contractual agreement between a franchisor and a retail franchisee that allows the franchisee to conduct business under an established name and according to a given pattern of business
- Franchisee pays an initial fee and a monthly percentage of gross sales in exchange for the exclusive rights to sell goods and services in an area

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Franchise Formats

Product/ Trademark

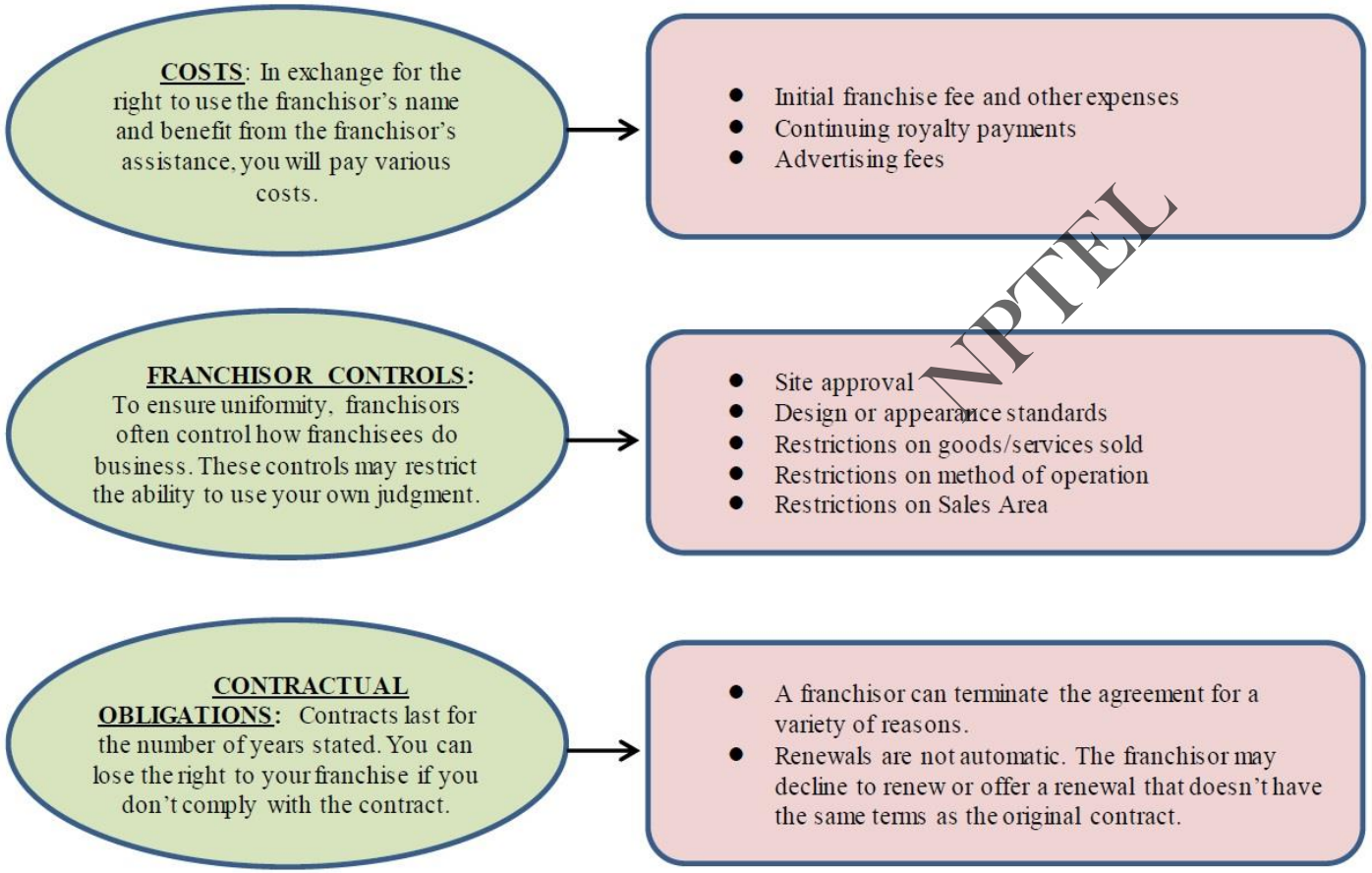
- Franchisee acquires the identity of a franchisor by agreeing to sell products and/or operate under the franchisor name
- Franchisee operates autonomously
- 60% of retail franchising sales

Business Format

- Franchisee receives assistance: location, quality control, accounting systems, startup practices, management training
- Common for restaurants, real-estate

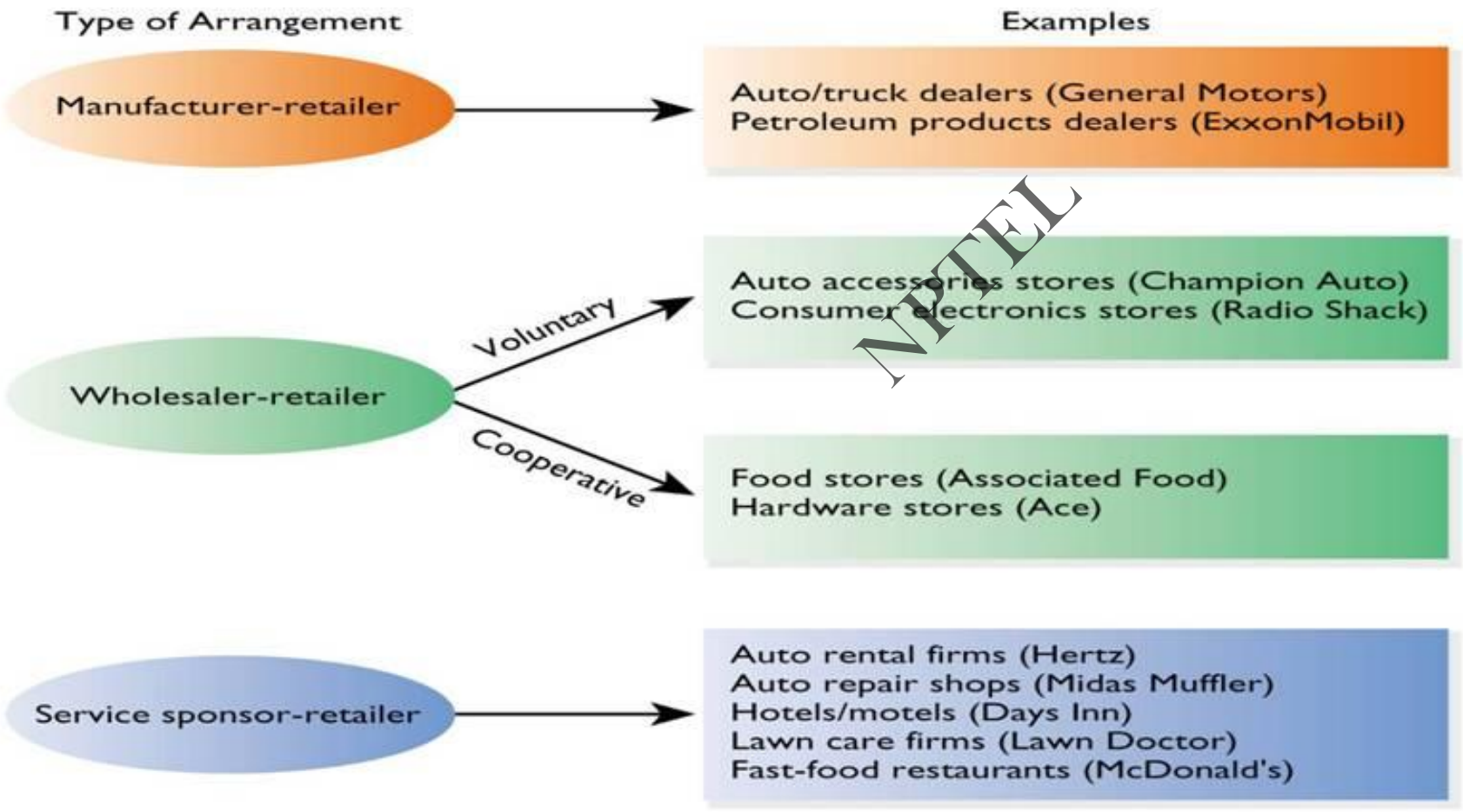
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Selected Factors for Prospective Franchisees to Consider



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Structural Arrangements in Retail Franchising



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Wholesaler-Retailer Structural Franchising Arrangements

- **Voluntary:** A wholesaler sets up a franchise system and grants franchises to individual retailers

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- **Cooperative:** A group of retailers sets up a franchise system and shares the ownership and operations of a wholesaling organization

Competitive State of Franchising

Advantages

- low capital required
- acquisition of well-known names
- operating/ management skills taught
- cooperative marketing possible
- exclusive rights
- less costly per unit

Disadvantages

- over-saturation could occur
- franchisors may overstate potential
- contractual confinement
- agreements may be cancelled or voided
- royalties are based on sales, not profits

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From the Franchisor's Perspective

Benefits

- national or global presence possible
- qualifications for franchisee/operations are set and enforced
- money obtained at delivery
- royalties represent revenue stream

Potential Problems

- potential for harm to reputation
- lack of uniformity may affect customer loyalty
- ineffective franchised units may damage resale value, profitability
- potential limits to franchisor rules

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Potential Conflicts Between Franchisor and Franchisee

- High power of franchisor relative to franchisee. Franchisee needs franchisor approval to sell business, and to extend franchise. Lease is generally in name of franchisor
- Franchisor obtains profit based on gross sales, not on franchisee's profitability
- Franchisor requires goods and services to be purchased from itself or approved vendor
- Franchisor can break up territory of existing franchisee, reducing its sales and profitability

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Thank You

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