А

Administrative efficiency, 33, 36-40 Advertising: and financial analysis, 136 joint, 96 local, 136 national, 98–99 regional, 97-98 supplier cooperative, 95-96, 99-101 Advertising manual, and the franchisor-franchisee relationship, 110 Agency problems, 36-40 Allied Domecq, 82, 96 Alterations, 72 trade name, use of, 72 Amodio, Joe, 115, 118 Analysis: financial. 133-153 advertising/promotion, 136 cost of goods sold, 135

key transactions, 134-137 labor, 135 rent (occupancy cost), 136 revenue, 135 royalties, 135 margin, 12 transactional, 22-24 Federal Trade Commission (FTC Rule), 178–179 support systems and the franchisor-franchisee relationship, 110-112 using to improve the service delivery system, 108-109 Analytical tools, for monitoring, 86 Approved suppliers, transaction analysis, 112 Argentina, intellectual property authority's web site, 207 Assessment, 19-20 Availability, of labor, in international markets, 199-200 Average ticket price (ATP), 57

В

Bagel Nosh, 119 Bagelz case study, 112-138 Amodio, Joe, 115, 118 bagel industry, 118-119 balance sheet, 122 Becher, Wes, 115, 118, 124-125, 127 Bellobuono, Mike, 113–130 Buck, Peter, 120 business format, 121-124 commissary, 127-128 decision to franchise, 120 Deluca, Fred, 119 due diligence, 116-119 early history of, 113-115 financial analysis, 133-153 advertising/promotion, 136 cost of goods sold, 135 key transactions, 134–137 labor, 135 rent (occupancy cost), 136 revenue, 135 royalties, 135 Franchisee Advertising Fund (FAF), 129 - 130co-branded units, 130 future dilemmas, 130 franchising operations, 120-121 marketing, 128-129 operations, 125-127 organizational structure, 125 per-store earnings (estimated, 1999), 134 return on investment (ROI), 137-138 statement of cash flows, 124 and transaction analysis, 131–132 advertising and public relations, 132 ongoing outlet operations, 132 product supply, 132 UFOC highlights, 137 Whalen, Jamie, 113, 124-125, 127 Bagelz, estimated initial investment for franchise operation, 137 Baja Mexican Grill, 142 Bankruptcy, 184

Baskin-Robbins, 96 Becher, Wes, 115, 118, 124-125, 127 Behavioral problems, 36 Behavioral profiles, 10 Bellobuono, Mike, 113-130 bison1.com. 207 Bliss House, 96 Blockbuster Video, 60 Boston Chicken, 34-35, 40, 48, 58 Boston Market, 51, 142 Brand definition/message, transaction analysis, 111 Brand equity, 27 Brazil, intellectual property authority's web site, 207 Buck, Peter, 120 Budgets, 88 Budgets/forecasts, 88 Built to suit, 69 Burger King, 95 Business development, 3 Business format franchising, 2 Business opportunity ventures, 173 Buyer behavior, influence of, 53-55

С

Canada, intellectual property authority's web site, 207 Cap rate, determining, 69 Capital lease, differentiating between an operating lease and, 71 Central Intelligence Agency, World Factbook, 201 China, and intellectual property piracy, 198 CIPO/OPIC, 207 Coca-Cola, 99 Communication, 89–90, 156, 157–158 informal, 158 Company-owned stores, balancing the franchised outlets and, 44-45 Competition, 10 "Compliance with Foreign Country Disclosure" download, 197 Contract, 81

Control, 75 Control and assistance, 178-181 types of. 179-181 Convenience, 59 Convention centers, 57 Corner locations, 59 Corporate tax rates, and international franchising, 198-199 assessing, 199 Cosi, Inc., 142 Cost of capital, lowering, 73-74 Country Commercial guides (U.S. Dept. of State), 198 Country Reports (U.S. Dept. of State), 201Cover page, disclosure document, 183 Cross-promotion, 96 Cultural differences, effect on franchise in foreign countries. 203

D

DaimlerChrysler, 93 Deluca, Fred, 119 Demographic profiles, 7-8 Disclosure document: bankruptcy, 184 business experience, 183 contracts, 190 copyrights, 188 cover page, 183 earnings claims, 189 financial statements, 190 financing, 186 franchise outlets, list of, 189-190 franchisees, obligations, 186 franchisors, 183 obligations, 186-187 initial franchise fee, 184 initial investment, 185 litigation, 184 obligation to participate in actual operation of the franchised business, 188 other fees, 184

patents, 188 preparing, 182-190 under UFOC guidelines, 182-190 proprietary information, 188 public figures, 189 receipt, 190 renewal/termination/transfer/ dispute resolution, 189 restrictions on services of products/services, 185 restrictions on what the franchisee may sell, 188 territory, 188 trademarks, 188 Discount rate, 40-41 **DNPI. 207** Domino's, 19–20 Drive-through facilities, 60 Dunkin' Donuts, 26, 59, 96, 135 monitoring/controlling, 89 Dynorod, 193

Е

Earnings before interest and taxes (EBIT), 221 Earnings before interests, taxes, depreciation, and amortization (EBITDA), 221 Earnings claims, 189 Eastman Kodak, 22 Economic and political stability: assessing, 201-202 and international franchising, 200-201 Economist Intelligence Unit web site, 201Emerson, Ralph Waldo, 104 Eminent domain clauses, 70 Employee stock ownership plan (ESOP), 220 Entrepreneurial teams, 14-15 Entrepreneurship: behavioral profiles, 10 core of, 5-6 defined, 3

demographic profiles, 7–8 geographic profiles, 7 market demand questions, 6–7 modeling, 5–10 opportunity, 5–6 psychographic profiles, 8–9 Ernst & Young site-selection study, 56–57 Escalation clauses, 70 Exit costs, 156, 159–161 analysis, 160–161

F

FADs, 34 FAF, See Franchisee Advertising Fund (FAF) Failed locations, 136 Federal Trade Commission (FTC), 45-46, 171-172 FTC Rule, 171-175 FTC analysis, 178–179 required payment, 178 significant control and assistance, 178-181 trademark, 178 Fee simple agreement, 68–69 Feedback loop, creating, 89–90 Feedback, soliciting from customers, 86-87 Financed area developers (FADs), 34 Financial analysis, 133-153 advertising/promotion, 136 cost of goods sold, 135 key transactions: focusing on, 134-137 prioritizing, 136 labor, 135 rent (occupancy cost), 136 revenue, 135 royalties, 135 Financial audits, 88-89 Financial goals, 79 Financial reporting: budgets/forecasts, 88 financial audits, 88-89 monitoring/controlling, 87-89

point-of-sale systems, 87-88 Financial statements, 190 Financial structure, 24-25 Financing, 186 Financing alternatives, 67-69 Firestone, Harry, 100 Fitting-out costs, 69-70 For testing, 88 Ford, Henry, 100 Ford Motor Co., 93 and Firestone, 100-101 Ford, William Jr., 100 Forecasts, 88 Foreign Corrupt Practices Act, 203 Franchise advisory council (FAC), 86 Franchise brand/trademark, 3 Franchise, buying, 40-41 Franchise concept development, and beta testing, 66 Franchise Consulting, 197 Franchise disclosure, 45-46 Franchise fees/royalties, 40, 46-47 calculation of, 48 determining the amount of, 41-42 public capitalization, 49 Franchise operations manual, 23 Franchise outlets, list, 189–190 Franchise partner, finding, 25–27 Franchise regulation, evolution, 172 - 173Franchise relationship: and informational asymmetry, 45 key factors in, 48-49 Franchise relationship model (FRM), 17-32, 33, 51 agency issues, 25-27 customer, 19-20 defined, 17-18 financial structure, 24-25 as framework for marshaling resources, 20-22 franchisee-franchisor relationship, dynamics of, 30-31 information systems, 28-29 questions suggested by, 18 relational dynamics, 27-28

service delivery system (SDS), 20 - 22transactional analysis, 22-24 Franchise risk profile template (FRTP), 35-40, 44-45 Franchise seven-year itch, 159 Franchise systems: average investment capital, 44 key feature of, 2 noise in, 30 Franchisee Advertising Fund (FAF), 129 - 130co-branded units, 130 future dilemmas, 130 Franchisee capital, 45 Franchisee marketing, 95 Franchisee underinvesting, 218 Franchisee-franchisor relationship: communication, 156, 157-158 dynamics of, 30-31, 155-169 exit costs, 159-161 trademark/brand, of value of, 156, 158-159 wealth creation, 156 Franchisees: average, 34 cash flow, 216-218 free riding, 26 motivation of, 79 responsibilities of, 23-24 selecting/monitoring, 77-92 shirking, 27 Franchisee's obligations, 186 Franchise relationship model (FRM), 204 Franchises, package and product, 173 Franchising: an alliance between franchisor and franchisee, 4 benchmarks, 47-48 business format, 2 contract, 86 defined, 2-3, 79 as entrepreneurship, 1-16 international, 193-207 key motivation behind it, 4

product, 2 services/products delivered through, 2 size of, 50 tolerance zone, 79-81 and urgency to grow, 26 wealth-creating power of, 33-50 Franchisors, 183 average, 34 franchise fees/royalties, determining the amount of, 41-42marketing, 95 monitoring of franchisees, 80 motivation of. 79 motivations of entrepreneurs to become, 34-35 obligations, 186-187 Free cash flow: increasing, 216-218 franchisee perspective, 217-218 franchisor perspective, 217 Free riding, 79 and marketing, 104 Free riding franchisees, 26 Friendly's Restaurants, 84 FRM, See Franchise relationship model (FRM) FTC, See Federal Trade Commission (FTC)

G

General application laws, 197 General franchise SDS, transaction analysis for, 109 General Motors, 93 General Nutrition Centers, 84 General partnership, 74 Generally accepted accounting principles (GAAP), 71 Geographic profiles, 7 Gorey, Michael, 101 Great American Cookie Company (GACC), 90 Green acre syndrome, 63

Η

Harvest strategy, 209–222 employee stock ownership plan (ESOP), 220 free cash flow, increasing, 216–218 harvest options, 212 initial public offering (IPO), 212–213 management buyouts (MBOs), 219 and valuation of the franchise, 220–221 Houle, Jerry, 96

I

Icahn, Carl. 219 Image Arts Etc., 22 IMPI, 207 Import and customs procedures, 198 assessing, 198-199 Income stream, 40–41 INDECOPI, 207 Information systems, 28–29 Initial public offering (IPO), 94 INPI, 207 Intellectual property, 197 Intellectual property authorities, official web sites of, 207 International Country Risk Guide, 201 International Franchise Association (IFA), 98, 138 web site, 207 International franchising, 193–207 Central Intelligence Agency, World Factbook, 201 checklist, 196 using, 196–205 corporate tax rates, and international franchising, 198 Country Commercial guides (U.S. Dept. of State), 198 Country Reports (U.S. Dept. of State), 201 cultural differences, effect on franchise, 203 economic and political stability:

assessing, 201–202 and international franchising, 200-201 Economist Intelligence Unit web site, 201 forging business relationships, 203-204 franchise launching in a foreign country, 204-205 franchises currently operating in country, 201-202 import and customs procedures, 198 assessing, 198–199 International Country Risk Guide, 201 international market entry strategies, 204 International Monetary Fund (IMF) web site, 199 labor, cost and availability of in international markets, 199-200 language differences, effect on franchise in foreign countries, 202-203 legal/regulatory environment, 196-197 individual country assessments, 197-198 McDonald's, 198 patents, 197 purchasing power of a population, 200 assessing, 200 United Nations Statistics Division, 199-200 World Bank, 200 World Factbook (Central Intelligence Agency), 201 Worldwide Corporate Tax Guide (Ernst & Young), 199 International Monetary Fund (IMF) web site. 199 International Trade Administration, 203 Inventory, and the franchisor-franchisee relationship, 111 Ito-Yokado Company, 211

J

Jack In The Box, 27, 85–86 Jiffy Lube, 10–11, 13, 21, 82, 84–85, 87–98, 135 and fragmented market, 13 task monitoring, 29 and transaction analysis, 108 Joint advertising, 96

Κ

Kampgrounds of America (KOA), 90 Karp, Eric H., 71, 81 KFC (Kentucky Fried Chicken), 93 Kinko, 52 Krispy Kreme, 97 Kroc, Ray, 28, 218

L

Labor: cost and availability of, 199 assessing, 199-200 in international markets, 199-200 and financial analysis, 135 Labor cost, and revenue, 135 Land lease, 69 Language differences, effect on franchise, 202-203 Lasting franchise relationship, building, 91 Lease agreements, 68-69 built to suit, 69 cap rate, determining, 69 eminent domain clauses, 70 escalation clauses, 70 fee simple agreement, 68-69 fitting-out costs, 69-70 land lease, 69 single/double/triple net leases, 70 wraparound mortgage, 69 Leasing: alterations, 72 issues, 71-72 purposes clause, 72 trade name, use of, 72

traps to avoid, 71-72 Lemons problem, 46 Lender's, 119 Leveraged buy out or management buy out (LBO/MBO) strategy, 219 License agreement, 46-48 and marketing, 102 Lifestyle, 9 Limited liability corporation (LLC), 74 Limited liability partnership, 74 Limited partnership, 74 Litigation, 184 "Living dead" investment category, 210 Local advertising, 136 Local marketing, 96 Location inspection/monitoring, and the franchisor-franchisee relationship, 110

M

Mail Boxes, Etc., 22, 99 Management buyout, 219 Margin analysis, 12 Market capitalization rate, 65 Market demand, measuring, 8 Market entrance strategies, spectrum of, 204Market segmentation, 58 Market size, 10–12 Market structure and competition, 10 Marketing: cross-promotion, 96 distribution of benefits, 103 fees, 47 forms of, 95-96 franchisee, 95 franchisor, 95 and free-riding risk, 104 importance to a franchise, 94 joint advertising, 96 and license agreement, 102 local, 96 materials, production of, 101-102 national advertising, 98-99 potential problems, 103

pricing issues, 103 regional advertising, 97-98 scope of, within franchised organizations, 93 and SDS, 93-103 supplier cooperative advertising, 95-96.99-101 Marketplace signal, 46 Master Franchisee arrangement, 205 Material development, transaction analysis, 111 McDonald's, 2, 28, 35, 51, 56, 60, 86, 96, 99, 104, 135, 142-143, 198, 218 international franchising, 193-194 Media placement, transaction analysis, 111 Merry Maids, 42 Mexico: intellectual property authority's web site, 207 and intellectual property piracy, 198 Midas Muffler, 66, 103 Monitoring methods, 84-87 analytical tools, 86 customers, 86-87 external service audits and peer review, 85-86 field support, 84-85 Monitoring quality, 36 Multiple territory franchise sales, 205

Ν

National advertising, 98–99 Noise in a franchise system, 30 North American Securities Administrators Association (NASAA), 172

0

Off-balance-sheet ownership structures, 74 O'Naturals, 55 Ongoing outlet operations, transaction analysis for, 110–111 Operating manual, and the franchisorfranchisee relationship, 110 Operations manual, developing, 83–84 Opportunity, 5–6 Opportunity recognition, 10–12 margin analysis, 12 market size, 10–12 market structure and competition, 10

Р

Panera Bread: average unit sales, 150-151 average working capital, 149 case study, 139-152 advertising/promotion, 140 and Au Bon Pain, 141 birth of company, 142–143 commissary-less cafes, 144 cost of goods sold, 139 early history of, 140-141 expansion strategy, 143-144 fast-casual dining, 141–142 franchise concept, 143 getting started, 147 growth strategy, 143-144 initial investment for a franchise, 147–149 labor, 139 Peterman, David, 140–152 PR restaurant operations, 147-151 PR Restaurants, LLC LLC, 145–146 rent, 139 revenue, 139 Roberts, Mitch, 140–152 Rosenthal, Ken, 140–141 royalties, 139 Saint Louis Bread Company, 140-141 service delivery system, 143-144 Shaich, Ron, 141–142 single-unit franchise balance sheet/income statement, 144 - 145unit costs, 151 web site address, 152 Pannel Kerr Forster, 61

Papa John's Pizza, 195 Parent, Alexis, 78 Patents, 188, 197 PDV, See Present discounted value (PDV) Peet's, 142 Pennzoil, 95 Pepsi, 95, 104 Performance level, 36 Personality, 9 Peru, intellectual property authority's web site, 207 Peterman, David, 140–152 Petty, William, 210 Pickens, T. Boone, 219 Pizza Hut, 17-20, 29, 68, 93, 155 location choice, 55 SDS and construction, 68 Planned purchase behavior, 55 Point-of-sale systems, 87-88 Present discounted value (PDV), 38, 40-41,47 exercise, 41 Pricing issues, 103 Primary target audience (PTA), 52, 94 complementary vs. contradictory neighbors, 60 demographics, 58 identification of density of, 58-59 permitting, 59-60 site visibility, 59 traffic flow to the site, 60 traffic patterns, 59 traffic volume, 59 zoning, 59-60 Principal-agent alliance, 28 Product franchising, 2 Product specifications, transaction analysis, 112 Projecting revenue, 20 Promotion: and financial analysis, 136 and transaction analysis, 111 Promotion line items, 136 Prontaprint, 193 Psychographic profiles, 8-9

PTA, *See* Primary target audience (PTA)
Public capitalization, 49
Purchase behavior: planned, 55 semi-planned, 54–55 spontaneous, 53–54
Purchase behavior quick screen, 56
Purchasing behavior, and PTA research, 53
Purchasing power of a population, 200 assessing, 200
Purposes clause, 72

Q

Quantitative customer ratings, 86 Quick Lube Franchisee Company (QFLC) case study, 161-169 budget worksheet, 164 communication, 162 consolidated cash flow report, 167 consolidated worksheet, 165-166 early success/growth, 163-168 exit costs, 162 Hergert, Frank, 163, 169 historical background, 163 Huston era, 168–169 litigation, 169 Martin, Jeff, 163 Roberts, Mark, 165 Super Lube's relationship with its franchisees, 168 trademark/brand, of value of, 162 wealth creation, 162 Quick-service restaurant (QSR), 142

R

Radio Shack, 43, 51 Real estate, 52 basics of, 53 construction, 67 and the engineering of financial strength through offbalance-sheet leasing, 73 how to select, 56–63

how to value, 64-66 cost approach, 64 income capitalization approach, 65 sales comparison approach, 64-65 ownership, advantages of, 72 Real estate theoretical, theoretical valuation technique for, 65-66 Real estate trust, 74 Regional advertising, 97-98 Regional marketing, transaction analysis, 111 Regions, 95 Registration process, mechanics of, 191 Relational dynamics, 27-28, 155 communication, 156, 157-158 exit costs, 156, 159-161 trademark/brand, of value of, 156, 158-159 wealth creation, 156 Relevance, 14 Rent (occupancy cost), and financial analysis, 136 Research and development, and the franchisor-franchisee relationship, 111-112 Resource constraints, 33, 45 Return on investment (ROI), 12, 136 Revenue: and financial analysis, 135 projecting, 20 Risk allocation, 75 Risk management, 33–34 and size, 42-44 Risk- fourth management, rule strategy, 43 - 44Roberts, Mitch, 14, 140-152 Rosenberg, Bob, 91 Rosenthal, Ken, 140-141 Roy Rogers, 67 Royalties, 135 calculation, 48 determining the amount, 41-42 and financial analysis, 135 public capitalization, 49

S

Sample transaction list, 24 Sbarro's, 60 SDS, See Service delivery system (SDS) Semi-planned purchase behavior, 54-55 Service delivery system (SDS), 14, 20-22, 33, 51-52 and construction, 68 and marketing, 93-105 monitoring/controlling, 82-84 platform for, 53 using transaction analysis to improve, 108-109 value of carefully planning, 21-22 ServiceMaster, 29 7-Eleven, 59, 193, 210 as unique harvest opportunity, 211 Shaich, Ron, 141-142 Sherman, Andrew J., 191–192 Shirking, 79 Shirking franchise, 27 Shopping centers, relocation issues for franchises in, 71-72 Shopping malls, 57 Single/double/triple net leases, 70 Site flow, 16 Site selection template, 61-63 Site selection, X factors of, 63-64 Size, and risk management, 42-44 Skeletsky, Derek, 1 Small Business Administration (SBA), 94 Social classes, U.S., 9 Sole proprietorship, 74 Southland Ice Company, 193 Speers, Lincoln, 1 Spinelli, Steve, 21–22 Spontaneous purchase behavior, 53-54 Stakeholders, 3 Standalone, launching, 40-41 Standard metropolitan statistical areas (SMSAs), 11 Standardization, 67 State franchise laws, 175–177 definitions under state law, 175-177 majority state definition, 176

minority state definition, 176 New York definition, 176 Virginia definition, 176 Subaru, 96 Supplier cooperative advertising, 95–96, 99–101 downside to, 99–101 Supply contract development, transaction analysis, 112 Supply requirements, 47 Surveying customers, 86–87

Т

Taco Bell, 60, 93, 96 Target customer, defining, 8 Territory, 188 Territory franchise sales, 205 Thomas, David, 24 Togo's Eateries, 14 Tolerance zone, 79-81 and prioritizing operations and marketing, 81 Tote'm, 193 Townsend, David, 51 Trade areas, 57–58 Trademark/brand, value of, 156, 158 - 159Trademarks, 178, 188, 197 Traffic flow to the site, 60 Traffic patterns, 59 Traffic volume, 59 Training manual, and the franchisorfranchisee relationship, 110 Transaction analysis, 22–24, 107–132 support systems and the franchisorfranchisee relationship, 110 - 112using to improve the service delivery system, 108-109 TRIPS agreement, 197

U

UFOC (Uniform Franchise Offering Circular), 45, 97–98, 136, 157, 172, 177 UFOC Guidelines, 172 United Nations Statistics Division. 199 - 200United States, intellectual property authority's web site, 207 Uruguay, intellectual property authority's web site, 207 U.S. Commercial Service, 203–204 U.S. Copyright Office, 207 U.S. franchise laws, 171-192 determining what is a franchise, guidelines for, 177-181 disclosure document, preparing, 182 - 190federal and state franchise regulation, overview of, 171 - 172Federal Trade Commission (FTC Rule). 171-175 FTC analysis, 178-179 required payment, 178 significant control and assistance, 178-181 trademark, 178 franchise regulation, evolution of, 172 - 173key trends in U.S. franchising, 171-181 registration process, mechanics of, 191 state franchise laws, 175–177 definitions under state law. 175 - 177majority state definition, 176 minority state definition, 176 New York definition, 176 Virginia definition, 176 U.S. Patent and Trademark Office, 207

V

Valuation of the franchise, and harvest strategy, 220–221

Vital organs of entrepreneurs, 14

W

Wealth creation, 33-50, 156–157, 162
Wendy's, 24–25, 60, 143
Weyerhaeuser, 99
Whalen, Jamie, 113, 124–125, 127
Wide area network (WAN)-based pointof-sale systems, 88
World Bank, 200
World Factbook (Central Intelligence Agency), 201 World Trade Organization (WTO), 197 Worldwide Corporate Tax Guide (Ernst & Young), 199 Wraparound mortgage, 69

Х

X factors of site selection, 63–64 current and future traffic patterns, 64 employee base, 63 green acre syndrome, 63