Identify the Advantages and Disadvantages of Owning a Franchise

Unit: Entrepreneur Skills and Business Concepts

Problem Area: Identify Various Types of Business Ownerships

Lesson: Identify the Advantages and Disadvantages of Owning a Franchise

Student Learning Objectives. Instruction in this lesson should result in students achieving the following objectives:

1. **Describe franchise ownership.**
2. **Identify and describe the advantages of franchise ownership.**
3. **Identify and describe the disadvantages of franchise ownership.**

List of Resources. The following resources may be useful in teaching this lesson:

“Franchise Fee Made Simple,” *Entrepreneur.com*. Accessed Nov. 30, 2007 <http://www.entrepreneur.com/franchises/franchiseexpertsarchive/article51174.html>.

Green L., Cynthia. *Entrepreneurship in Action*. South-Western, 2006.

List of Equipment, Tools, Supplies, and Facilities

- ✓ Overhead or PowerPoint projector
- ✓ Visual(s) from accompanying master(s)
- ✓ Copies of sample test, lab sheet(s), and/or other items designed for duplication
- ✓ Materials listed on duplicated items
- ✓ Computers with printers and Internet access
- ✓ Classroom resource and reference materials

Terms. The following terms are presented in this lesson (shown in bold italics):

- advertising fees
- franchise
- franchisee
- franchisor
- initial franchise fee
- royalty fee

Interest Approach. Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situation. A possible approach is included here.

Show pictures of a McDonald's restaurant, Subway restaurant, and a Jiffy Lube. Ask the students the following:

- *How many of these businesses are located in this geographic area?*
- *How many of you work at one of these businesses?*
- *What is required to start one of these businesses?*

SUMMARY OF CONTENT AND TEACHING STRATEGIES

Objective 1: Describe franchise ownership.

Anticipated Problem: What is a franchise?

I. A ***franchise*** is a legal agreement that gives an individual the right to market a company's products or services in a particular area.

A. Franchise ownership

1. The ***franchisee*** is the individual who purchases a franchise agreement.
2. The ***franchisor*** is the person or company offering a franchise for purchase.
3. The ***initial franchise fee*** is a fee paid by the franchisee in return for the right to run the franchise.
    a. The initial franchise fee is an initial check you write to the franchisor when you sign your franchise agreement.
    b. It is the cost of joining the franchise system.
    c. It is usually a fairly large flat fee.
4. A ***royalty fee*** usually involves weekly or monthly payments (or another regular schedule) made by the franchisee to the seller of the franchise; it is the principal fee in franchising, other than the franchise fee.
    a. In some systems, it is known as the continuing royalty.
    b. It refers to the checks you send to your franchisor on a routine basis throughout the term of the agreement.
    c. You pay this for staying in the system.
    d. While it varies from franchisor to franchisor, the royalty is typically calculated as a percentage of your sales.
    e. Many franchisors today don't even need you to send them a check. When you sign the franchise agreement, you may give them permission to reach into your checking account and wire transfer the payment directly to them.
5. An ***advertising fee*** refers to advertising costs, as directed by the franchisor. It may be an expense included in the franchise agreement.

Many techniques can be used to help students master this objective. Beyond discussing the terms involved with franchises, ask students to go on-site at a franchise of their choice to determine what is required to begin that franchise. Use questions at the end of the chapter for further practice and review.

Objective 2: Identify and describe the advantages of franchise ownership.

Anticipated Problem: What are some advantages of owning a franchise?

II. Advantages of franchise ownership

A. You gain the benefit of a franchisor's experience and knowledge, which reduces the possibility of multiple business mistakes. In particular, franchisees are spared many of the administrative headaches associated with setting up a new business.

B. In many cases, the franchisee has the advantage of the brand name and reputation that has already been established by the franchisor.

C. The franchisor may offer training and ongoing support within the package.

D. The franchisee may benefit from many of the franchisor's activities (e.g., advertising, marketing, research, and development) and may have the additional advantage of enhanced buying power.

E. A market-tested and structured franchise system, offered by a competent franchisor, offers the franchisee more of a safety net than going into business independently.

F. As with any form of self-employment, the franchisee would be working for his or her own future and not someone else's.

G. It is a well-respected method and model of business start-up.

H. There may be less risk in buying a business or franchise, or joining a family business, than in starting a new business. Banks may perceive a franchise investment as a lower risk than other new business start-ups.

Many techniques can be used to help students master this objective. Engage in a classroom discussion regarding illustrations from VM–A. Use questions at the end of the chapter for further practice and review.

Objective 3: Identify and describe the disadvantages of franchise ownership.

Anticipated Problem: What are some disadvantages of owning a franchise?

III. Disadvantages of franchise ownership

A. A percentage of the profits are shared with the franchisor.

B. A franchisee is not entirely "the boss."

C. Some business practices may be restricted (e.g., choice of suppliers, employment policies, customer base and territory).

D. A monetary investment is required.

E. The franchisee is dependent upon the franchisor and other franchisees to maintain the integrity of the brand. One bad apple could adversely affect the whole network.

F. Franchising is a complex area with many sources of potential conflict between the franchisor and franchisee, particularly regarding the terms of the contract.

G. When a franchise agreement expires, it does not renew automatically.

Many techniques can be used to help students master this objective. As examples, use illustration VM–B. Use questions at the end of the chapter for further practice and review.

Review/Summary. Use the student learning objectives to summarize the lesson. Have students explain the content associated with each objective. Student responses can be used in determining which objectives need to be reviewed or taught from a different angle. Questions at the ends of chapters in the textbook and workbook pages may also be used in the review/summary.

Application. Use the included visual masters to apply the information presented in the lesson.

Evaluation. Evaluation should focus on student achievement of the objectives for the lesson. Various techniques can be used, such as student performance on the application activities. A sample written test is provided.

Answers to Sample Test:

Part One: True or False

1. T
2. F
3. F
4. F
5. T
6. T
7. T
8. T

Part Two: Multiple Choice

1. d
2. d
3. b
4. c

Part Three: Short Answer

Students may state any three facts for each fee as acceptable answers.

A. Initial franchise fee:
   - It is a fee paid by the franchisee in return for the right to run the franchise.
   - It is an initial check you write to the franchisor when you sign your franchise agreement.
   - It is the cost of joining the franchise system.
   - It is usually a fairly large flat fee.

B. Royalty fee:
   - It is usually weekly or monthly payments (or another regular schedule) made by the franchisee to the seller of the franchise.
   - It is the principal fee in franchising, other than the franchise fee.
   - In some systems, it is known as the continuing royalty.
   - It refers to the checks you send to your franchisor on a routine basis throughout the term of the agreement.
   - You pay this for staying in the system.
   - While it varies from franchisor to franchisor, the royalty is typically calculated as a percentage of your sales.
   - Many franchisors today don't even need you to send them a check. When you sign the franchise agreement, you may give them permission to reach into your checking account and wire transfer the payment directly to them.

Sample Test

Name ______________________________

Identify the Advantages and Disadvantages of Owning a Franchise

Part One: True or False

Instructions: **Write T for true or F for false.**

_____1. An advantage of buying an existing business is that banks are more likely to lend money to an established business.

_____2. A disadvantage of buying an existing business is that some of your profits go to the franchisee.

_____3. When a franchise expires, the agreement renews automatically.

_____4. The initial franchising fee is included with such costs as renting a facility and purchasing inventory.

_____5. In a franchise, some business practices may be restricted, such as choice of suppliers, employment policies, customer base, and territory.

_____6. The franchisee pays royalty fees weekly, monthly, or yearly.

_____7. There is more risk in starting a new business than in joining a family business or buying a franchise.

_____8. One of the advantages of buying a franchise is the benefits associated with franchisor's experience and knowledge.

Part Two: Multiple Choice

Instructions: **Write the letter of the correct answer.**

_____1. Before buying a franchise, an individual should _____:

a. determine all costs and royalty fees
b. have an attorney examine the agreement
c. find out if you are guaranteed an exclusive territory
d. All of the above

_____2. Operating costs of a franchise _____:

a. are paid by the franchisee
b. include a fee for the right to run the franchise
c. include a fee for advertising
d. All of the above

_____3. One disadvantage of franchise ownership is that _____:

a. it is a well-respected way of starting a business
b. you must pay royalty fees to the franchisor
c. you receive ongoing training from the franchisor
d. you can take advantage of the franchisor's name and reputation

_____4. One advantage of franchise ownership is that _____:

a. a percentage of the profits goes to the franchisor
b. you are your own boss
c. franchisors assist with marketing and advertising
d. the personal monetary investment is low

Part Three: Short Answer

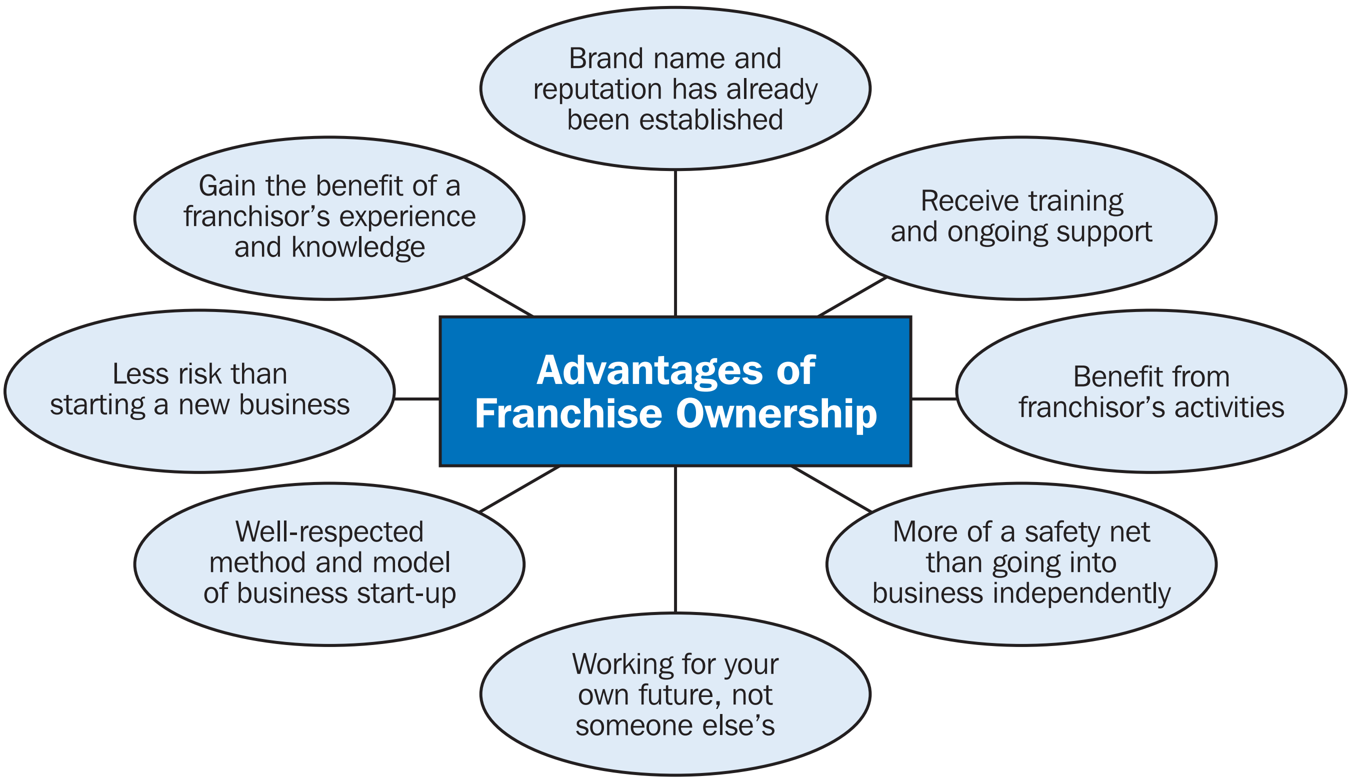
Instructions: **Complete the following.**

Describe these operating costs of a franchise.

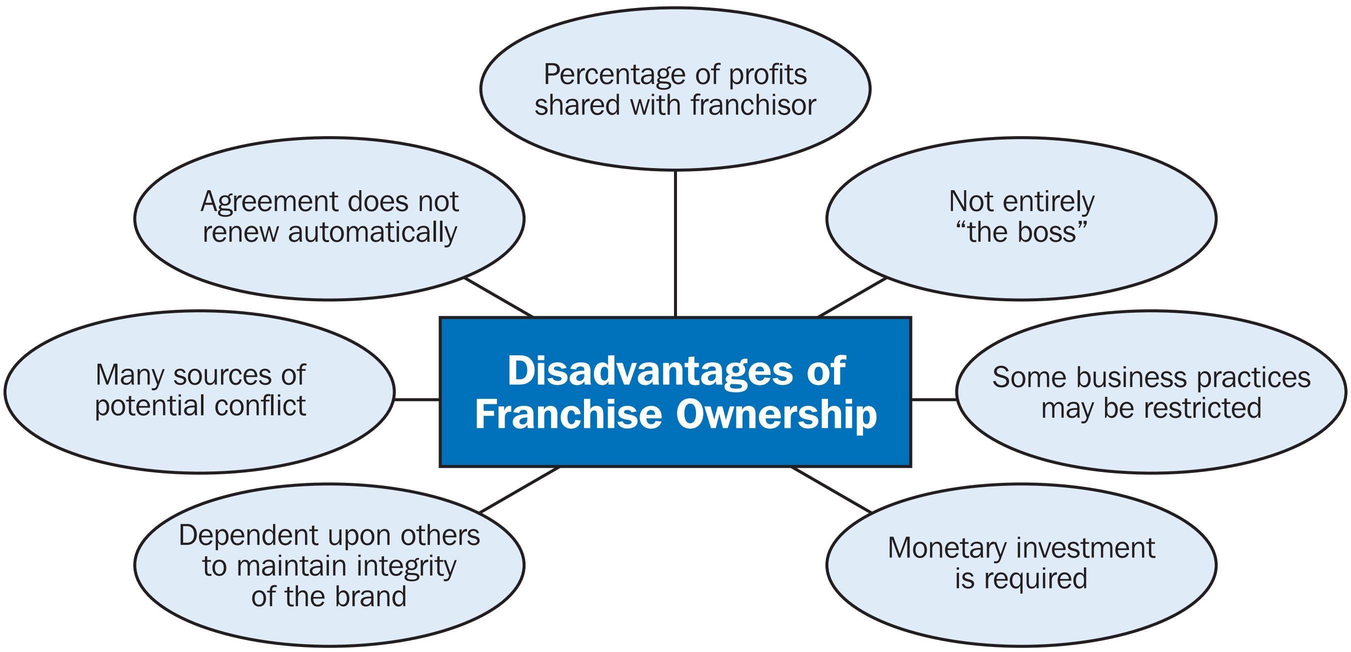
A. Initial franchise fee

B. Royalty fee

ADVANTAGES OF FRANCHISE OWNERSHIP



DISADVANTAGES OF FRANCHISE OWNERSHIP



Name ________________________________

Franchise Ownership Presentation

Purpose

The purpose of this activity is expand knowledge of franchises, highlighting the advantages and disadvantages of ownership.

Objectives

1. Research a franchise in the United States.
2. Determine the advantages and disadvantages of owning this franchise.
3. Host a PowerPoint presentation.

Materials

- PowerPoint software

Procedure

1. Use the Internet to research one specific franchise of interest to you.
2. List the advantages and disadvantages of owning this franchise.
3. Present your findings to the class in a PowerPoint presentation.