

Franchising Iran 2016

By Poul Wathne
Professor
Denmark

In cooperation with Persis Mind Explorer



Definition of Franchising

- **Franchising is a long term cooperative relationship between two entities:**
 - 1. A franchisor and one or morer franchisees.
 - 2. That is based on an agreement in which the franchisor provides a licensed privilege to the franchisee to do business.
 - 3. The franchisor grants the franchisee the right to use a developed concept, including trademarks and brand names, production, service and marketing methods and the entire busines operation model for a fee.
 - 4. The franchisee then provides the time, capital, and desire to utilize the brand and services provided by the franchisor to build a thriving busines.

Your Small Business Franchising Solution





Definition of Franchising

- **Franchise:**
- A privilege or right officially granted to offer specific products or services under explicit guidelines at a certain location for a declared period of time.
- **Franchise Agreement:**
- The legal document between the Franchisor and the Franchisee that governs the relationship between the two entities for a specified period of time.
- It frames the relationship in a concise manner.

Definition of Franchising

- **Franchisee:**
- A person or entity to whom the right to conduct a business is granted by the franchisor or licensor.
- **Franchisor:**
- The company owning/controlling the right to grant franchises to potential franchisees.



- PARTNER
- SUPPLIER
- DISTRIBUTION

Franchise

TRADEMARK



AGREEMENT



INVESTMENT

LOCATION

What is Franchising ?

A continuing relationship in which a franchisor provides a licensed privilege to the franchisee to do business and offers assistance in organizing, training, merchandising, marketing and managing in return for a monetary consideration.



What is Franchising

- Franchising is a business strategy a company use to capturing market share.
- Franchising is a business for getting and keeping customers.
- Franchising is a marketing system for creating image ind the minds of current and future customers.
- Franchising is:
 - 1. A brand identification
 - 2. A successful method of doing business
 - 3. A proven marketing and distribution system

Advantages and disadvantages of Franchising

- There are advantages and disadvantages to any course of action, and choosing a franchise is not different.

Advantages of Franchising

- 1. The franchisee's lack of basic or specialised knowledge is overcome by the training programme of the franchisor.
- 2. The franchisee has the incentive of owning their own business with the additional benefit of continuing assistance from the franchisor.
- 3. In most cases, the franchisee business benefits from operating under a name and reputation (brand image) which is already well established in the mind and eye of the public.

Advantages of Franchising

- 4. The franchisee will usually need **less capital** than for setting up a business independently because the franchisor, through their **pilot operation**, will have eliminated unnecessary expense.
- 5. The franchisee provides the services:
 - The **application of developed criteria** for site selection and identification of trade location.
 - Guidance to the franchisee to assist in obtaining **occupation rights to the trading location**.
 - The training of the franchisee and their staff in the operation of the **business format**.
 - Training of the franchisee in **accounting methods, business control, marketing, promotion**.
 - The **purchase of equipment**.

Advantages of Franchising

To the franchisor

- Fast and well controlled distribution of its products
- No need to construct and operate its own outlets
- More working capital available for expanded production and advertising
- Franchising agreements maintain product and quality standards
- Motivated work force of franchisees

To the franchisee

- Opportunity to start a proven business with limited capital
- Guaranteed customers
- Franchisor available for advice and guidance
- Materials for local promotional campaigns and participation in national campaigns
- Cost savings when purchasing in cooperation

Disadvantages of Franchising

- 1. Inevitably, the relationship between the franchisor and franchisee must involve the **imposition of control**.
- 2. The franchisee will have to pay the franchisor for the **services provided** and for the use of the system. (**Fee**)
- 3. The franchisee contract will contain some **restrictions against the sale or transfer** of the franchised business.
- 4. The **fees to the franchisor** to cover the cost of dealing with applications and training of personal.
- 5. The franchisee may find themselves becoming too dependent upon the franchisor. (**Lack of personal drive**)

Disadvantages of Franchising

- 6. The **franchisor's policies** may affect the franchisee's profitability.
- 7. The **franchisor** may **make mistakes** in their policies.
- 8. The good name of the franchised business and its brand image may become less reputable for reasons beyond their control.

DISADVANTAGES of FRANCHISING

*Advantages &
Disadvantages
of Franchises*

LG5 *

- Large start-up costs
- Shared profit
- Management regulation
- Coattail effects
- Restrictions on selling
- Fraudulent franchisors



Why Internationalise

By Poul Wathne

Professor

Denmark

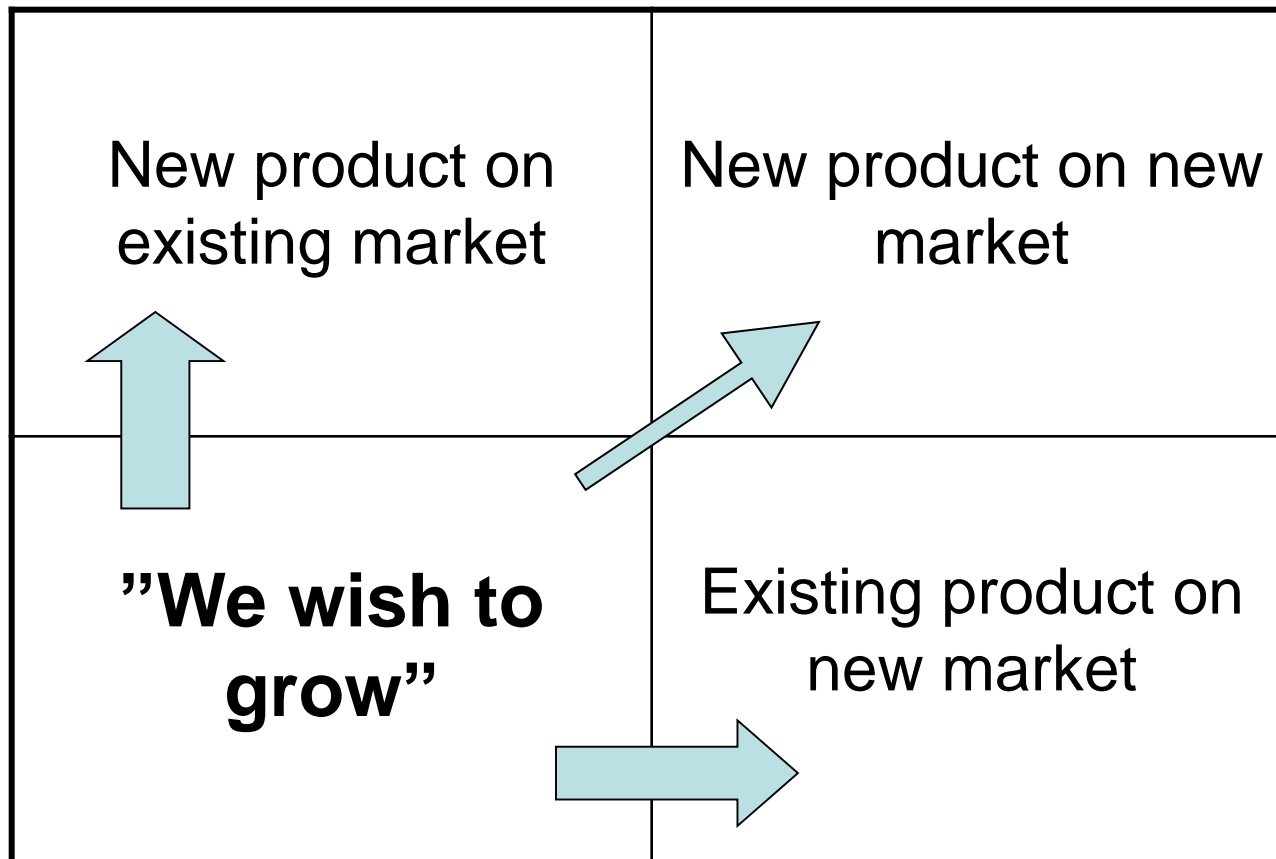
In cooperation with Persis Mind Explorer



Why internationalise (1)?



Why internationalise (2)?



Why internationalise (3)?

- Limited domestic market (e.g. Textile, pork, furniture, wind power...)
- As a next natural step in a planned internationalisation process
”
- Born Global” companies
- As a first step in an internationalisation process which is far from always planned (e.g. our client has moved to China)
- Because there is a potential business waiting!
- **We need access to:**
 - Low(er) production costs
 - available man power (not only unskilled workers!)
 - raw materials
 - local technology and techniques
 - market knowledge and local network; step stone to regional markets

The 3 most important conditions for succes

- The right business idea
- The right partner (partners)
- The right advisors and ”rettidig omhu”

With due focus on:

- Cultural differencies and challenges
- The good communication

The 3 most important conditions for succes

- **A sustainable business idea**

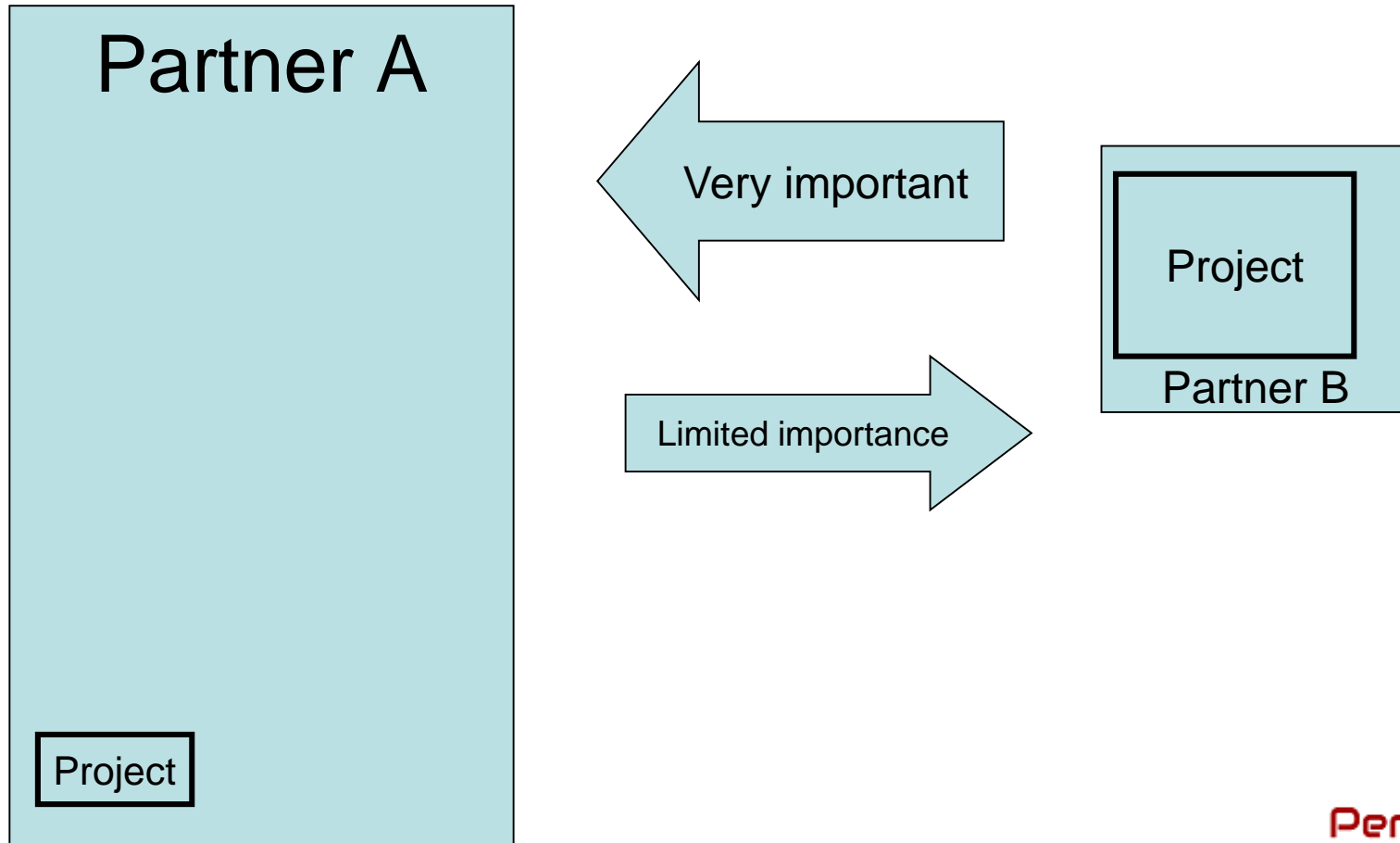
- Patience, but too long term
- Focus on profit potential (local market is not always as profitable as expected)
- Sustainable business plan:
 - Will it become a good business (profit/loss)?
 - Will we have sufficient financial resources to keep business running until we have a profitable business (cash flow)?
- Options for overrun financing
- Risk of corruption and dependency (corruption profile)
- All business ideas must be backed by relevant and sufficient resources.

The 3 most important conditions for succes

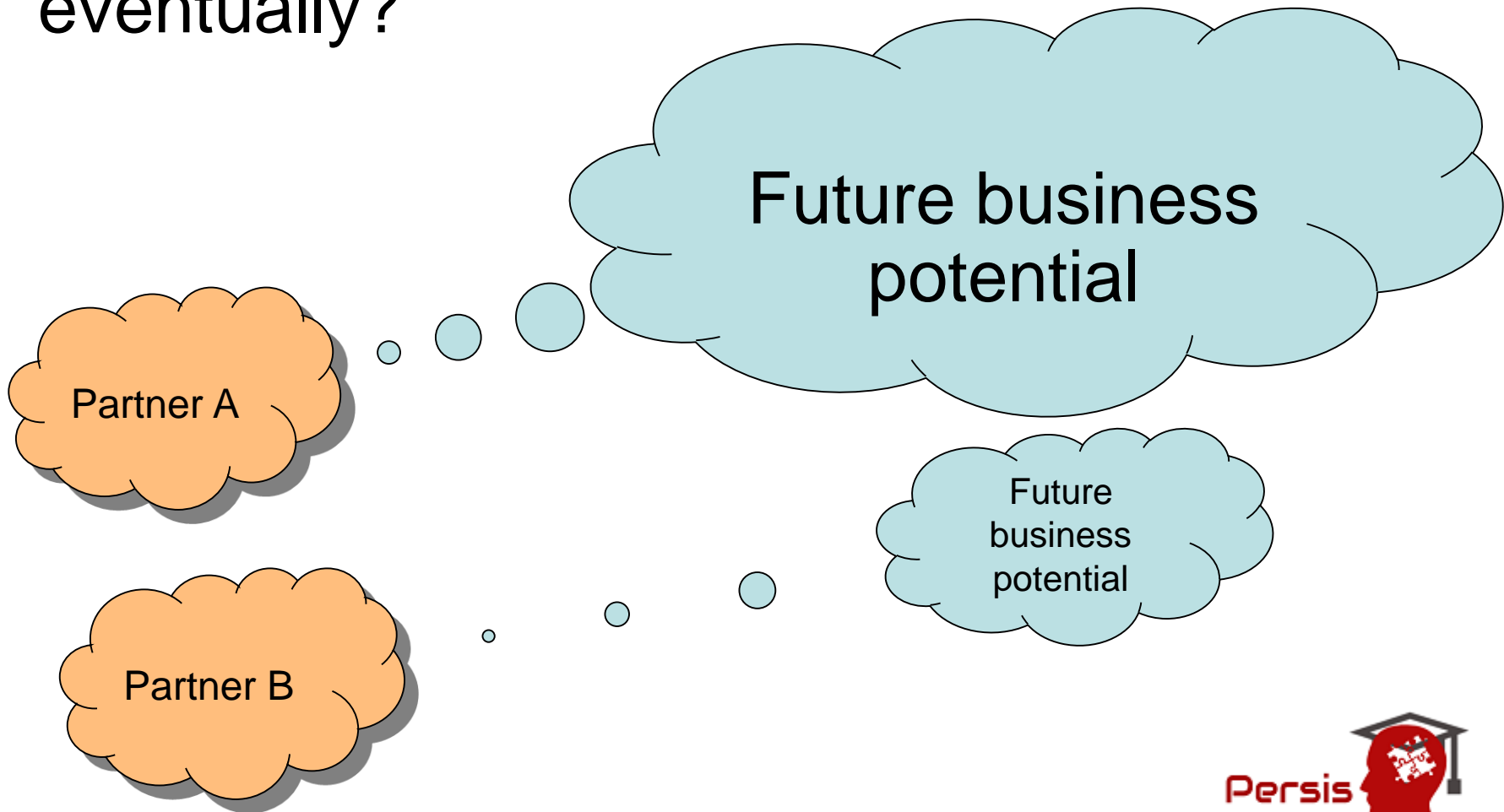
- **Important parametres for choice of partners:**

- Technology, type of staff, certificates (ISO, SA, Fairtrade etc)
- Size, age, history
- Personality, chemistry, gut feeling. First impression often is the final impression
- Ambitions for the business (growth, new markets, new technologies etc)
- International experience
- Financial strength
- Presentation on print and digital
- English skills

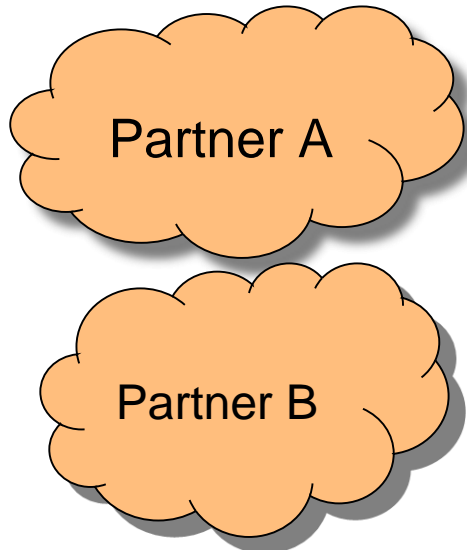
Equal ambitions?



How promising is this business idea eventually?



...and when will it become profitable?



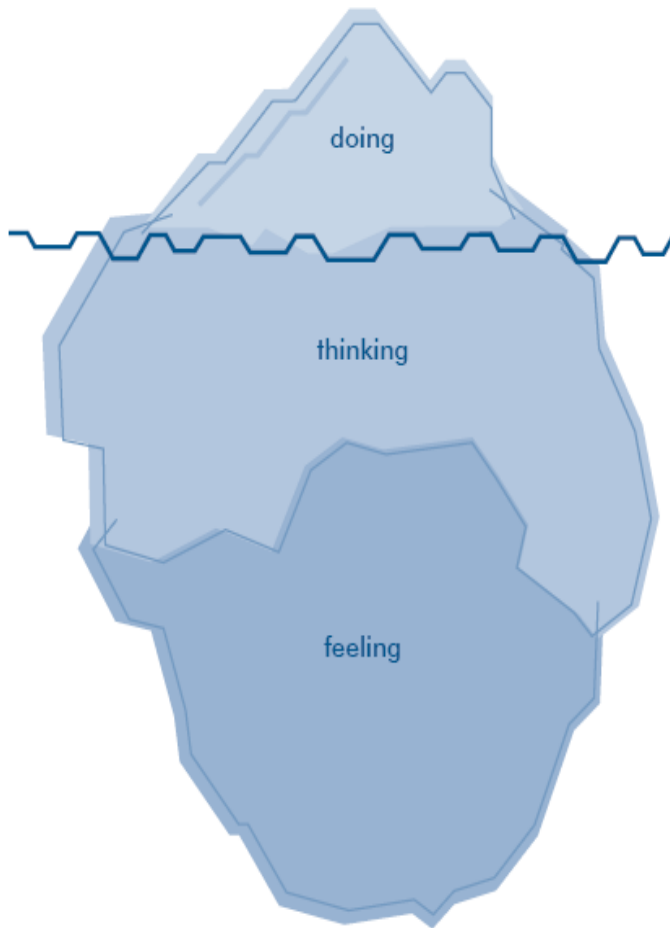
	Y01	Y02	Y03	Y04	Y05
Partner A	-	-	0	0	+
Partner B	0	+	+	+	+

The 3 most important conditions for succes

The right advisors

- A good independant lawyer with some international experience for consultancy on legal aspects, permissions and support in case of emergency
- A good and independant auditor with international experience (don't save money here!)
- Support from your network: Board, family, employees, bank etc.
- Sparring with other Danish or European business people in the same country – there are always somebody to ask and its free of charge.

Culture can change everything



- Culture ice berg: 10% visible and 90% invisible
- Communication is between a sender and a receiver
- Cultural differences and misunderstood communication can harm the business idea.

What is culture, then?

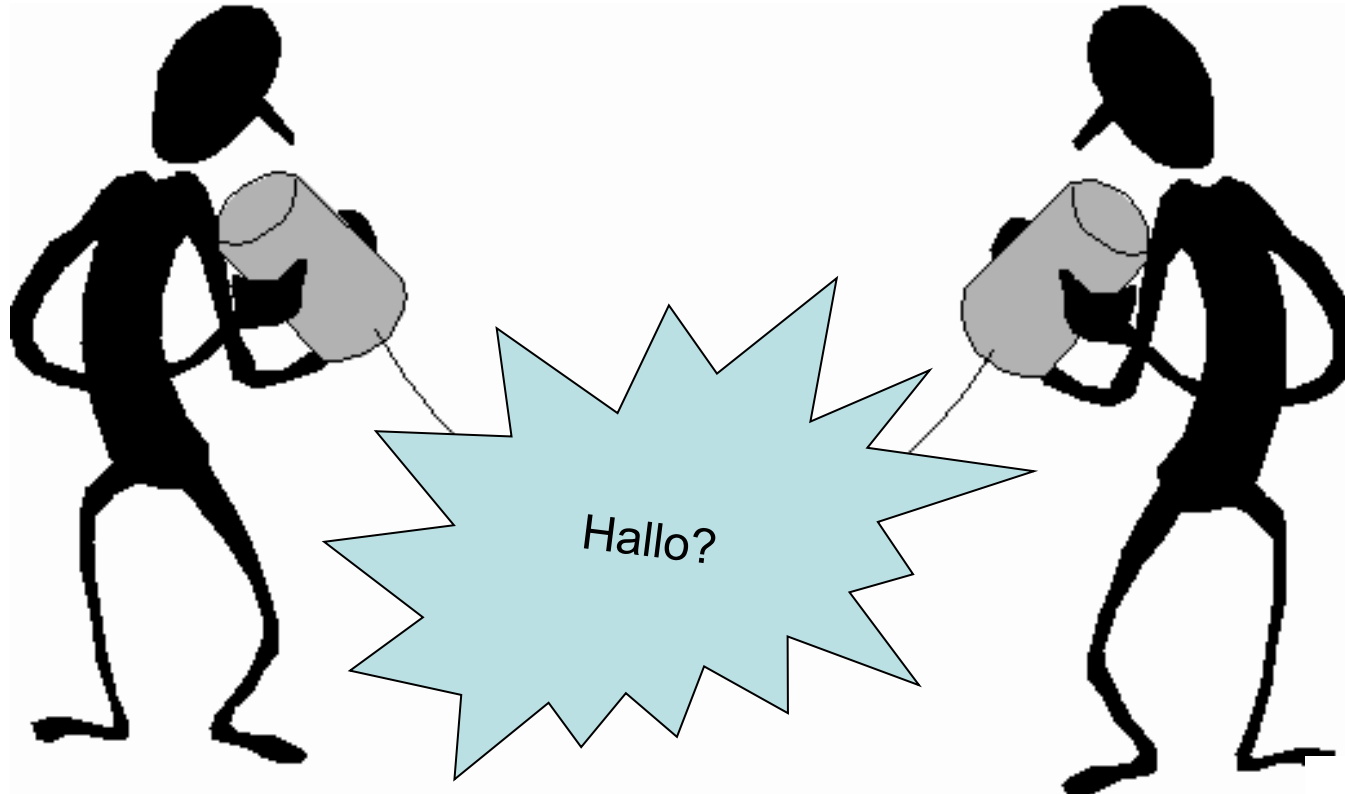
- “Culture” is hard to define in a few words and many wise definitions exist. Some important points are however:
 - Culture is shared
 - Culture is not material
 - Culture is both visible and invisible

Culture stereotypes

*“**Heaven**” is where the cooks are French, the mechanics are German, the policemen are English, the lovers are Italian, and it is all organised by the Swiss*

*“**Hell**” is where the policemen are German, the mechanics are French, the cooks are English, the lovers are Swiss, and it is all organised by the Italians*

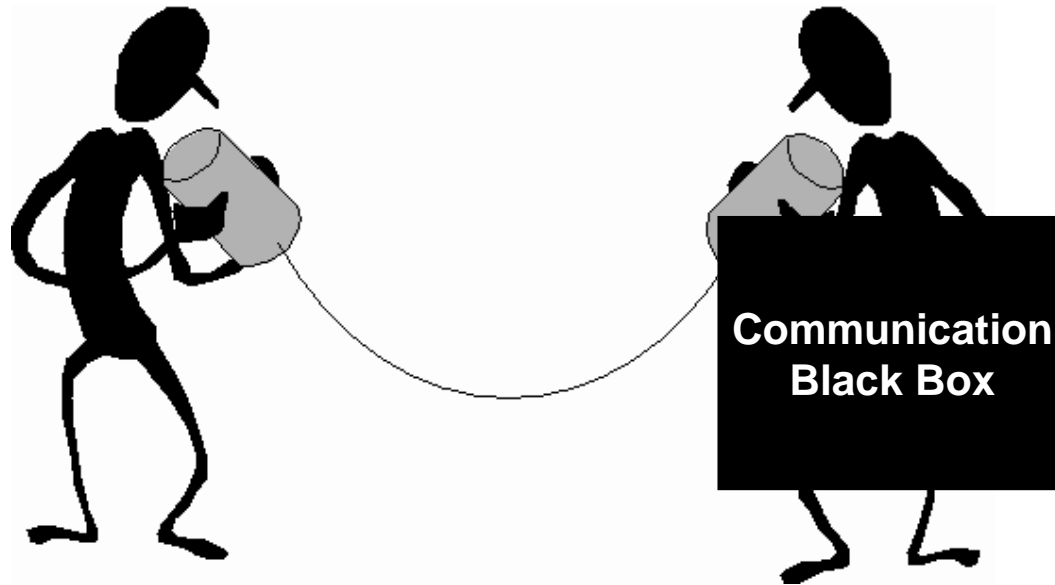
Communication and culture



Communicating across cultural differences.

Communication clashes:

- Direct vs. indirect communication
- Egalitarian vs. hierarchical communication
- Rigid-time vs. fluid-time communication
- Maintaining continuous communication



Case 1

A partnership between a Danish and Bolivian company within the tourist and travel industry end in a communication melt down:

“It is very unfortunate what you have caused the last month and your non ethical behavior, but it is your problem.”

“...may I express my profound disappointment to you both and your non professional action.”

“...do not try to steal money from me.”

“I am tired of your informality and to be blamed for your mistakes among other things.”

Case 2

A partnership between a Danish and Bolivian company within the ICT sector runs dry:

“Dear Mr. Xx,

I have not received any communication from you since May 8th, is this correct?

Please recognize that besides missing valuable time, we are also missing opportunities (read: cannot proceed with opportunities/potential customers) as we do not know where we stand.

In my view (the Bolivian IT company) has really nothing to loose in entering a joint venture as suggested by us and a lot to gain “not if” but when we get it on the road. We have all the needed support here in Denmark and from the Danish embassy, let’s get it on the road...

Which ever way you and David look at it, I kindly draw your attention to the fact that we need some kind of conclusion.”

Case 3

A partnership between two companies within the asphalt industry communicates too little and the tone is sharp:

I was very surprised that you didn't arrive in Copenhagen on the 19th of May. I had made reservations at a hotel and had made a lot of plans for the week.

I had made plans for you to visit the laboratory I Copenhagen. Where you, among other things, could see and have demonstrated the many items in the laboratory equipment that Mrs. xx has procured, and that are packed in the container. It was very unfortunate that I had to cancel that visit. I cannot, and I will not, make another appointment with the laboratory.

Answer:

*Please send the equipment to Bolivia:
(name of Bolivian company)*

ZONA FRANCA INDUSTRIAL EL ALTO – BOLIVIA

CODIGO 232

Communication: Ways and behaviour

Core values of communication

- Polite
- Honest
- Clear
- Quick

How to communicate?

- Email, phone call or Skype?

Who communicates?

- Managers vs. employees
- Who speaks English
- Copying correspondence

Iron rules of business communication

Iron rule no. 1:

- Answer enquiries immediately either by giving a full answer or informing that a full answer will be given within a specific deadline.

Iron rule no. 2:

- Keep your own deadlines.