

Franchise

**Frequently Asked
Questions About
Franchise**

General Questions

What is the difference between Master Franchise and Area Developer Franchise.

In the case of Master Franchise, the franchisee obtains the rights to establish, operate and manage the business activity exclusively in an entire country or region on behalf of the franchisor. These rights may include granting sub-franchises to others in this country or region, just as the original franchisor does in the country of origin by providing support services to franchisees. In Area Developer Franchise, the franchisee is responsible and obligated to establish and operate more than one franchise unit in a specific geographical area within a specified period without being entitled to grant sub-franchises to any other entity or individual.

What is the difference between Single Unit Franchise and Master Franchise?

Single Unit Franchise is the most widespread and easiest form of franchise, where the franchisee is responsible for investing in the establishment and operation of one site using their practical skills. Conversely, in Master Franchise, the franchisee obtains the rights to establish, operate and manage the business exclusively in an entire country or region, may include granting sub-franchises to others in this country or region, just as the original franchisor does in the country of origin by providing support services to franchisees.

What is an Integrated Franchise?

Franchise whereby the franchisor grants rights that allow the franchisee to use the brand and know-how and sell products and services. This includes training the franchisee on all matters related to management and operation, including marketing, sales, inventory management, accounting and personnel procedures. Moreover, the franchisor provides support through continuous training and communication with the franchisee throughout the contract duration. The franchise of restaurants, retail stores, and many service companies is a well-known example of this type of franchise.

What is a Franchise Disclosure Document (FDD)

Franchise disclosure document is a document that contains information about the franchisor's company history, operations, legal status, business activities, experience and may contain updated financial statements. In Saudi Arabia and several other countries, franchisors are legally required to provide a Disclosure Document to prospective franchisees early in the process. The Franchise Disclosure Document must be presented 14 days prior to signing any franchise agreement or payment of any fees this is to give ample opportunity for the franchisee to review it.

What is the difference between franchise and agency agreement?

The franchise agreement is a comprehensive contract that defines the legal relationship between the franchisor and franchisee. It incorporates three legal dimensions that are also found in licensing contracts, agency contracts, and know-how transfer contracts. Under a franchise contract, one party (the franchisor) grants the other party (the franchisee) the following:

1. License: The right to use intellectual property (trade name, trademark, copyright, and sometimes patents).
2. Agency: The right to deal in the goods, products or services under the brand used by the franchisor.

3. Know-how Transfer: The right to use the franchisor's know-how and business systems, provided in the form of operations manuals, along with the necessary training to ensure proficiency of operations and quality standards.

The key difference between a franchise contract and an agency contract is that the latter is a supply contract that creates mutual obligations between the manufacturer and agent. Under an agency contract, the agent commits to selling goods according to specific models under a unified trade name or brand owned by the manufacturer, without a unified service delivery method or business systems. There is also no obligation to transfer know-how from the manufacturer to the agent. It is important to consider the implications of granting a franchise to a company already selling products via a local distribution agent in the same country, and how this may conflict with the rights of the franchisee in its designated geographical territory.

What are the main terms of the franchise

Agreement?

The franchise contract specifies the terms under which the franchisee manages the company's business. It usually includes the rights to use the brand, the business system, and the obligations of the franchisor and the franchisee. It also determines the location, geographical area, duration of the contract, terms of renewal of the contract, terms of termination, and financial matters, including initial and ongoing fees.

What is a transformational Franchise?

A franchise under which an investor is conducting a business activity similar to that of the franchisor and wishes to take advantage of the franchisor's operational and marketing capabilities. Investors and business owners who welcome the idea can join a national or international branded franchise network and benefit from the business models and benefits associated with it. These independent businesses bear the same name, logo, benefits of mass buying, a larger customer base, wider advertising and competitiveness.

What are the advantages of obtaining a franchise?

Franchise systems offer a simple approach to managing commercial activities that have long been proven successful in the market. As a result, in addition to technical expertise in managing the business, the franchisee gains from the franchisor's cumulative experience. Additionally, the franchisee receives professional guidance and training at each stage to help them advance their practical abilities and avoid the "trial and error" phase of launching and running the business, which leads to lower financial risk than with other independent projects. Many specialized surveys show that the success rate of business activities that operate the franchise system is significantly higher than the success rate of starting a new independent business.

Franchising provides management systems and well-studied and proven business models under a well-known brand. Accordingly, achieves higher success rates than other independent activities. Furthermore, franchising ensures the franchisee's homogeneity and harmony in operating procedures, internal and external design, product presentation methods, and sales techniques, as well as the brand's marketing strength, which improves the image of business activity and increases product popularity. All of this reflects favorably on both franchisor and franchisee, and thus franchise is an excellent opportunity to grow your business with the help of the franchisor's experience and ongoing support.

What is the most important question I should address to franchisors?

One of the main questions you can address to the franchisor is "What is the return on investment?" Profits or losses can be ultimately determined through several factors such as the franchise area, activity location, and of course the franchisee's efforts and commitment to the tools of success.

Why should I follow franchisor's regulations?

By following the franchisor's regulations, the franchisee will be able to provide high quality goods and services that ensure consistent operating procedures and sales techniques. This enhances the image of the business and allows franchisees to focus on increasing sales and raising profit levels.

What skills and abilities do I need before applying for a franchise?

The franchise relationship needs appropriate abilities and personality traits, as well as a willingness to work hard. The ability to deal with change, swiftly adapt to new business concepts, and adhere to the franchisor's

standards may be the most important traits you need before applying for a franchise. You need to be a person capable of managing and controlling the business at all levels.

Who should I contact if I want specialized professional assistance?

Keep in mind that you will want specialized professional support from franchising consultants to acquire honest advice and proper guidance throughout the evaluation stage of the franchisors under consideration. This becomes more important when interest in the potential opportunity grows and negotiations advance, where you must assess financial expectations and the franchise agreement. At this point, you should have a clear grasp of the available opportunity, which does not exclude you from consulting with a professional franchise lawyer and financial adviser, as their evaluation is considered an investment since it prevents avoidable mistakes in the franchise journey.

Can I ask the franchisor to provide me with a list of all other franchisees?

Of course, the franchisor should provide you with a complete list of all its franchisees. You should not accept just a partial list. If the franchisor hesitates to provide the full list, find out why. Important questions to ask other franchisees include: How do you evaluate the initial training provided by the franchisor? How would you rate continued support? Have there been any disputes between you and the franchisor? How do you assess the efficiency of communication and exchange of information between you and the franchisor? Hence analyze the answers carefully because your success will depend on the success of the business relationship between you and the franchisor as mistakes may occur from both parties.

What types of preliminary research should I conduct in my territory before obtaining a franchise?

As a franchisee, you should study the business activities you are interested in. Some key questions to ask include: Is the market for this industry growing, stable or declining? Are the products or services seasonal? Can competition in the market be described as intense? How price-sensitive are the target customers for the offered products or services? Are there available locations that meet the business criteria and requirements?

How can I shortlist my franchise options, and choose the most suitable ones for me?

Once you have identified the areas of business, you need to conduct a comprehensive study on all franchise opportunities available in those areas. You should review all marketing materials you can get from the targeted franchisors, but you should always remember that marketing material may not necessarily mean good franchising and you should focus on the main franchise evaluation criteria, specifically the quality and efficiency of the support provided by the franchisor. You should check the franchisor's history and experience in supporting and training franchisees and seek help in preparing a financial plan that includes expected revenues, costs and profits for a minimum of three years.

What is the most important clause in a franchise agreement?

"Franchisor Guarantee": Franchisors typically require franchisees to personally own the business and be responsible for all contractual obligations, including financial commitments. This provides additional legal and financial security for the franchisor, as guarantee clauses allow the franchisor to legally pursue the owner and guarantor for any breaches or disputes.

How do I find the best location for my new franchise?

Typical criteria for selecting a business or retail location include population density in the area, visibility from a distance, and accessibility. Other factors are reasonable annual rent, presence of good business activities, customer traffic flow, growth potential, distinctive nearby buildings or landmarks.

Why do I have to pay marketing and/or advertising fees?

Building and promoting brand awareness is a fundamental and continuous objective of any franchising system, which benefits all franchise parties. It is important to understand that a franchisee's contribution of marketing fees should be used entirely for the collective benefit of all franchisees, and is not meant to be a true revenue source for the franchisor.

What ongoing support will I receive from the franchisor?

As a franchisee, you will receive visits from the franchisor's support team, guidance on operational matters, updated policies and procedures, ongoing research and development, marketing materials, training courses, marketing presentations, and incentive programs to compare franchisee performance like an annual "Franchisee of the Year" award.

Franchisor-Related Questions

Why is franchising a good strategy to expand my business?

Franchising distributes financial risk by multiplying business locations/units through other investors, allowing greater chain expansion and better focus on local market needs, which also reduces competitors' influence. It creates a new revenue stream for the franchisor through franchise fees, plus the ability to sell products protected by the franchisor's intellectual property rights. This improves cash flow and return on the franchisor's investment.

Other financial advantages for the franchisor include lower operating, distribution and advertising costs, greater purchasing power, and more funds for research and development. Operationally, the franchisor can manage a larger chain of locations/stores through a smaller central administration compared to owning and developing all the locations themselves. Franchising unifies management and operating procedures, improving productivity and quality. Effective monitoring is enabled as franchisees are self-motivated to work hard for the success of their investment and achieve better operational and financial results. This translates into more effective sales processes and growing the customer base.

What downsides should I expect when choosing franchising to expand my business?

Franchising has both positives and negatives like anything else. First, you need to dedicate adequate capital to set up the infrastructure for franchising and establish owned pilot units. Second, you need to secure sufficient financial and managerial resources to hire, train and support franchisees.

You must be very selective in choosing them, as wrong choices may damage your brand reputation in the future. As your franchisee network grows, franchisees may pressure you to implement new policies and procedures you disagree with.

I have a successful business and I want to franchise – how?

You should engage franchising consultants to help identify your business strengths and build the right franchising system for you. Developing your own system is complex and requires expertise. Of course, never simply copy another company's system, as that would be unethical and what suits one business may not suit another. First, conduct a unit economics study for single-unit or multi-unit franchising scenarios. It's also important to determine the nature of initial and ongoing support for franchisees, including training, marketing, IT,

product supply details, know-how transfer of systems, designs, manuals, programs, etc. This should be part of your franchise offering. You also need a plan to supply your products/services to franchisees and develop marketing materials for your franchise. For legal contracts and IP rights, you need a specialized lawyer to draft the franchise agreement and register/protect both parties' rights. Finally, remember your franchise relationship management system is crucial – use the latest IT and management practices.

What should I include in an Operations Manual when developing my franchising system?

Operations manuals are your confidential guide describing procedures and standards franchisees must follow, with comprehensive guidance on running the business. It covers all operational, administrative and general procedures. The manual can be divided into sections on accounting, employees, advertising, maintenance, etc. Uniformly design the manual pages and write all policies and work procedures. Be sure to mention your obligations to franchisees, site opening plans, daily operating procedures, brand identity guidelines,

accounting system, point of sale software procedures, pricing, policies, product ordering/receiving/storing/display procedures, sales system, cash handling, customer service, cleaning/maintenance schedules, safety/environmental procedures, time management, financial management, and reporting system. The manual should contain illustrations, organization charts, job descriptions, hiring procedures, employee evaluation details, site selection criteria, layout/design plans, lists of suppliers/products/services, checklists, maps, schedules and operating hours.