

Replication: Franchising & Licensing

FSG-PGDBFS-202

1

Replication:

- Replication is when a business idea or system is copied & rolled out elsewhere in another location

FSG-PGDBFS-202

2

What is franchising?

“A franchise operation is a contractual relationship between the franchisor and franchisee in which the franchisor offers or is obliged to maintain a continuing interest in the business of the franchisee in such areas as know-how and training; wherein the franchisee operates under a common trade name, format and/or procedure owned or controlled by the franchisor, and in which the franchisee has or will make a substantial capital investment in his business from his own resources.”

- Definition by International Franchise Association

FSG-PGDBFS-202

3

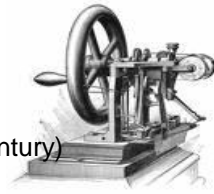
- Franchising is a faster, cheaper form of expansion than adding company-owned stores, because it costs the parent company much less when new stores are owned and operated by a third party. On the flip side, potential for revenue growth is more limited because the parent company will only earn a percentage of the earnings from each new store.

FSG-PGDBFS-202

4

History

- Singer Sewing Machine – first franchise (mid-19th century)



- Automobile (e.g. Ford), petroleum products (e.g. Shell), soft drinks (e.g. Coca Cola)



- Food and restaurants (e.g. McDonald's, Starbucks)



FSG-PGDBFS-202

5

Why Organization goes for franchise

- Home markets saturated – attractive opportunities overseas
- Lack of/relaxation of regulations in most countries
- Expansion of international trade
- Exposure to international media

FSG-PGDBFS-202

6

What is Franchising

- **Franchising:**
 - Is NOT a business or an industry.
 - Is a method of distributing products and services to consumers.
 - Utilizes a network of local owners (“locally owned and operated”) operating under a shared brand.
- **Franchisees:**
 - Pay the franchisor for the right to do business under the shared brand
 - Operate under a specified, controlled business method or format
- **Franchisors:**
 - Provide significant initial and on-going support

FSG-PGDBFS-202

7

Role of Franchisor & Franchisee

	Franchisor	Franchisee
Site Selection	Oversees, may choose	Chooses with approval
Design	Provides Prototype	Implements design
Menu	Set by Franchisor	Changed only by approval
Prices Decides	Recommendations	Decide actual prices

FSG-PGDBFS-202

8

Common Franchising Terms

- **Franchise Fee** – one time fee paid at signing
- **Total Investment** – the amount you will spend to open business
- **Royalties** – % of gross or flat fee
- **Ad Fund** – % of gross or flat fee
- **Term** – # of years of agreement
- **Renewal** – terms outlined in agreement
- **License Transfer** – selling your franchise
- **FDD** – Franchise Disclosure Document

FSG-PGDBFS-202

9

What Franchisor offer

- Training
- National & Regional Advertising
- Operating Procedures & Operational Assistance
- Supervision & Management Support
- Increased Spending Power, Access to Bulk Purchasing & Economies of Scale

FSG-PGDBFS-202

10

Advantages

Franchisor

- Expansion
- Legal Consideration
- Operational Considerations
- Competition

Franchisee

- Expansion
- Quick Start
- Training
- Reduce Risk of Business Failure
- Ready Product Acceptance

FSG-PGDBFS-202

11

Types of franchise

- There are three main types of franchise:
 - Product distribution franchise;
 - Business format franchise; and
 - Management franchise

FSG-PGDBFS-202

12

Product Distribution Franchises

- A product distribution franchise model is very much like a supplier-dealer relationship.
- Typically, the franchisee merely sells the franchisor's products. However, this type of franchise will also include some form of integration of the business activities.

FSG-PGDBFS-202

13

- The franchisor licenses its trademarks and logo to the franchisee but does not necessarily provide them with an ENTIRE system for running their business

FSG-PGDBFS-202

14

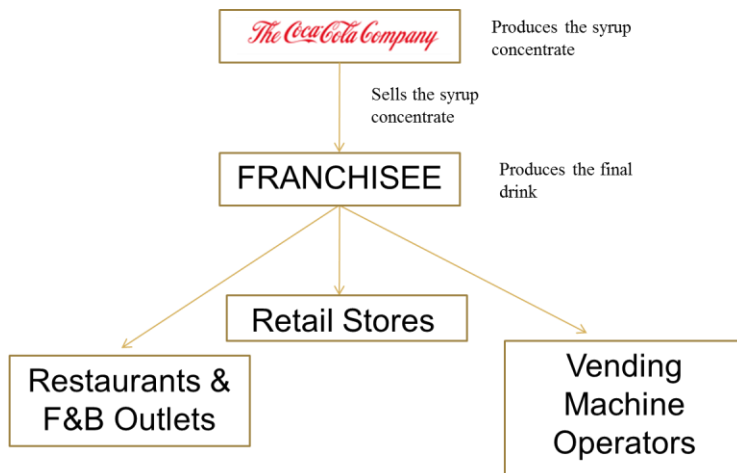
- **Examples of famous product distribution franchise:**



FSG-PGDBFS-202

15

Product distribution franchise



FSG-PGDBFS-202

16

Business format franchise

- In a business format franchise, the integration of the business is more complete.
- The franchisee not only distributes the franchisor's products and services under the franchisor's trade mark, but also implements the franchisor's format and procedure of conducting the business.

FSG-PGDBFS-202

17

Examples



FSG-PGDBFS-202

18

Management Franchise

- A form of service agreement.
- The franchisee provides the management expertise, format and/or procedure for conducting the business.

FSG-PGDBFS-202

19

Examples



FSG-PGDBFS-202

20

Why is franchising important to SMEs?

- Leveraging on a recognised brand name
- Enhancing business image
- Ensuring consistent quality
- Attaining higher productivity/better motivated staff
- Access to good locations
- Economies of scale
- Reducing risks of failure

FSG-PGDBFS-202

21

Common Mistakes of Prospective Franchisees

- Not analyzing the local market in advance
- Not analyzing the competition
- Not making thorough due diligence of the franchisor
- Not choosing the right location

FSG-PGDBFS-202

22

Franchise Documentation

- Operations manual(s)
- Training program
- Legal documentation
franchise contract, franchise offering circular
- Franchise marketing materials
brochure, application, press releases, web page
- Franchisor operations manual
- Franchise registration application(s)

FSG-PGDBFS-202

23

LICENSING

FSG-PGDBFS-202

24

- A company sells licenses to other (typically smaller) companies to use intellectual property (IP), brand, design or business programs.
- These licenses are usually non-exclusive, which means they can be sold to multiple competing companies serving the same market. In this arrangement, the licensing company may exercise control over how its IP is used but does not control the business operations of the licensee.

FSG-PGDBFS-202

25

Form of License

- License is a form of foreign market entry based on a contractual relationship, where a company (the licensor) grants rights to intangible property to another company (the licensee) to use in a specified geographic area for a specific period time and the licensee ordinarily pays a royalty to the licensor

FSG-PGDBFS-202

26

Elements

- Contractual relationship
- Licensor
- Licensee Rights
- Intangible property
- Payment (Royalties)
- Specified geographic area and specific period time

FSG-PGDBFS-202

27

Contractual relationship

- Is the relationship that exists between parts to sign a contract, establishing rights and obligations

FSG-PGDBFS-202

28

Licensor & Licensee

- Licensor: Is obliged to furnish technical information and assistance, agrees to make available to another company abroad, use of its patents and trademarks, its manufacturing processes, its trade secrets, and its managerial and technical services
- Licensee: Is obliged to exploit the rights effectively and to pay compensation to the licensor, agrees to pay the licensor a royalty or other form of payment according to a schedule agreed upon by the two parties

FSG-PGDBFS-202

29

Intangible Property

- Include any item of worth that is not physical in nature.
Patents, inventions,
- formulas, processes, designs, patterns
- Copyrights for literary, musical, or artistic compositions
Trademarks, trade names, brand names
- Methods, programs, procedures, systems
Manufacturing techniques

FSG-PGDBFS-202

30

Drawback

- The major drawback of licensing is the problem of controlling the licensee due to the absence of direct commitment from the international firm granting the licence. After few years, once the know-how is transferred, there is a risk that the foreign firm may begin to act on its own and the international firm may therefore lose that market.

FSG-PGDBFS-202

31


Advantages of Licensing

- A license allows the licensee to use, make and sell an idea, design, name or logo for a fee. They are advantageous for licensors because they allow them to expand their business' reach without having to invest in new locations and distribution networks.

FSG-PGDBFS-202

32

Franchising Vs Licensing

	 Franchising	Licensing
Governed by	Securities law	Contract law
Registration	Required	Not required
Territorial rights	Offered to franchisee	Not offered; licensee can sell similar licenses and products in same area
Support and training	Provided by franchiser	Not provided
Royalty payments	Yes	Yes
Use of trademark/logo	Logo and trademark retained by franchiser and used by franchisee	Can be licensed
Examples	McDonalds, Subway, 7-11, Dunkin Donuts	Microsoft Office
control	Franchiser exercise control over franchisee.	licensor does not have control over licensee

FSG-PGDBFS-202

33