Master Thesis

Internationally franchising the SDC

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Master Business Administration

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For Enviu/Sustainable Dance club, Rotterdam, The Netherlands

Franchising the SDC internationally

Master Thesis

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Executive summary

This research and report are based on the problem formulation:

How can SDC successfully franchise the SDC concept internationally?

For this research four research questions were formulated to structure and guide the research and in the end answering the main question. In the first part the theory regarding franchising is reviewed; on aspects such as what is franchising, how can it be implemented and advantages of franchising. These theories laid down the baseline for the research and also presented parts that needed extra attention; such as franchisee selection and internationalisation factors such as distance management, cultural adaptability, control, market attractiveness and risks. In the final part of this chapter the success factors for international franchising according to the literature are defined.

The franchising success factors alone however are not sufficient. Best practice examples are needed to be researched in order to benchmark the success factors found in the literature. McDonald was chosen due to its success and relative closer link to SDC (Food and drinks industry). The Body shop is chosen due to its corporate responsibility to their clients. The Body shop only sells products that are naturally produced as well as not tested on animals. At the end this chapter the success factors according to best practice examples are defined.

After defining the critical success factors from best practice examples and combining them with those factors found in the literature a gap analysis between these factors and the SDC was done. It became clear that SDC is not able to implement franchising at this moment. Focus of the research thus changed from implementation to evaluation of the SDC concept, to see if the concept is suitable for franchising or not.

Proving SDCs business concept can be done through project management specifically monitoring and evaluating their projects. Monitoring is can be done throughout the project, evaluating only at the closure phase of the project. Five monitoring criteria are defined by the EU, for each one of these criteria objectives need to be developed as well as indicators that can prove if objectives are met. Indicators (OVIs) need to be defined SMART specific (Specific, Measurable, Achievable, Relevant and Time related) and afterwards sources of information need to be defined and should be: appropriate form/presentation, specific enough, reliable, accessible, reasonable costs for obtaining the information.

SDC should define their objectives, indicators and sources of verification before the first of January, because the monitoring of the Club WATT project should be at least one year, afterwards SDC should be able to evaluate if the first year was successful or not, if successful would be able to go forward with franchising as an international franchising option.

The last part of the thesis consists out of the conclusion and recommendations for SDC, what they need to do and how to do so.

Preface

This report is the end result of a research that was started in September 2007 for Enviu/SDC. I received the contact with Enviu via Ir. S.J. Maathuis. I suggested to Enviu the possibility of researching the internationalisation of the SDC.

I would also to like to use this opportunity to thank those people without whom this research was not possible. First I would like to thank Trude Buitenhuis for providing me with information of SDC and guiding me and Wouter Kersten for helping me with the aim of the research. I would also like to thank my supervisors from University of Twente, Ir. S.J. Maathuis and Prof. Dr. Ir. E. J. de Bruijn. Last I want to thank all other persons and organisations who contributed their part to this research and whom are not mentioned by name here.

Jorn J.P. de Vries

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Chapter 1: Introduction

1.1 Objective of the research

Main goal of this research is contributing in the roll out of the Sustainable Dance Club (SDC from now on) by investigating if internationally franchising is possible for SDC and if so under which conditions.

1.2 Problem formulation

Based upon the background of the research and the formulated objective the following aspects are of importance.

The objective of the study can be categorized as a strategic objective, as the research entails the analysis of the company as well as analyzing theory and best practice examples on critical success factors/conditions (Countries abroad) the word strategy implies a path or plan of actions to achieve previously made objectives and goals.

The next part of the research will be a gap analysis between the characteristics of the SDC and the critical success factors that were found in the theory analysis.

The last part of the research will entail suggestions for improvement of the SDC based on the theory and best practice examples as well as how to implement these suggestions.

Based upon the above statements the problem formulation is defined as follows:

How can SDC successfully franchise the SDC concept internationally?

To answer the main question several sub-questions have to be drawn up. The first sub-question has to be about the SDC, the second on conditions for international franchising, the third question will have to deal with possible suggestions for improvement and the last question to be answered will be about recommendations. This lead to the following research questions:

1.3 Research questions

1. What is the Sustainable dance club?
2. Under what conditions can SDC successfully franchise the SDC concept internationally?
    a. According to literature
    b. According to best practice
3. What are possible suggestions for improvement for SDC?
4. What recommendations on implementation can be formulated for SDC’s international franchising?

1.4 Research approach

The research is an exploratory research. “Exploratory” research is used when one is seeking insights into the general nature of a problem, the possible decision alternatives, and relevant variables that need to be considered ‘the research methods are highly flexible, unstructured, and qualitative, for the researchers begins without firm preconceptions as to what will be found’ (Aaker, Kumar & Day 1995)

The research consists out of 5 parts; the first will be a description and analysis of the SDC. This is done through the history of the SDC, its products and a SWOT analysis. Next part is an analysis of the theory on franchising and internationalization theory. This means a description of the concept, through the use of books, internet, web of science and articles.

The third part is the description of best practice examples. In this part I have searched for related examples such as Body Shop, as well as examples that are a bit further away such as Burger King or McDonalds.

Next part will be taking a look at the critical success factors of the literature and best practice examples and how they relate to the SDC. The critical success factors that come forward need to be tested in the next step. This is done by a Gap analysis. In this testing phase it should come forward if franchising is an option for SDC and what suggestions can be derived from the analysis.

The last part will be the recommendations to the SDC, whether franchising is a good option for SDC, what methods need to be used, what parts are suitable for franchising and what the next steps are.
After the recommendations a reflection will be done on three parts; theoretical, empirical and methodological reflections.

1.5 Research structure

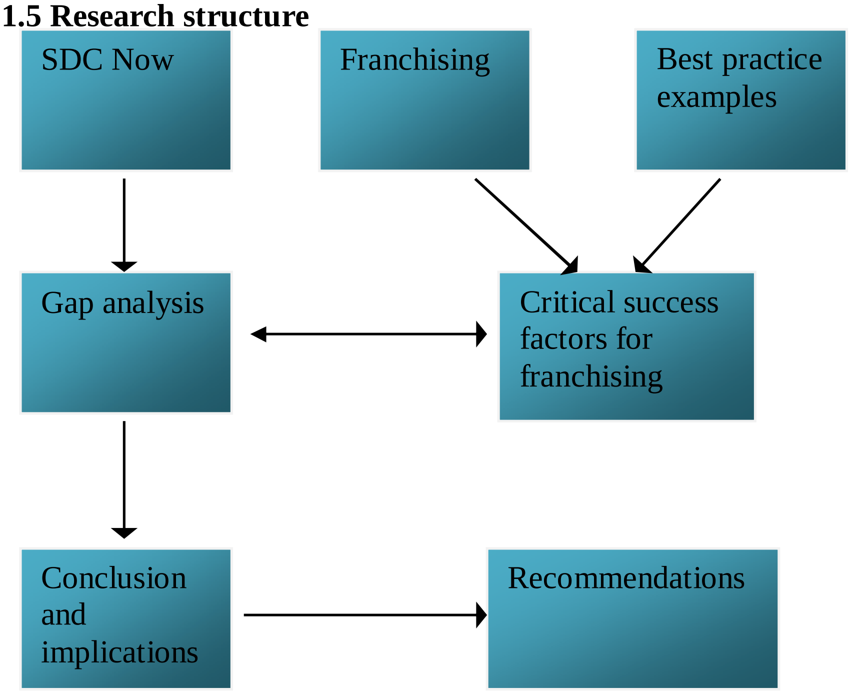

Figure 1, Research structure

Chapter 2: Sustainable Dance Club

In this chapter an analysis will be done on the SDC; its history, products, strategy and Swot Analysis in order to answer the first sub-question: What is the Sustainable Dance Club?

2.1 The history of SDC

In 2004 the idea of a sustainable dance club came to life in Stef van Dongen's mind, the founder of Enviu. At the beginning of 2005, Enviu involved Döll – atelier voor bouwkunst. The popularity of the project could be seen right away, while the first brainstorm session already attracted approximately 70 people who volunteered.

After more research, developing more ideas and visualizing these in presentations, a dance club interested in the subject was found: Nighttown (also situated in the centre of Rotterdam). Unfortunately Nighttown failed for bankruptcy later on. Nevertheless Döll and Enviu decided to continue the development of the concept independently from a location or existing club, and meanwhile keep an eye open for possible investors.

The first concept to be elaborated is the energy generating dance floor In September 2006 Enviu and Döll came in contact with Anouk Randag, a graduation student of the faculty of Industrial Engineering, who was willing to develop this concept. The dance floor should be the first working product for the sustainable dance club. Later on Ontwikkelingsbedrijf Rotterdam (OBR), division of the congregation presented the new plans for Now&Wow and The Creative Factory to be built above it. These plans came true to be very similar plans as the concept of the sustainable dance club.

The press and other clubs continuously are showing interest. Along more and more detailed questioning raised, while everything was still a concept. Also implementation possibilities and usage from more than 1 or 2 clubs is needed to provide reliable solutions.

In April 2007 Paradiso is interested to involve the SDC in the building of a new pop stage in Amsterdam South East. In May 2007 the congregation has plans to rebuild club Nighttown. Negotiations are still afoot for the SDC to play a role in this reconstruction.

On the first of June a second sustainable dance party was organized in Amsterdam, club 11. It was the kick off of the "sustainable week" of Amsterdam. It was a great success with lots of (international) media attention.

In June 2007 Beatriz Garcia (also from the faculty of Industrial Design Engineering) started her graduation project on designing a sustainable bar. In the beginning of July the Energy Generating Dance Floor was in NOVA (Dutch TV). The first tests were performed during Live Alert (7-7-7).

2.2 The strategy of the SDC

In the previous part the history of the SDC was explained, in the next part SDCs strategy is going to be explained as the strategy is the main driver of the SDC.

Vision:
We dream of a world where young people have a sustainable lifestyle.

“SDC’s core values are:
Creativity, enthusiasm and inspiration
Honesty
Sustainability
Innovation and youth
Open and co-creating

Mission:
To realize a worldwide network of Sustainable Dance Clubs, starting in Rotterdam, made by young creative persons that inspire young people to adopt a sustainable lifestyle!”

The definition of a sustainable club solution according to SDC: creative and efficient solutions for clubbing processes, using sustainability as starting point. This means people; planet and profit are in balance.

The proposition to the customer (club/festival/real estate owner): You will get a unique implementation of the Sustainable Dance Club solution, which will give you a competitive advantage. You will be able to give clubbers a great clubbing experience, while reducing the impact to the environment and saving costs on the longer term.

The proposition to cities and NGOs: You will have a highly appealing showcase for sustainable entrepreneurship, which will enable you to involve companies and young people to find solutions for today’s challenges related to sustainability themes such as CO2 reduction. At the same time the Sustainable Dance Club will directly and indirectly contribute to reduction targets for emissions and waste.

The proposition to suppliers: You will get reach to all Sustainable Dance Clubs and you can use co-branding. By doing so, you can benefit from the image of the Sustainable Dance Club (Business plan SDC, 2007)

The results of an online questionnaire that was done by SDC shows that young people find incorporating sustainability in clubbing important. Examples of aspects which were rated as relatively important are: using green energy to power the club; using the energy of dancing to power the club; recycling of waste; using environmentally friendly materials within the club.

Strategy
The SDC delivers a high quality sustainable club solution, as a complete package, or parts that suit the customer's needs, for existing and new clubs and festivals. The SDC offers access to a possible international network of sustainable dance clubs, young creative and suppliers.
Their definition of a sustainable club solution: creative and efficient solutions for clubbing processes, using sustainability as starting point. This means people, planet and profit are in balance.

To deliver their products and services, SDC is undertaking the following main activities: starting with a specific customer request, we develop a tailor made SDC proposal. This may exist of an analysis of the company processes, providing management consultancy (regarding the program as well as the organization of a club) and a technical and esthetical design. The SDC facilitates the implementation and coordinate the realization. They develop and maintain an international network of young creative people, sustainable dance clubs and suppliers

Partnerships
The SDC aims for partnerships in the following areas:
Idea generation, research, development and testing of new concepts and products
They will work with our own networks of local young talents and establish contacts with networks local to our customers, to develop innovative sustainable solutions. By working with local young talents they will create a community building tailor made solutions for local needs, whereby elements can be reused for other customers. Networks of young professionals, students and young creative people, universities and colleges (like TU Delft, Erasmus, and In Holland)

2.3 Products/services

In the table below the three product/services of the SDC are presented, in the this part of the research these three parts will be explained

Product/Services	**Income**
Advice, design and implementation	Consultancy fee Total project fee(turn key
SDC elements	Sales Rental fee Representation
Events	Consultancy fee Total project fee(turn key

Table 1, Product overview (Business plan SDC, 2007)

- Advice, design and implementation("Providing sustainable clubbing advice")

  Studies have shown that the majority of young people has a keen interest in the environmental impact of their activities and would be willing to pay more for a sustainable clubbing experience.*(Brochure SDC, 2008)

  Using sustainability as a starting point for your business solutions can create a more prosperous, vibrant club or festival where a balance between the needs of people, the planet and profit is achieved. Our knowledge ensures that sustainability can be fully integrated at every level of your business, from the lighting, waste and marketing right through to creating a unique clubbing experience for your clientele.

- **Sustainability Scan**
  To check the current sustainability status of an organisation SDC offers two types of scans:

  The CO2 quick scan calculates the carbon footprint of your club or festival. It also offers the possibility to offset this by investing in compensation projects such as planting trees.

  The in depth scan takes a detailed look at your company's environmental impact, along with the economical and organisational aspects of the company. It then provides comprehensive advice on the possible improvements your club could make.

- **Workshops**
  SDC consultants offer workshops for organisations by demonstrating how sustainability can be implemented. Using their knowledge and imaginative approach, SDC's consultants will work with an organisation to initiate a creative process that will continue even if the results are met. .

- **Sustainable trademark**
  SDC is creating an international network of sustainable dance clubs where the use of the sustainable trademark and logo is synonymous with an exciting and ethical clubbing experience. Becoming an official Sustainable Dance Club gives a business a more positive image, provides new media exposure and access to a network of young designers, creative people and suppliers. To qualify as a Sustainable Dance Club your club must reach a certain level of sustainability as defined by the 5 SDC guidelines:

  30% less environmental impact than average clubs,
  Sustainability integrated in both building and organisation,
  Installation of 3 SDC spectaculars that show sustainability to the public
  Communication plan on how to inform the public about sustainability, Sustainable business plan with yearly targets and evaluation

In a survey conducted by SDC in 2007 66% of clubbers said they would be willing to pay more for a sustainable club night. (SDC Brochure, 2008)

SDC Elements
SDC elements are products that embody the beliefs of the company. They make a contribution to sustainability whilst communicating a positive message in an exciting and engaging way. Within SDC's creative network, many ideas for new club applications are continually generated. The most innovative ideas are developed into SDC Elements, products that have real benefit for the prospective client

SDC elements are designed to be as flexible as possible, with mobile and permanent versions, allowing SDC to offer a comprehensive range that can fulfil your specific requirements.

- **Energy Generating Dance Floor**
  The revolutionary concept of the Energy Generating Dance floor has attracted international media coverage. The dance floor enables the customer to become an energy source, which can contribute to power a club as well as motivating the DJ and other clubber to reach a maximum energy level possible.
  As with all SDC™ elements the dance floor can be adapted to specific needs. It can be seamlessly integrated into a club and comes with optional additions to match your corporate style. From autumn 2008 a mobile version will also be available for hire.

- **Mini-Sustainable Dance Club**
  To showcase the potential of a Sustainable Dance Club' we have designed a miniature version.
  Ideal for events and expos, the mini-SDC is a club which houses two people at a time, their dancing powering the lights and visual displays.
  This serves as a vital promotional tool that can generate a great deal of positive publicity.

- **Zero Waste bar**
  SDC is currently developing a bar that saves energy, water, waste and time. All the products in the bar run on tap from large containers, including wine and spirits. This system keeps the waste produced by the bar to an absolute minimum, speeds up service and saves personnel the time of filling the fridges. SDC™ is working with the company Steel Stuff from Tilburg to manufacture the Zero Waste Bar which will be available from September 2008.

- **Trees for dance**
  Trees for Dance is a program run by SDC™ to compensate CO2 that is produced by clubs and clubbers. Trees for Dance calculates the carbon footprint of different clubbing activities and offers the possibility to offset this CO2 by investing in compensation projects. www.treesfordance.nl

- **Events**
  High impact events with low impact on the environment, SDC™ has an experienced event management team, who, with their specialist knowledge in sustainable clubbing can produce unique events or simply advise on exciting SDC™ elements available for hire. From large congresses and festivals to personal parties and small corporate events, SDC provides an inventive and seamless service for every occasion.
  Creative, sustainable solutions are applied to every area of the event from production and promotion through to decoration, food and beverages.

2.4 SDC projects

In the previous sections the history, products and strategy of the SDC were elaborated on. In the next part in short the projects of the SDC will be explained.

Club WATT

Club WATT is the first project for SDC in making a club more sustainable. The new club that is supposed to open in September 2008 is situated in the former Nighttown in Rotterdam. Club WATT will be the first sustainable club in the world and therefore the first club that has the SDC elements such as the energy generating dance floor as well as the sustainable conduct of business.

Although SDC believes that their business concept has promise, as mentioned above SDC's business system has not been proven by practice. Club WATT will be the first project that will be put into action; this could therefore be of large influence for the franchising research.

2.5 SWOT overview

In this part a SWOT overview is done; to analyse the Strengths, Weaknesses, Opportunities and Threats for the SDC. A SWOT analysis is a strategic tool that analysis the four factors mentioned above involved in a project/business. It involves specifying the objectives of the business and identifying what internal and external factors are favourable or unfavourable to achieving that objective.

The SWOT overview below is based on the original analysis that is in the SDC business plan. However several parts were included due to own experience and analysis of the information. The SWOT overview will point out the critical factors for the SDC both positive and negative.

Strengths	**Weaknesses**
The first Sustainable dance club in the Netherlands (EU?), Rotterdam has a premiere (Club Watt)	Unproven business concept
SDC elements (bar, dance floor, led wall)	Size of the company and the ability to serve demand
Modular design interior	The time for implementation
Know-how on making clubs sustainable and creating successful concepts	Budget
Network of creative people	No customer selection criteria
	Experience
3 Shareholders with knowledge	

Opportunities	**Threats**
People want to visit the new club, people want to be surprised.	Other clubs will copy the concept (which is actually a good thing for the environment)
Free publicity; TV, radio, magazines, newspapers	Copying the systems, methods and know-how of the SDC
To make the image of the 'green club' groovy and cool	People do not want to come because they think the 'eco club' is for environmentalists and goat-woollen-socked people.
Excellent platform for Enviu and partners to generate brand recognition	Risk that people perceive the sustainable concept as hype and will turn their backs to it
Profit increase	Costs for sustainability in relation to entrance prices.
Increase of brand awareness and knowledge on sustainability of the client.	
Current emphasis on sustainability	

Table 2. SWOT overview

Table 2 shows that although there are a significant amount strengths and opportunities they are a large amount of weaknesses and threats. Most important weakness of the SDC is the fact that the concept is unproven in practice.

2.6 Conclusion

Sustainable Dance Club is a business that provides clubs with services that focus on making clubs more sustainable as well as showing clubbers that sustainability does not have to be boring and that it is attractive for many customers. The SDC offers several services: Consultancy, SDC elements, Events

SDCs focuses on consultancy, this is their most important service; as it has the most potential for impact on both club owners as well as clubbers, making them aware of sustainability. SDC currently has one consultancy project that is already put into action. Club WATT (the current project that is being put into actions) is going to open in September 2008 and will be the first sustainable club in the world.

The SWOT analysis based on the analysis done by SDC put forward that there are a large amount of threats and weaknesses that need to be addressed such as the current size and financial situation of the company, image, selection criteria, their inexperience in handling large projects and the business concept. The strengths of the SDC are also their competitive advantage, for example the energy generating floor and the Zero Waste bar, these products as well as the business concept however still need to be proven in practice.

Now that the first sub-question has been answered, the next part to be addressed will be the theory on franchising.

Chapter 3: Critical success factors for (International) franchising

In this chapter the concept of franchising will be explained, how it works and what the advantages and disadvantages are and finally the second sub-question:

3.1 Definitions of franchising:

"Franchising is a method of marketing goods and services which knows no boundaries in terms of business categories; it has the following features of business transactions, methods and practices (Mendelsohn, 1992)

The ownership by one person of a trademark, service mark, an idea, a secret process, patent or a specialised piece of equipment and the goodwill and know-how associated with it.

The grant of a license by that person to another permitting the exploitation of such a trademark, service mark, idea, process, patent or equipment and the goodwill and know-how associated with it.

The inclusion in the agreement granting the license of regulations and controls relating to the operations of the business in the conduct of which the licensee exploits his rights

The payment by the licensee of a royalty or some other consideration in the nature of a continuing fee for the rights which are obtained and for any services with which the licensor will provide the licensee "(Mendelsohn, p.2, 1992)

Other definitions for franchising are:

IFA (International Franchise Association)

"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."

BFA (British Franchise Association)

"A contractual license granted by one person (the franchisor to another (franchisee) which:
a.) permits or requires the franchisee to carry on during the period of the franchise business under or using a specified name belonging to or associated with the franchise.
b.) entitles the franchisor to exercise continuing control during the period of the franchise over the manner in which the franchisee carries on the business which is the subject of the franchisee.
c.) Obliges the franchisor to provide the franchisee with assistance in carrying on the business which is the subject of the franchisee (in relation to the organisation of the franchisees business, the training of staff, merchandising, management or otherwise.)
d.) Requires the franchisee periodically during the period of the franchise to pay to the franchisor sums of money in consideration for the franchise or for goods or services provided by the franchisor to the franchisee and;"

e.) which is not a transaction between a holding company and its subsidiary (as defined in Section 153 of the company act 1954 or between subsidiaries of the same holding company or between an individual and a company controlled by him.
Definitions are essentially the same except for the last paragraph, they both confirm the contractual relationship between the franchisor and franchisee, confirms that the right or license to carry doing business under a trade- or service mark. Interesting is that it is not stated that the franchisee owns his own business.

Mendelsohn (Guide to franchising, 1992) mentions basic features that have to be present in every “business format” franchise.

1. “A franchise relationship is founded upon a contract which should contain all the terms agreed upon.
2. The franchisor must first develop a successful business format which is identified with a brand name which may be a trademark, service mark and/or trade name.
3. The Franchisor must initiate and train the franchisee in all aspects of the system prior to the opening of the business so that the franchisee is equipped to run the business effectively and successfully and assist in the opening.
4. After the business is opened the franchisor must maintain a continuing business relationship with the franchisee in the course of which it provides the franchisee with support in all aspects of the operation of the business.
5. The franchisee is permitted under the control of the franchisor to operate under the branding (trademark, service mark, trade name) format the business systems developed and owned by the franchisor and to benefit from goodwill generated elsewhere.
6. The franchisee must make a substantial capital investment form his own resources
7. The franchisee must own their business.
8. The franchisee will pay the franchisor in own way of another for the rights which he acquired and for the continuing services with which he is provided.”

Mendelsohn later narrowed it down to 5 elements as mentioned in "Franchising Law", Kluwer, 2004:

1. “ Brand name (registered as a brand name and/or a trademark,)which serves as the umbrella sign for network, and a rallying sign for the consumer and public),
2. A license to the use the brand, granted to the franchisee by the franchisor,
3. A business system - a business concept formatted into a duplicable value "package" founded on the franchisor's tested Know How and his continued assistance during the term of the agreement),
4. Payment by the franchisee of a financial consideration, either in a direct form, such as an entrance fee and/or continuing fee ("royalty"), and/or an indirect form such as a mark-up on supplied goods.
5. The investment in, and ownership of, the assets of the franchised business by the franchisee”

The Block Exemption regulation for Franchise Agreements: This regulation defines a franchise in the following terms:

"Franchise means a package of industrial or intellectual property rights relating to trademarks, trade names, shop signs utility models, designs, copyrights, know-how or patents, to be exploited for the resale of goods or the provisions of services to end users" (Block Exemption, EU)

There are 2 sorts of franchising: Hard franchising where everything is done exactly as stated by the franchisor, Soft franchising give the franchisee more freedom to fill in parts of the franchise themselves for example the look of the outlet or special local products.

Critical factors:
From the above the following success factors can be derived:
The franchisor must first develop a successful business format which is identified with a brand name which may be a trademark, service mark and/or trade name.
The franchisee must make a substantial capital investment from own resources
The franchisee must own their business.
Type of franchising (hard or soft)

Now that franchising has been defined as a concept, it is needed to look at the advantages and disadvantages that are linked with franchising. The following part will go deeper into this subject.

3.2 Reasons for franchising a business

When a company opts for franchising, they do so for 2 fundamental advantages of 2 resources:

Financial: When a possible franchisee opts to take on a franchise it has to use its own capital. It could not be otherwise because otherwise the franchisor would own the new outlet. Therefore the opening of a new franchise outlet does not require any capital from the franchisor.

Manpower
The franchisee will be responsible for the day to day conduct of business. What this means is that the franchisee will be responsible for the hiring, training, motivating and supervising his staff.

From the 2 before mentioned resources flow a number of other benefits:
The franchisor will only need a compact organisation, only needing a few highly specialized managers in various aspects of the business with which the organisation is concerned, and their support staff. The franchisor can earn a reasonable profit without becoming involved in high risk or in the day-to-day detail and problems which arise in the management of scattered outlets. Since the franchisor is using others resources and can by his training programmes equip them to carry on his business system, his organisation has the ability to expand more rapidly on a national, and eventually on a international basis only using a minimum of risk capital and management resources.

The franchisor will find it easier to exploit territorial areas which are not already within scope of the organisation as franchisees with local interest and knowledge can be obtained.
A franchisor has fewer staff problems with which to cope as he is not involved in the staff problems of each individual outlet. Franchising offers the scope of an existing single owner of a multiple chain to develop its future outlets by a franchise system rather than expanding its own outlets, thus reducing the calls upon its capital and manpower resources.

Franchising also has it difficulties; the main problem with franchising mostly has to do with the dealings of the franchisor with the franchisee as “people”. The relationship between franchisor and franchisee is constantly put under strain. Symptoms that are experienced regularly are:

The franchisor has to make sure that the standards of quality, services and goods are maintained. Their field support staff has to ensure these qualities, as will as providing support to the franchisee. Their staff has to make sure that they do not cut any corners en changing the system to their liking, because a small untreated change in the system today may lead to a large problem in system in the future. The franchisee may not have selected the right franchise and the franchisor may not have used the correct selection procedures. The franchisee may not be using the franchise system properly

Trust between the franchisor and franchisee may break down due to the incompatibility between the franchisee and the responsible person in the franchisors organisation the training of a franchisee may create a competitor in the future. The franchisor has to select suitable franchisees to make sure that business does break down. An unsuitable person should not be allowed to take on the franchise. Profit obtained by the franchisor will always be lower than the franchise potential of the outlet.

Now that the advantages of franchises of franchising are defined and no definite success factors are found, it is necessary to look at franchise implementation, which is done in the next part

3.3 Franchise implementation

In previous part the concept of franchising and reasons for franchising were explained, this however did not provide critical success factors. Therefore I needed to look at the implementation part of franchising. In this chapter the first two steps of the implementation of franchising will be explained, besides that critical success factors/conditions need to be derived from the information.

There are 7 elements involved when creating and developing a franchised business:

1. The basic business concept
2. Pilot operation
3. Developing the franchise package
4. Developing the operational package
5. Marketing the franchise package
6. Selecting franchisees
7. Developing the franchisor’s organisation

3.3.1 The basic business concept

In order to start a franchise the business concept should be developed. The most important thing when one wants to set up a franchise is to keep it simple, because others have to be taught to operate successful. The more complex the business concept is, the more difficult it will be to recruit, train and sustain franchisees. Good examples are Burger King and McDonalds food restaurant, the lay-out of the kitchen, décor, take-out and restaurant area, it is simple to implement these because the franchisor kept the design simple. Next is to analyse and anticipate the needs of the customer. Another important part is the definition of the market at which the business is aimed, as there is no point in creating a business that has no market. Also important is to keep in mind that the consumer at first will choose for the established brand first as this is familiar.

Attracting franchisees with sufficient financial resources to successfully establish the outlet may be a factor that needs to be taken into account, as well as their ability to acquire the skills required for the business as well as teaching them to their staff.

In the article of Clarkin and Swavely (2006) 6 selection criteria are mentioned financial net worth, general business experience, specific industry experience, formal education. Psychological profile; personal interview

Jambulingham and Nevin (1999) also identified selection criteria: financial. Experience and managerial skills, businesses, and manage operations, prior experience, prior self-employment, own other, demographic characteristics, Attitudes and personality.

The franchisor should also take into account factors such as premise; finding a suitable premise which will enable the franchisee to do their business successfully, consumer demand, can the franchisor use, allocate their resources to establish sufficient market demand. Last factor that needs to be looked at is the market/business sectors health; how is it doing, staying power.

The business concept should be distinctive, it should have a competitive edge; all successful franchises have their own distinctive concept that sets it apart from the competition

In the business concept phase the trademark to be used is chosen, it is important that it is easily pronounceable, not capable of being translated (Well known is the “Chevy nova” “doesn’t go” principle), it should be possible to register and short.

Most important criteria:

1. The concept must be proven by practical experience to be successful
2. The business should be distinctive in its image as well as in its methods and system.
3. The system and method must be capable of being passed on successfully to others within a reasonable time frame.
4. The financial returns from the business should be sufficient to enable the franchisee to obtain a sufficient return on capital, the franchisee should obtain a reasonable return for his labour and the franchisee is able to pay the franchisor a fee for the services he continuously supplies.
5. The franchisor should make a sufficient profit from the fees he receives.

3.3.2 The pilot operation

When the business concept is developed the next step should be the pilot operation. How many pilots should be done is dependant on the how re-presentable the pilots are. In order for a possible franchisor to know that they are ready for a franchise, they should experiment. A franchisor should have a proven package of know-how. If they do not prove their ability to operate the package with success and put their own money at risk, they should not start up a franchise. A franchise should not be established by trial and error.

A pilot will fulfil functions like:
The viability of the concept will be developed and established as acceptable and exclusively. It will identify problem areas and enable the franchisor with solutions to factors such as; marketing, acceptability and availability of services, methods of marketing, promotion, regulations, legal aspects and taxation. They will try out decors, use of equipment, Experience with trading and the operation of the outlet. Show how training can be used successfully, pitfalls. Information needed for an operations manual will become available.

The pilot operation basically should prove is the viability of the concept. In the Next part other important factors that are concerned with franchising will be explained.

The previous two parts of franchising implementation offered the most critical success factors, the rest of the 7 steps can be found in the appendix.

3.4 International franchising factors

In the previous part general information on franchising and parts of franchise implementation was given. There are however other factors that are important and will therefore be deliberated on.

3.4.1 Building partnerships/stakeholder management

Partnerships are based upon the collaboration between two specific stakeholders. Partnerships can occur when several parties want to respond to a common problem domain, but individually they do not control enough relevant resources to respond as effectively as they want. Meaning that, several groups may work together if they consider that this would bring them more benefits (synergy effects) than acting alone. (Araujo and Bramwell, 2002)

Mohr and Speckman developed a model in which the attributes for successful partnerships are mentioned. These attributes include commitment, coordination, interdependence and trust. These attributes are the basic requirements for a successful partnership, without them a partnership will fail. Second factor of importance is communication behavior, which has three attributes; quality (accuracy, timeliness, and credibility of the information shared), information sharing and participation (the degree to which partners jointly plan and set goals.)

In the next part the several critical success factors according to the literature of Stephen Choo (Choo, Stephen Determining the Critical Success Factors of International Franchising: Cases of Foreign Franchisors in East Asia) for international franchising which are the following:

3.4.2 Partnership Management

Franchising provides a unique organisational relationship in which the franchisor and franchisee each bring important qualities to the business or partnership (Falbe and Dandridge, 1992). The franchise system enables the advantages of a proven business format offered by the franchisor and the local knowledge of the franchisee to join together (Stanworth, 1995). (Choo, p1, 2003)

3.4.3 Distance Management

Many franchise services are location dependent, thus creating a network of service outlets that are physically distant from the franchisor. For the franchisor, the problem of incomplete information regarding their franchisee-agent's behaviour is aggravated by this decentralised service delivery system whose geographical scope extends beyond national boundaries (Norton, 1988). These problems of geographic distance and franchisee-agent monitoring intensify the problems facing the franchisors' entrepreneurial capability, where both time and distance can raise the level of uncertainty and widen the information gap (Norton, 1988). Despite technological improvements that may facilitate the transmission of information, it is still difficult and costly to gather and receive complete and timely knowledge about foreign operations. Furthermore, the management of geographic distant locations may involve as much "art" as "science" which is often gained through experience (Aharoni, 1966). The ability of a franchisor to monitor its franchisee-agents over long distances involves a complex set of skills that may not be commonly possessed by the entrepreneurs or managers operating franchise firms and does not necessarily substitute for experience (Huszagh, Huszagh and McIntyre, 1992). These abilities, which include supervisory skills, have been shown to be important for international expansion (Shane, 1996a). (Choo, p2, 2003)

By carefully observing franchisee behaviour, franchisors can control opportunistic behaviour (Norton, 1988). If people are carefully observed, they perceive a greater livelihood of being caught and so reduce their opportunism. Franchisors can monitor against opportunism by inspecting franchisee facilities, examining their records, and by specifying and verifying equipment usage or minimum standards. Therefore, monitoring is a capability that franchisors develop.

A second important aspect of distance management is the structure of the international franchising contract, which is a central aspect of the franchisor-franchisee relationship (Rubin, 1978; Lafontaine and Kaufmann, 1994). (Choo, 2003)

3.4.4 Cultural Adaptability

The differing cultural environments found in foreign markets add further complexity to international franchising (Huszagh, Huszagh, and McIntyre, 1992). A cultural environment that is significantly different from the franchisor's home country may affect not only the contract negotiation process (Weiss, 1996).Embedded in the operational routines and processes are assumptions about how work should be done. Variations in cultural norms such as "power distance," Confucian dynamism, and individualism can affect local implementation (Hofstede, 1980). (Choo, p2, 2003)

3.4.5 Control

Control (the ability to influence systems, methods, and decisions) has a critical impact on the future of a foreign enterprise. Without control, a firm finds it more difficult to coordinate actions, carry out strategies, revise strategies, and resolve the disputes that invariably arise when two parties to a contract pursue their own interests (Davidson 1982). Further, the entrant can use its control to obtain a larger share of the foreign enterprise's profits. In short, control is a way to obtain a higher return. Yet control, while obviously desirable, carries a high price (Vernon 1983). (Choo, p3, 2003)

Based on the before mentioned theory it is possible to derive the following critical factors:
Stakeholder management
Partnership management
Distance management
Cultural adaptability
Control

In the previous part factors related to internationally franchising are mentioned and explained for international franchising, these theories however are not sufficient. Additional information on internationalisation such as market potentials and risks concerned with foreign direct investment is necessary for assessing franchising as an expansion method. Franchising itself is not concerned factors such as economic growth, technical issues(roads, trains and such) climate and so son, more emphasis on those aspects is therefore needed. In the next part the PEST tool is explained which deals with market indicators.

3.5 PEST

The first tool that can be used by SDC is PEST (Political, Economical, Social, Technological) (See appendix for Framework), because it addresses external factors that are represent the market. In the next part the concept will be explained and how it works

A **PEST (DEPEST)** analysis is one of the most common measures used for looking at market potential. In general a SWOT analysis measures(chapter 2) a business unit or proposition, whereas a PEST analysis takes a look at the market potential and situation, particularly growth or decline of the factors, as well as measuring market attractiveness, business potential, and suitability of access - market potential and 'fit' in other words. PEST analysis uses four perspectives: Political, Economic, Social and Technological.

A market is defined by what is addressing it, be it a product, company, brand, business unit, proposition, idea, so be clear about how to define the market that is being analysed. The PEST subject should be a clear definition of the market being addressed, which might be from any of the following standpoints:

General market indicators however do not provide a correct outlook of a country. A country with positive PEST indicators may not have a good investment environment, risk is therefore an important factor that needs to be considered in the next part the BERI index will presented as a tool to asses risks.

3.6 BERI Index

In the previous part the PEST analysis was explained, the PEST analysis alone however does not provide enough information on foreign market, especially risks that are involved in international expansion. In this part therefore the country analysis according to the BERI Index will be explained. The BERI index is a country risk assessment that is a well known and established model that can help with classifying the possible risk related to a country. A relatively stable country will be more suited for international expansion than a high risk country.

The DEPEST analysis offers general information about a countries market; this however does not take into account possible risk. This means that a country that looks attractive according to DEPEST, the BERI index could prove otherwise.

The Index works as follows, there are 15 criteria mentioned in the table below, theses criteria are assigned a weight and after carefully analysing; the criteria are scored from 0-4. These scores are multiplied by the weight and these scores are summed up. This total score can be categorised. A total score of 65 means that a country has a moderate degree of risk related to it.

	CRITERIA	WEIGHT	Number of points (0-4)	
1	Political stability	3.0		
2	Attitude to foreign investments and profits	1.5		
3	Nationalization possibilities	1.5		
4	Monetary inflation	1.5		
5	Balance of payments	1.5		
6	Bureaucratic delay	1.0		
7	Economical growth	2.5		
8	Currency convertibility	2.5		
9	Labour costs/ productivity	2.0		
10	Short turn credits	2.0		
11	Long turn credits / capital	2.0		
12	Lawful prescriptions of contracts	1.5		
13	Communication and transport	1.0		
14	Local management	1.0		
15	Professional services	0.5		
	Total	25		

Table 3 BERI Index (www.beri.com)

Guidelines on Risk

The categories below have been developed to assist in interpreting the ratings.

- 70-100 Stable environment, typical of an advanced industrialized economy. Problems for foreign businesses are offset by the country's efficiency, market opportunities, financial system, and advanced infrastructure.
- 55-69 Moderate-risk countries with complications in day-to-day operations. Usually the political structure is sufficiently stable to permit consistent operations without serious disruption. Dynamic economic expansion often has the potential for attractive profits.
- 40-54 High risk for foreign-owned businesses. Only special situations should be considered, e.g., scarce raw materials or unusual profit potential. Selection of management is critical to success in this risk range.
- 0-39 Unacceptable business conditions for foreign-owned businesses. (www.beri.com)

Information on legal issues regarded with franchising is mentioned in appendix C.

Critical factors

From the international theory the following factors came forward as being important:

- International factors
- PEST
- BERI
- Legal issues

3.7: Conclusion

Conditions for internationally franchising the SDC according to literature

Franchising is an agreement between two parties by which the franchisor grants the franchisee the right to conduct their business under the brand name and by using their products and know-how. There are 2 sorts of franchising, hard and soft franchising.

Franchising offers two advantages (manpower, financial) that lead to a number of opportunities such as: maintaining a compact small business with a number of specialised managers, gaining profit without a large amount risk and daily involvement.

The development of a franchise entails 7 phases:

1. The basic business concept
2. Pilot operation
3. Developing the franchise package
4. Developing the operational package
5. Marketing the franchise package
6. Selecting franchisees
7. Developing the franchisor’s organisation

In the first phase the business concept has to be developed in order to set up a pilot operation, this pilot operation has to prove the viability of the concept. The flow of information created by the pilot operation should be the input for the development of the franchise package.

For international franchising more factors have to be taken into account, concepts such as DEPEST, BERI index. provide the company with the data on what factors of the prospective country are important/interesting. The BERI index score shows how high the risk of investing/doing business in a country is and if it would be advisable to do so

In the previous part the theory of franchising is summarized this theory put forward a lot of success factors which were mentioned at the end of each part, these conditions are mentioned below and will be used in the chapter with the overall critical success factors.

The conditions below are a summary of all of the critical factors that were mentioned.

Critical factors

The franchisor must first develop a successful business format which is identified with a brand name which may be a trademark, service mark and/or trade name.
The franchisee must make a substantial capital investment from private resources
The franchisee must own their business.
Type of franchising (hard or soft)
The concept must be proven by practical experience to be successful
The business should be distinctive in its image as well as in its methods and system.
The system and method must be capable of being passed on successfully to others within a reasonable time frame.
The financial returns from the business should be sufficient to enable the franchisee to obtain a sufficient return on capital, the franchisee should obtain a reasonable return for his labour and the franchisee is able to pay the franchisor a fee for the services he continuously supplies.
Brand Image/Clear Identity
The franchisor should make a sufficient profit from the fees he receives.
Franchisee Selection criteria
Stakeholder management
Partnership management
Distance management
Cultural adaptability
Control
International Market assessment

Table 4. literature Success factors

The conditions mentioned above are going to be related to the conditions according to best practice which are mentioned in the next chapter, together those factors are going to be the input for the overall conditions that are going to be used for the Gap analysis.

Chapter 4: Benchmarking

In this chapter the success factors will be put forward of two franchising best practice examples. McDonalds and Body Shop were chosen due to their success in the restaurant/fast food business (McDonalds) and in corporate responsibility/goal of the business (Body Shop) whereas their goal is getting people to use products that are all animal cruelty free, and many with fairly traded natural ingredients. First I will elaborate on McDonalds and the success factors that came forward.

4.1 McDonalds

McDonald's was founded in 1954 when Ray Kroc discovered the brothers McDonald hamburger stand in Riversdale, California. Kroc quickly recognized the potential for systematizing their operation and fast service, assembly –line meals, not just in a single location but in many McDonald's outlets. McDonald's knowledge is systematized and replicated through operating manuals, videos and training programs. The business system used by McDonald's is highly mechanistic, including reliance on highly standardized, formalized working practices that are carefully operated in the company's operating procedures. This system can only work by McDonald's carefully controlling its inputs to reduce variation: potatoes are carefully selected for size and shape, managers are carefully selected and trained, consumer tastes and expectations are carefully managed through promotion and advertising. For McDonald's restaurants, knowledge management is primarily concerned with implementing the McDonald's system. This is a detailed set of rules and operating practices that extend from the company's values down to the placing of a pickle on a bun of a Big Mac and the procedure for servicing a McDonald's milkshake machine. The essence of the McDonald's system is the systematization of knowledge into a detailed set of rules that must be followed in each McDonald's outlet.

McDonalds is able to pursue a low cost leadership strategy (Porter, 1979) without there product becoming an undifferentiated commodity. They are able to offer a low-price, no-frills offering which is also associated with clear market positioning and a unique brand image. This in such a way that the fast-food restaurants, franchising and standardized operating systems pioneered by the company, have resulted in the sector becoming dominated by a few major corporations. This does not mean however that McDonald's doesn't differentiate its products, differentiation extends beyond the physical characteristics of the product or the service to encompass anything about the product or service that influences the value customers derive from it.

Notable in the international expansion of McDonalds is that, unlike the national expansion, the first outlets in new countries are wholly owned subsidiaries. Differentiation of the products offered by McDonalds is done on a national basis. National preferences and dislikes are taken into account to alter the overall menu. In this McDonalds follows a global localization strategy (Morita, 1996) (Franchising in India, Lewis et al, paper for Enviu)

From the above mentioned information it is possible to derive several success factors which are:

Proven business and business system
Standardization
A detailed set of rules that must be followed in each McDonald's outlet
Cost leadership strategy

Market positioning and a unique brand image
The first outlets in new countries are wholly owned subsidiaries
A global localization strategy

Table 5. Success factors McDonalds

4.2 Body Shop

In 1976 Anita Roddick opened the first Body Shop in a back street in Brighton in 1976. The roof leaked and the ugly unpainted walls were covered with green garden lattice primarily because it was cheap. The shop sold only about a dozen inexpensive ‘natural’ cosmetics, all herbal creams and shampoos, all in simple packaging. Pot plants were placed between the products to fill the space. Anita thought these products would only appeal to a small number of customers that shared her values.

Franchisees pay an initial fee plus an annual operating charge for a fixed term, renewable franchise. Franchisees buy a ‘turn-key’ system with a tightly controlled retail format providing shop fitting and layout, staff training, financial and stock control systems and even help with site identification. Body Shop can also help arrange finance to purchase the franchise. Body Shop also, of course, makes a margin on the products it sells to the franchisees.

Franchisees receive regular visits from company representatives who provide assistance with display, sales promotion and training. Information packs, newsletters, videos and free promotional material are made available and franchisees have to return a monthly report on their sales. This enables the company to monitor both trading results and the local sales performance of individual products. The company closely monitors the use of The Body Shop trade mark in all franchisees’ literature, advertising and other uses.

Franchisees are selected partly upon their ‘fit’ with Body Shop ideals. Employees receive regular newsletters and videos concentrating on Body Shop campaigns and achievements. In 1995 the firm introduced in-store satellite transmitted radio. Body Shop takes every opportunity to put forward its values and beliefs which it believes sets it out as distinctive and different to its high street competitors. The company is said to bring together like-minded people and motivate staff in what otherwise is a sector with high staff turnover. The franchisees generated sufficient cash to finance early expansion until 1984 when the company went to the stock market, although it still maintained the franchise model.

Overseas expansion followed the same model as in the UK. In most countries a head franchisee was granted exclusive rights as user of the trade mark, distributor and, after an initial trial of running a few shops themselves, the right to sub-franchise. In this way the firm built upon local market knowledge and minimised its risks. This model was not always followed because of the quality of the head franchisee. For example, the firm took back control of the franchise. Body Shop remains an international franchise chain of shops. Body Shop International Ltd. is the franchisor. (www.palgrave.com/business/burns/students/pdf/06%20Body%20**Shop**.pdf)

From the before mentioned information it is possible to derive several success factors which are:

Innovation
Unique products and associated values
Quality products

Tightly controlled retail format providing shop fitting and layout, staff training, financial and stock control systems and even help with site identification
Large amount of assistance and control
Franchisee selection criteria (fit)
International strategy (Master franchise)
Focus on Franchise formula instead on products
Corporate culture, beliefs

Table 6. Success factors Body shop

Pitfalls

In 2002 a research for the mayor pitfalls of franchising was done by the Dutch Website www.zibb.nl; the results of the research were put into a top 10 of pitfalls which are:

1. Unproven franchising formula
2. An insufficient franchising manual with an explicitly described formula.
3. An insufficient amount of research into the interest for the formula
4. Unspecific franchising agreement
5. Not enough attention to selection materials and procedures
6. Too much attention for expansion and not enough focus on maintenance
7. Franchise selection criteria
8. Not enough financial resources to finance growth
9. Franchise development does not receive a separate law position
10. No structural communication between with franchisees

The analysis of the best practice examples and pitfalls provided conditions/critical success factors that have to be related to the conditions/ critical success factors. In the next chapter all of these factors have to be put into more general factors. That will be used for answering the sub-question

4.3 Conclusion

All of the success factors mentioned before in chapters 3 and 4 can be put into the following 7 overall success factors(See appendix C):

- Proven concept and business system
- Transferable business system
- Franchisee selection (criteria)
- Brand Image
- International entry factors
- Ongoing services and training
- Finance

These 7 overall critical success factors that were derived from all of the critical success factors that form the input for the Gap analysis that is going to be performed in the next chapter. This gap analysis will relate the factors to the SDC.

Chapter 5: Gap analysis

This chapter deals with how SDC relates to the critical success factors that were found in both literature and best practice. A method that is going to be used is the gap analysis, the gap analysis deals with two important questions:

Where are we?
Where do we want to be?
(www.marketingteacher.com/Lessons/lesson_gap_analysis.htm)

In the first part of the analysis the part of SDC that is most suited for franchising, it is necessary for the gap analysis to give a clear description about the current situation of the SDC.

5.1 Gap Analysis: How SDC relates to the critical success factors

In this part the relation between the questions; where are we and were do we want to go, will be answered. This will be done through relating the SDC the critical success factors that were put forward in chapter 4 to the conclusion made in Chapter 2.

Proving the concept/business system

According to the theory and best practice, this is the most important success factor/condition that has to be satisfied. Possible franchisees will not be interested in a franchise if the franchisor can not show that their concept/business system is successful in practice.
The SDC has been developing their concept and business the last year and have been active in assisting and developing Club WATT in Rotterdam, however the concept of a Sustainable Dance Club still needs to be proved in practice(See weaknesses in SWOT) (for example through Club WATT). If they are successful then SDC would prove their business concept/system, if so then franchising would become a serious option for international expansion. Due to the fact that there is no project/operating business of SDC at this moment lead to a MINUS in the table

Transferable business system

The SDC deliverable/BP on Mytown (Club WATT) showed advice from start to finish, it basically entailed a business system and how the club should be run by the owners. This business plan could be the input for an easily transferable business system once the concept/system is proved in real life. The transferability of the business system however also needs to be proven by practice; although it looks like an easily transferable system it is impossible to say on forehand that it will be successful. This part is therefore directly linked to the weakness; unproven concept.

Franchisee selection Criteria

Before I started my research I was told by both my supervisors at SDC that SDC currently does not know what to do with requests from possible clients. They did not know who to they should select and who not to, the SDC lacks the experience to do so. Therefore criteria have to be set up and used for selection of clients and possibly in the future franchisee selection. This could be done through consulting a HRM consultant or through the study of literature. Franchisee selection criteria came forward as being the second most important success factor, without the right franchisee a franchise is unsuccessful.

Brand Image.
Brand Image/Identity came forward in both literature and best practice as being something that can either make or break a business. The SDC has caught the attention of both the national and international press with the critical mass party at Off_Corso in Rotterdam, as well as their idea for the energy generating dance floor. The idea of sustainability as an integrated part of clubs does not appeal to everybody. Although the SDC has a well know brand in the sustainability branch they will have to start appealing to the general public, the risk mentioned in the threats; sustainability being a hype is also related to brand image.

Internationalization factors
International entry factors are always a risk when a company wants to expand to other countries, however franchising offers advantages as the franchisee would have to invest in acquiring the franchise. The franchisee would have more knowledge on the local factors such as culture, trade barriers, legislation and taxes. This would benefit the SDC, as they lack this knowledge and experience with international business. Hiring new personnel with practical knowledge on international expansion and franchising would also be a possibility in aiding the expansion of the SDC.

Ongoing training and services
Ongoing training and services is currently one of the products that the SDC has (See strengths SDC); focus however is on sustainability and not on franchising. SDC will need to develop training and services that are also related to franchising. The available know-how on how to give a training and on sustainability in general is an advantage. The current relationship with Club WATT has to prove that SDC is capable of providing a client with sufficient training and services that would enable the client to conduct their business properly.

Finance
The SDC at this moment is a small company with a relatively weak financial situation. The financial situation is not sufficient for franchising. It became apparent in the SWOT overview that the budget/finance of the SDC is a weakness and it can be related to the success factor finance. The financial status however is also related to the fact that the concept has to be proved by practice. If the concept is proven to be successful this will have a positive effect on the financial status of the company.

All of the before mentioned and success factors have been be put into a table that outlines how they relate to the SDC: A minus means the success factors that it is not available/satisfied, a plus/minus means that the success factor is both positively and negatively related to the SDC.

Success factors	**How does SDC relate to the Success Factors**
International entry factors (Risk, barriers, legislation.)	No experience with internationalisation processes/Enviu(foundation) however has the experience(+/-)
Proven concept and business system	Not available (-)
Transferable business system	Not proven, but with promise as it looks replicable (+/-)
Ongoing services and training	Experience in training and services, however no experience with franchising +/-
Franchisee selection (criteria)	Not established (-)
Finance	Small budget/vulnerable financial status (-)
Brand Image	Large amount of interested part/Unknown if general public is interested (+/-)

Table 7 Gap analysis

5.2 Conclusion

The gap analysis between the SDC and the literature/best practice examples showed a number of critical factors that are not satisfied for the implementation of franchising (See table above), this answers the sub-question under what conditions can SDC successfully franchise the SDC concept internationally: The conditions are:

Condition 1: Proving the concept by practice
Condition 2: Developing franchisee criteria
Condition 3: Improving the financial situation

As these three conditions are not met by the current situation at SDC, franchising or any other international expansion method is not possible/ advisable at this moment, however the second and third condition are directly linked to the first condition.
The most important condition that has to be fulfilled is: proving the business concept and business format (system). This step is part of the first of 7 steps that need to be taken in franchising a business, so fulfilling it is necessary; proving that the business concept and format works can be done in several ways: for example monitoring a project. The club WATT project could be used because it is the first project done by SDC and it could provide SDC with the necessary information needed. In the next part the methods performance measurement; how they work and how to implement them will be explained.

Chapter 6: Suggestions for the possible franchising of the SDC

In order for SDC to fulfil the first condition mentioned before they have to prove that their concept works. The first project that they are doing as mentioned before is the CLUB WATT project. Project monitoring and project management are closely related therefore project management should be explained which is done in the next part.

Figuur 2 Figure 2 Project Management cycle (www.method123.com/project-lifecycle.php

6.1 Project management

SDC needs to prove their business concept, to do so they need to use Project Management (which is the discipline of planning, organizing, and managing resources to bring about the successful completion of specific project goals and objectives) as their backbone for monitoring and evaluating their business concept. Project management life cycle entails 4 phases:

- Project Initiation
- Project planning
- Project execution
- Project closure

Project Initiation
Project initiation is the 1st phase in the Project Management Life Cycle. In it the project is started up. A new project is started by defining its objectives, scope, purpose and deliverables that need to be produced. Next step is hiring a project team, setting up the Project Office and reviewing the project, to gain approval to begin the next phase. SDC/WATT has already passed this phase so the information that is generated should be monitored and evaluation should be done.

Project planning
Project planning is the second phase in the project life cycle. It involves creating a set of plans that help the project team through the execution and closure phases of the project.

The plans created during this phase will help with the management of time, cost, quality, change, risk and issues. SDC/WATT has already passed this phase, as Club WATT is due to be opened in September. This phase should be evaluated.

Project execution
Project execution is the third phase in the project life cycle. In this phase, the physical project deliverables will be built and presented to the customer for the ok. The Project Execution Phase is normally the phase in the project life cycle that takes the most time and it normally consumes the most energy and the most resources.

To enable you to monitor and control the project during this phase, Performance indicators have to be set. Monitoring and control of the project can be done by comparing planned performance with actual performance. This phase is very important in proving SDCs business concept. This phase should create an information flow that can help with monitoring as well as evaluating the project in the project closure phase.

Project closure

Project closure is the fourth and last phase in the project life cycle. In this phase, you will close and evaluate your project and then report its overall level of success the client.

Project Closure involves handing over the deliverables to the customer, giving them the documentation on the business, cancelling the supplier contracts, releasing staff and equipment, and informing stakeholders of the cancellation of the project.

After the project has been finalised, a post implementation review should be done to determine the project's success and identify the lessons learned.

Focus for SDC on monitoring the project execution, closure and performing a post implementation review. Monitoring and evaluating of the project is a crucial part of this review, assessing the project's success, positive aspects and problems that were encountered. This part needs further elaboration which is done in the next part.

6.2 Monitoring and evaluating projects.

The European Union in 2004 published a document regarding monitoring and evaluating project, they first state that monitoring and evaluating are often mixed up and it is therefore needed to explain them. The definitions of the two are:

"Monitoring is the systematic and continuous collecting, analysis and using of information for the purpose of management and decision-making, it therefore represents an exhaustive and regular examination of the resources, outputs and results of a project, and it is a continuous process carried out during the execution of a project with the intention of immediately correcting any deviation from operational objectives. Monitoring generates data that can be used in evaluations.

Evaluation is a periodic assessment of the efficiency, effectiveness, impact, sustainability and relevance of a project in the context of stated objectives. It is usually undertaken as an independent examination of the background, objectives, results, activities and means deployed, with a view to drawing lessons that may guide future decision-making, it therefore seeks to determine as systematically and objectively as possible the relevance, efficiency and effect of a project in terms of its objectives."(Project monitoring and evaluation guideline, EU, 2004)

Monitoring can be implemented during every phase of the project management cycle, however evaluation can only be done at the start, intermediate and final stage, monitoring therefore provides the elements for an evaluation.

The EU document states five monitoring criteria for projects:

Relevance:

The appropriateness of project objectives to the problems that it was supposed to address, and to the physical and policy environment within which it operated, including an assessment of the quality of project preparation and design – i.e. the logic and completeness of the project planning process, and the internal logic and coherence of the project design.	To what extent are the programme's objectives pertinent to the evolving needs and priorities at both national and EU levels

Efficiency

The fact that the Results have been achieved at reasonable cost, i.e. how well inputs/means have been converted into Results, in terms of quality, quantity and time, and the quality of the Results achieved. This generally requires comparing alternative approaches to achieving the same outputs, to see whether the most efficient process has been adopted.	How economically have the various inputs been converted into outputs, results and outcomes.

Utility (Impact)

The effect of the project on its wider environment, and its contribution to the wider sectoral objectives summarised in the project's Overall Objectives.	How do the programme's results and outcomes compare with the needs of the target population?

Sustainability

An assessment of the likelihood of benefits produced by the project to continue to flow after external funding has ended, and with particular reference to factors of ownership by beneficiaries, policy support, economic and financial factors, socio-cultural aspects, gender equality, appropriate technology, environmental aspects, and institutional and management capacity.	To what extent can the positive changes be expected to last after the programme has been terminated?

Effectiveness

An assessment of the contribution made by Results to achievement of the Project Purpose, and how Assumptions have affected project achievements.	How far have the programme's results and outcomes contributed to achieving its specific and general objectives?

Table 8. Monitoring criteria (European Union, Project monitoring and evaluation, 2004)

Monitoring creates an information base required for decision taking during implementation. Monitoring is not only done within a project but also at different levels within the funding process, decisions have to be taken on what information is necessary to control the project implementation process and how it is to be obtained, collected, analyzed, dispatched. Therefore, monitoring will usually involve the following steps 1.collecting data, 2. analysing and drawing conclusions, 3. making recommendations and taking corrective actions. For collecting data objectives need to be developed, this step is explained in the next part.

Objectives

Objectives are necessary for monitoring as without it, it is not possible to measure anything; between the objectives is a distinction. Corresponding to the distinction between outputs, results and outcomes there are four types of objectives: Input objectives expressed in term of inputs, operational objectives expressed in terms of outputs, specific objectives expressed in terms of results and General objectives expressed in terms of outcomes.

To know if a project has met its objectives it is necessary to define indicators. An indicator is a measurement of the objective that has to be achieved. Indicators produce information in terms of inputs, outputs, results and outcomes: Input indicators measure the actual use of resources, output indicators measure what is accomplished with inputs, Result indicators measure the direct and immediate impact and outcome indicators measure the indirect and longer term impact

The information provided by an indicator is either of a quantitative nature, therefore both verifiable and measurable, or of a qualitative nature, therefore only verifiable.

Indicators (OVIs)

Indicators (Objectively Verifiable Indicators from now on) describe the project's objectives in operationally measurable terms (quantity, quality, target group(s), time, and place). Specifying OVIs aides with controlling the viability of objectives and forms the basis of the project monitoring system.

OVIs should relate to the SMART which means, Specific, Measurable, Achievable, Relevant and Time related. The indication should be independent from each other, meaning that only one indicator for one objective. Indicators at the level of results should not be a summary of what has been stated at the activity level but the consequence. It is often necessary to have several indicators for one objective if the single indicator does not provide enough information. The measurement and interpretation of the OVIs should be the same if determined by different persons, this is easier for quantitative OVIs than for Qualitative measurements.

How to define OVIs

Specify for each result, the project purpose, and the overall objectives which are: Quantity, Quality, Target group, Time / period, Place:

Important is to check if the Indicators or Indicators describe the overall objectives, purpose or results accurately. If not, other indicators should be added or new ones found.

It is important to ensure that the OVIs for the project purpose - the project's "centre of gravity" - do in practice incorporate the notion of "sustainable benefits for the target group".

How to choose sources of verification
It is necessary to decide what sources of verification are needed to obtain the information on OVIs, SDC needs to identify which sources are to be collected, processed and kept within the Project, and which are outside (existing sources), they should check sources outside the project to ensure that: appropriate form/presentation, specific enough, reliable, accessible, reasonable costs for obtaining the information

Implementation of Monitoring
SDC has to develop their objectives before starting to monitor the project which means that they are too late already because Club WATT has already opened, I would therefore suggest to a start monitoring period as soon as possible. Defining objectives should be done by the Project Manager. SDC should try and find a student/volunteer in their large network for investigating the business success. The prospective volunteer/business student should have experience with defining business objectives, objectives and researching them. The research should start with defining indicators for the previously defined objectives. . The project manager/Student should define the OVIs and sources of verification as soon as possible, at least before the first of January 2009. The monitoring of the project should at least start the first of January 2009 and should at least last until the thirty-first of December 2009, this should be done by the before mentioned student who already defined the indicators and sources of verification. The project should be monitored for at least a year before evaluating.

Evaluation
Evaluation is entails revealing the value of a project. This involves making value judgements on the degree to which a project's performance has performing well or not. Before evaluation it is necessary to set up predetermined and transparent benchmarks that ensure that value judgements do not become arbitrary.

There are three different parameters on which benchmarks can be established:
Time: benchmarks that compare the same project over time (to what extent are the project's objectives being met this year compared to last year?).
Space: benchmarks that compare the same project in different areas (to What extent are the project's objectives being met in one area compared to another?)
Time and space: benchmarks that compare the project with other projects that are roughly similar.

Implementation of evaluation
Evaluation of the Club WATT project should be done by the project manager, as he has the most experience with the project. For SDC the most useful parameter is time, they will need to evaluate the project during each end of a stage of the project management lifecycle. The first evaluation should be done at the end of a the previously mentioned monitoring period starting the first of January 2009 until the thirty-first of December 2009, so evaluation should be done in January 2010. SDC will need monitor the project for a serious amount of time for example the before mentioned year. This does not imply that after one year they should stop monitor and evaluating the project. To prove the concept in practice it would mean that is would be successful over a larger period of time(for example 5 years).

6.3 Conclusion

As mentioned before, SDC needs to prove their concept in practice in order to fulfil the first criteria. What they need to do is to go through the project management cycle and monitor the progress of the project. They need to use the five monitoring criteria, and set out clear objectives; if these objectives are defined they need to set up indicators that are directly related to the objectives. If all of these steps are made, then they need to find sources of verification for the indicators. This could be done by external information as well as the information flow generated by the Club WATT project. SDC's project manager or business student should define the objectives on monitoring and evaluation before the start of the project. He/she should define what objectives they find important, as well as what could prove SDCs concept. The research that proves the SDC business concept (for example defining indicators and sources of information) can be done by a student with the help of the Project manager. The project manager however should closely monitor the research. SDC should monitor the project for at least a year before evaluating and making conclusions. They should start the first of January 2009 until thirty-first of December 2009. An evaluation should be done in January 2010. SDC should however maintain the monitoring of the project after the first evaluation. The end result of the project should be the input for deciding if the business format is successful enough to start to franchise the business.

Chapter 7: Conclusion, recommendations and reflections

7.1 Conclusion

In this chapter I will explain why SDC is not able to implement franchising as an international expansion method.

The SDC

The SDC as mentioned before has three distinct services it offers to clubs:

- Advice, design and implementation: consultancy
- SDC elements
- Events

The Advice design and implementation: consultancy services are suitable for franchising as the in depth scan takes a detailed look at your company's environmental impact, along with the economical and organisational aspects of the company. SDC provides a comprehensive advice on the possible improvements your club could make, this can be transferred into a manual which would be used in franchising. However the SDC is still very small and they have not proven themselves as well as their projects due to the fact that their first project Club WATT still has not opened yet. This means that condition 1 that is derived from the Gap Analysis is not satisfied and therefore franchising is not possible at this time.

Now that we have concluded why franchising is not an option at this moment, it is necessary to see what needs to be able to implement franchising.

Franchising literature/Best practice

To implement a franchise seven steps have to be taken:

1) The basic business concept
2) Pilot operation
3) Developing the franchise package
4) Developing the operational package
5) Marketing the franchise package
6) Selecting franchisees
7) Developing the franchisor's organisation

The SDC is currently at the first step in which an analysis is done on the concept to see if it is suitable for franchising. The most important condition/factor that is held is that the concept is proven by practice (both literature and best practice). As the gap analysis shows, this is not the case for SDC, although the concept looks suitable for franchising, it needs to be proven in accordance to literature and best practice. There are several performance measurement tools that can be used. The balanced scorecard is most suited for SDC because of their main goal/strategy which is opening the eyes of both club owners and clubbers about sustainability. The balanced scorecard links the strategy to the performance measurements; this could help in proving the SDC concept.

The other conditions mentioned selection criteria for clients and improving the financial situation are directly linked to the first condition, without proving the concept SDC does not have to formulate selection criteria and the financial improvement can not be done without income.

7.2 Recommendations

In this part I will explain my recommendations for SDC based on the conclusions and suggestions that were done. SDC should take the following steps:

Proving the concept in practice
As mentioned before this is most crucial for the implementation of franchising, the SDC should start using monitoring and evaluation. Prove should be available January 2010

Defining objectives, indicators and sources of verification
In the SDC deliverable the SDC provided a framework that they planned to uses, however it did not have any objectives except for the reduction of Co2 and the waste of materials, water, energy and trash. The SDC should define objectives as well as indicators for them. The objectives, indicators and source of verification should be done before the first of January 2009.

Monitoring and auditing the information flow derived from the first project
After the opening of Club WATT the SDC should perform monthly auditing of the information flow generated. This monitoring and auditing of the project should lead to results that can be compared to the targets set before. Research could be done by a student or volunteer of Enviu. The Club WATT project should be done between the first of January 2009 and the thirty-first of December 2009.

Concluding if the Business format and system is successful/proven and useable for franchising
I would suggest that SDC would monitor the Club WATT project for at least a year, after the first year they can evaluate the concept as well as asses the problems that arose during the first year. If successful this could be the input for either an international pilot operation as well as the input for the franchise package. The conclusion of if the business format is proven in practice should be done in January 2010.

Consulting a professional franchising expert to evaluate the possibilities for franchising
If the evaluation of the Club WATT project was positive, I would suggest also consulting a franchising expert. This expert would be able to give advice on what to do as well as give a second opinion about the concept. Martin Mendelssohn in “The guide to franchising” also recommended it. This should be done after the conclusion of the business format.

If successful initiate step 2 (National/ International pilot) and step 3 Development of the franchise package) mentioned before.
If all of the before mentioned steps are gone through then SDC would be able to go ahead with step 2 and 3 of the 7 steps to franchising.

7.3 Reflection on the Research

In this part the researcher reflects on the research, why I choose the tools that I did, what pitfalls there were.

Theoretical reflection

As franchising is a common concept in international expansion concept, theories are widely available. I opted to use one of the best known theories which were put forward by Martin Mendelsohn, the guide to franchising. It gave a complete description on what the concept is, (dis)advantages, problems and how to implement the concept. There are of course many other theories on franchising; Mendelsohn is however mentioned quite often in other literature. In the analysis of the literature, it came forward that the aspect of franchisee selection needed more theoretical backing and I therefore opted for Jambulingman/Nevin and Clarkin and Swavely, as had the clearest selection criteria, as well as clear examples. In order to find out how SDC relates to the theory and best practice examples a gap analysis was performed. Downside of the gap analysis is that it is a crude tool, as reliability and validity in this case were not possible to test. After the Gap analysis it became clear that that franchising was not an option at this moment, due to the fact that the concept needed to be proven with the use of project monitoring and evaluation.

Empirical reflection

The research design chosen for this research was an exploratory research style. The initial design of the research was focused on finding out if franchising was an option for SDC. The main question was answered through a Gap analysis and the conditions that flowed out of it. The analysis was done by testing the critical success factors against the SWOT analysis and general information.

Project Monitoring and evaluating are necessary for proving SDCs business concept. The EU document on project monitoring provided a sufficient amount of information on how to apply the 2 concepts. Although these tools are quite general and crude, there currently are no other tool available for assessing if franchising a business concept possible. SDC needs to ensure that the research for proving the concept is valid and reliable, this could be done by comparing their research with other research for franchising a more or less similar business concept.

Methodological reflection

The main goal of this research was to find an international expansion method for the SDC concept and what countries were attractive. The outlook of the research however changed several times, from normal expansion to new services development, scenario planning. After deliberation with Wouter Kersten and Trude Buitenhuis, the idea of franchising was put forward. The research therefore focused on finding out what franchising is, how to implement it, though literature and best practice. The best practice examples of McDonalds and Body Shop were chosen because of their international appeal. Body shop was chosen because of social responsibility; the use of products that were naturally produced as well as not tested on animals.

The choice for franchising proved to be not possible at this moment, so the focus switched from testing countries to proving and thus testing the business/concept through project monitoring and evaluating.SDC will first need to develop objectives and indicators and should start the monitoring first of January 2009.

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Appendix

A. Franchise Implementation

There are 7 elements involved when creating and developing a franchised business:

1. The basic business concept
2. Pilot operation
3. Developing the franchise package
4. Developing the operational package
5. Marketing the franchise package
6. Selecting franchisees
7. Developing the franchisor's organisation

The basic business concept
In order to start a franchise the business concept should be developed. The most important thing when one wants to set up a franchise is to keep it simple, because others have to be taught to operate successful. The more complex the business concept is, the more difficult it will be to recruit, train and sustain franchisees. Good examples are the burger king and McDonalds food restaurant, the lay-out of the kitchen, décor, take-out and restaurant area, it is simple to implement these because the franchisor kept the design simple. Next part is to analyse and anticipate the needs of the customer. Another important part is the definition of the market at which the business is aimed, as there is no point in creating a business that has no market. Also important is to keep in mind that the consumer at first will choose for the established brand first as this is familiar.

Attracting franchisees with sufficient financial resources to successfully establish the outlet may be a factor that needs to be taken into account, as well as their ability to acquire the skills required for the business as well as teaching them to their staff.

The franchisor should also take into account factors such as premise; finding a suitable premise which will enable the franchisee to do their business successfully, consumer demand, can the franchisor use, allocate their resources to establish sufficient market demand. Last factor that needs to be looked at is the market/business sectors health; how is it doing, staying power.

The business concept should be distinctive, it should have a competitive edge; all successful franchises have their own distinctive concept that sets it apart from the competition

In the business concept phase the trademark to be used is chosen, it is important that it is easily pronounceable, not capable of being translated (Well known is the "Chevy nova" "doesn't go" principle), it should be possible to register and short.

Most important criteria:

6. The concept must be proven by practical experience to be successful
7. The business should be distinctive in its image as well as in its methods and system.

8. The system and method must be capable of being passed on successfully to others within a reasonable time frame.
9. The financial returns from the business should be sufficient to enable the franchisee to obtain a sufficient return on capital, the franchisee should obtain a reasonable return for his labour and the franchisee is able to pay the franchisor a fee for the services he continuously supplies.
10. The franchisor should make a sufficient profit from the fees he receives.

The pilot operation

When the business concept is developed the next step should be the pilot operation. How many pilots should be done is dependant on the how re-presentable the pilots are. In order for a possible franchisor to know that they are ready for a franchise, they should experiment. A franchisor should have a proven package of know-how. If they do not prove their ability to operate the package with success and put their own money at risk, they should not start up a franchise. A franchise should not be established by trial and error.

A pilot will fulfil functions like:

The viability of the concept will be developed and established as acceptable and exclusively.
It will identify problem areas and enable the franchisor with solutions to factors such as; marketing, acceptability and availability of services, methods of marketing, promotion, regulations, legal aspects and taxation.
Trying out decors, use of equipment
Experience with trading and the operation of the outlet.
Show how training can be used successfully, pitfalls
Information needed for an operations manual will become available.

What the pilot operation basically will show is the viability of the concept.

Developing the franchise package

The third step will be the development of the franchise package.

First step in development of the franchise package is the location. The part of the package has Several important parts such as: the type of street (sort of road, availability of the motorway, parking places.) the environment of the location, foot and/or traffic volumes, the degree of identification to which the premises are exposed, landmarks and business which they may generate (museums, schools, proximity to stores, sports facilities.)

If a possible location is acceptable, then criteria have to be drawn up for the suitability of the location, criteria may be:
Size
Suitability for the conversion location to the end product
Availability of public utility services
Possible premiums for the location, rent, business rate
Lease terms
Cost assessment of consents, complying the law

Developing the operational manual
The operational manual is a necessary part of the franchise, the franchisee will first come into contact with it when the training phase starts and will then it will be loaned to him as a continuing guide to the conduct of his business. The manual contains in written form the complete method for conducting the franchised business. The manual will offer a copyright protection which an oral explanation will not have. It therefore forms an important part of

The European commission adopted a block exemption regulation for franchise agreements, made the manual more important because the regulation states that the franchisors know-how has to be written down in a specific matter to check if it fulfils the criteria of secrecy and substantiality which are prescribed in the franchise agreement. In the next parts I will explain what parts are in the manual.

Introduction
Every manual should have an introduction in which is explained the nature of the operation, business philosophy. The introduction should explain what the franchisee can expect from the franchisor and vice versa.

Operational system
This part of the manual entails a detailed description of operational system which explains how the operation is set up and how all the elements of the franchise fit together.

Equipment
This section of the manual explains what equipment is necessary for the operation of the business, it will give a comprehensive explanation of what the equipment is, functions and how it operates. I will also provide a type of FAQ, for troubleshooting and general faults that pop up. There will also be a directory of telephone numbers for suppliers and service centres for the equipment.

Operating instructions
Normally broken up into a number of sections for example:

1. Opening hours and days
2. Trading patterns
3. Staff schedules
4. Standard forms and procedures
5. Requirement as to staff appearance.
6. Staff training procedures
7. Procedures for employing staff and compliance with statutory obligations
8. Procedure for disciplining staff and the statutory obligations imposed on the franchisee as an employer.
9. Pricing policies
10. Purchasing policies
11. Product standards
12. Service standards
13. Staff duties

14. Payment of franchise fees
15. Accounting: specific accounting methods
16. Cash control and banking procedures
17. Advertising and marketing
18. Requirements to style
19. “” to presentation
20. Stock control procedures.

Standard forms
This section should include all standard forms including all of the forms mentioned above as well as:

1. Contracts of employment
2. Agreements with managers or staff ordering confidentiality on trade secrets, methods.
3. Contract forms to be used in dealing with customers on the conduct of the franchised business.

Technical supplement
This would include detailed technical information about equipment than is included in the section dealing with detailed operational methods.

Franchisor directory
This is a directory of who’s who in the franchisors organisation and whom to contact for any particular aspect of the franchised business.

Telephone directory
A directory of all useful telephone numbers, such as service centres suppliers.

Marketing the franchise package
The best possible way to market the franchise package by a franchisor is through demonstration of their success. As mentioned before pilot operations should have been established to prove that the concept works. This demonstration itself would be the best possible marketing tool in the launch of the franchise. Also in this phase it is important that the franchisor does not respond to many requests as some of these early franchisees may not be suited for the franchise. Franchisors often use the following 5 ways:

1. Through the pilot operation an customers asks if they may become a franchisee
2. Word of mouth
3. Through news items of features in a newspaper
4. Advertising
5. Through franchising exhibitions

Selecting Franchisees
Mendelsohn writes that selecting franchisees is not a simple task. Most common problem is that the franchisor is too eager to get the franchise started, thus selecting the wrong franchisee. Standards for selection need to be put down in advance and need to be exact and never compromised. Some franchisors offer special deals in order to lure in franchisees, these kinds of

actions should be avoided because they do not attract the right future franchisees. Personal interest should be taken when a franchisor thinks he has attracted a future franchisor, at least one visit to their home should be made. Basis important factors are: Age, Experience, and Responsibility.

Jambulingham and Nevin identified selection criteria:
Financial
Experience and Managerial skills
Businesses, and manage operations, prior experience, prior self-employment, own other
.Demographic characteristics
Attitudes and personality
Other

Criteria held by well known franchisors:

Table 1
Franchisee selection considerations

Firm	Considerations
McDonald's	Entrepreneurial spirit and strong desire to succeed Ability to motivate and train people Ability to manage finances Willingness to personally devote full time and best efforts to day-to-day operation as on-premises franchisee Willingness to complete comprehensive training and evaluation program Financial qualifications[a]
Boston pizza	Necessary capital investment and/or financial requirements Manpower commitments including management personnel Business experience in local market Willingness to adhere to Boston Pizza system; Strong desire to succeed, work hard and be part of winning team[b]
Jungle jims	"We will accept only those franchisees whom, upon reasonable investigation, appear to possess the requisite skills, education, personal qualities, and financial resources to meet the needs of a successful restaurant operation. We will provide reasonable supervision over the activities of franchisees to protect the integrity of the franchise system for the benefit of the public, other franchisees, employees and suppliers."[c]
Gelare	"There is no particular experience required to own a Gelare franchise. Gelare franchisee selection process focuses more on the character and personal qualities of the applicants. At Gelare we believe that a successful franchisee is a team player that understands and adheres to the franchise system, has commitment and strong belief in Gelare products and system, good PR and customer relation, ambition, integrity and a passion for success with ability and energy to work hard to achieve it. It is important for all applicants to realise that Gelare Franchise is not a passive investment and they must be willing to be hand on."[d]
Wendy's (Australia)	A positive attitude An ability to provide outstanding customer service and to relate well with employees A strong desire to achieve and succeed A willingness to become actively involved in their Wendy's franchise A high level of energy and enthusiasm To be able to take directions, be willing and able to change, be a team player as part of a franchise system[e]

[a] http://www.mcdonalds.com/countries/usa/corporate/franchise/faq/faq.html
[b] http://www.bostonpizza.com/franchising/partner.cfm
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[e] http://www.wendys.com.au/html/fran6.html#successful

Figure 3. (Clarking and Swavely)

In the article of Clarkin and Swavely 6 selection criteria are mentioned:
Financial net worth
General business experience;
Specific industry experience;

Formal education
Psychological Profile;
Personal interview
The conclusion of the article showed that both psychological profiling and personal interview were the most important criteria whereas specific industry experience was least important.

Developing the franchisors organisation
As the franchise gets started, they will need to change the organisation in line with the growth of the franchise. In the beginning the franchisor is faced with expenses that cannot be covered by the income generated by the franchisees. Franchisors need to emphasize on the following functions: Finance, Franchise sales, marketing and operations (Including innovation).

Finance
Franchisors need to develop a simple accounting system for the franchisees and be capable of giving financial advice to the franchisee. The information generated should fulfil 2 objectives: It should enable the franchisor to monitor each franchisees performance as well as provide the basis for calculating the fees to be paid. It should enable the franchisee to see how his performance compares with his business projections and with the objectives, which he and the franchisor have set and with the other franchisee in the network.

The information needs to be categorised in 3 categories:
1. Gross revenues
2. Profit and Loss statements
3. Capital expenditures

Franchise sales
Initially the franchisor will need to do the selling himself, basically explaining to possible franchisees what the business is about, how services are offered, contract terms. The owner of the franchise should be the one explaining everything as he understands the challenges the franchisees will face. The possibility of hiring extra help (specialists) is very difficult because as he would not know the organisation very well as well as the franchisor would not know him enough to trust his decisions. If extra help is acquired then he/she should have excellent reference and extra help should be installed one by one. Best way of hiring staff would be from recruitment within the company as they already have the necessary knowledge and their integrity is known.

Marketing the service
A specialised marketing staff will not be necessary in the early days of the franchise. If a franchisor already has marketing capabilities, it should be used. In case they use an advertising agency it should be informed about the franchising plans. The franchisor will need a staff that focuses on promotion, marketing and design work. Important part is the interactions with the franchisees on marketing and promotional ideas. A positive and continuous approach to marketing will also lead to a boost in morale as well as the maintenance of this morale.

Operations
The franchisor will need sufficient staff that provides the franchisees with sufficient help they need to start the new outlets. The franchisor has to monitor, control and advise the franchisee on the business after the launch. Also here the source for a candidate for this position would be the existing operational staff. The staff involved in operation will expand the growth of the business and the operational support of the franchise business. They follow a number of paths as follows:

1. Initial training of the franchisees and staff
2. Retraining
3. Field team that will provide "on the spot" advise
4. Innovation and experimentation

What a new company essentially will need for the franchise:

Franchise sales
-Managing director himself

Marketing
-Managing director

Operation
-Transfer one employee from existing operations

Shop fitting
-Operations person as well as outside suppliers

Training
-Manager of one of the franchisors own operations

Finance and Administration
-Existing company personnel as well as bankers, accountants.

Most important criteria:
The concept must be proven by practical experience to be successful
The business should be distinctive in its image as well as in its methods and system.
The system and method must be capable of being passed on successfully to others within a reasonable time frame.
The financial returns from the business should be sufficient to enable the franchisee to obtain a sufficient return on capital, the franchisee should obtain a reasonable return for his labour and the franchisee is able to pay the franchisor a fee for the services he continuously supplies.
The franchisor should make a sufficient profit from the fees he receives.
Attracting franchisees with sufficient financial resources to successfully establish the outlet
Franchisee selection (Criteria)

B. Table PEST (http://www.businessballs.com/pestanalysisfreetemplate.htm**)**

Political ecological/environmental issues current legislation home market future legislation European/international legislation regulatory bodies and processes government policies government term and change trading policies funding, grants and initiatives home market lobbying/pressure groups international pressure groups wars and conflict	**Economic** home economy situation home economy trends overseas economies and trends general taxation issues taxation specific to product/services seasonality/weather issues market and trade cycles specific industry factors market routes and distribution trends customer/end-user drivers interest and exchange rates international trade/monetary issues
Social lifestyle trends demographics consumer attitudes and opinions media views law changes affecting social factors brand, company, technology image consumer buying patterns fashion and role models major events and influences buying access and trends ethnic/religious factors advertising and publicity ethical issues	**Technological** competing technology development research funding associated/dependent technologies replacement technology/solutions maturity of technology manufacturing maturity and capacity information and communications consumer buying mechanisms/technology technology legislation innovation potential technology access, licensing, patents intellectual property issues global communications

Table 9 PEST

C. Overall success factors

Proven concept and business system
This factor can be regarded as one of the most important factors due to the suitability for franchising. If a concept and business system is unproven by practice, it is impossible to attract franchisees. A franchisee will always opt for a proven/successful franchisee because the risks concerned with it will be lower.
Transferable business system
This factor is directly related to the first factor because the transferability of the system has to be proven in practice. The franchisor has to be able to show possible franchisees that their business system/methods are transferable to another business. The transferability will come forward when the business concept is testes and evaluated.
Franchisee selection (criteria)
Franchisee selection (criteria) is a known pitfall concerned with franchising. Most franchisors have no clue as to whom they want to attract there should be therefore an exact selection process with pre-determined criteria that are in accordance with the literature and the wishes of the franchisor.
Brand Image
Brand image is something that a franchisor deal with, it can make/or brake the franchise. A positive brand image can influence factors such as sales, franchisee application/selection and competitive advantages. A clear identity can help customers with identifying themselves with the brand.
International entry factors
Although franchising differs from normal product related business it still has to deal with the same market entry factors such as trade barriers, culture, BERI index and DEPEST (PEST) 5 forces of Porter. International entry factor are generally applicable for any type of entry method.
Ongoing services and training
If a franchisor wants to maintain a successful franchise they should stay on top on any change in the market. A franchisee should be trained to cope with these changes. The franchisor has to be available for the franchisor if they cannot cope with the business.
Finance
Although franchising does not need a large amount of investment (Most investment is done by franchisee), the company should have a sufficient amount available to cope with any difficulties and keep developing the concept, training, services, format and products.
These 7 overall critical success factors that were defined from all of the critical success factors that form the input for the Gap analysis that is going to be performed in the next chapter. This gap analysis will relate the factors to the SDC.

Table 10. Overall success factors

D. Services that are offered to the franchisee?

The franchise relationship includes a wide range of services. The first thing will be helping the franchisee with the establishment of the business and proving that it will be successful in operation. This means that the franchisor needs to risk its own resources in opening and running a new business in order for them to discover and resolve problems, because this will be the foundation on which the business is formed. Basically the franchisor offers two types of services:

Selecting, training and helping the franchisee in establishing the business and the ongoing service during of the franchise relationship

In the next part the two types will be explained:

Recruitment
Although this isn't always regarded an initial service, Mendelssohn states that it should be, as the franchisor selects franchisees to fulfil it's own needs however he need to be selective. The franchisor should be able to make a decision on if self-employment is the right option for the prospective franchisee. Is he able to cope with franchised business; does he have the right skills and capabilities for the job? A franchisor that is able to do this will increase the change of success as well as building a network of highly qualified franchisees.

Training
Training should serve two purposes: The franchisee has to be trained in basic business skills. These skills will include: book keeping, accounting, reporting methods and systems, staff selection, staff management and control, business procedures, documentary systems that are necessary for controlling the franchise business and elementary business training which will enable the franchisee to do a basic analysis of whether or not his business has improved or problems are arising and dealing with these problems. The training of the franchisee provides the franchisee with the basic skills needed for running the business which is franchised.

Premises
The franchisor can assist the franchisee with finding a suitable premise and helping them in the use of the premise as a franchised outlet. This includes a number of stages being:

Criteria for site selection
Planning and by-law compliance
Negotiation of the lease
Designing and outfitting the outlet
Equipment requirements
Stock needed for the opening
The launch of the business

Selection for site criteria
The franchisor normally has developed criteria for investigating and evaluating possible sites for a franchise. Sometimes the franchisee looks for sites that are qualified for the franchise. The franchisor will advise the franchisee whether or not the site is suitable for the franchise (Meets

the standards of quality and if it is possible to physically accommodate the franchise in the outlet). It also important that the site does not need too much investment from the franchisee, a franchisor should not expect a franchisee to invest in a site in which the franchisor himself would not invest.

Planning and by-law compliance
In come cases some sites do not have a planning permission which enables the site to be used for the business of the franchised system. A planning permission will be necessary and the franchisor should help the franchisee in obtaining such a permit. A franchisor should assist the franchisee by previous experience with obtaining such permits, explaining the concept to the authorities, other regulation such as building regulations should be complied with.

Negotiation of the lease
Another service the franchisor often offers is assisting the franchisee in the negotiation of the lease. As mentioned before sometimes the concept has to be explained to the owner of the premise. The franchisors assistance in negotiating with the lease could benefit the franchisee in obtaining the site, where an individual may not be acceptable.

Designing and outfitting the outlet
A franchisor should assist the franchisee in designing the outlet. The outlet should be outfitted conform the franchisors requirements. Normally a franchisor has standard plans and specifications that can be transferred to other premises. A franchisor also could offer a complete plan preparation and shop fitting service, however specialized professional advice is the responsibility of the franchisee and is necessary.

Equipment requirements
The franchisor if it equipment isn’t already part of the franchise package should give advice and assistance in the selection of the right equipment as cheap as possible. The franchisor should have all the necessary information available.

Stock needed for the opening
The franchisor will ensure that the franchisee has an opening stock inventory list, and will arrange for the franchisee to purchase these stocks from its own purchasing department or from suppliers.

The launch of the business
For the launch of the business the franchisor should provide the franchisee with assistance during the final preparatory arrangements for the opening of the outlet. Normally the franchisor will have a team (2 or 3 people) present to assist the franchise in getting the business started. This team has to ensure that the franchisee gets the business started as envisioned by the franchisor and as how it is shown to him during training. When the franchisee is coping with the new business he should be left to do business on his own.

2.4.4 Ongoing services

After the launch of the franchised business the franchisor should assist the franchisee in the operation of the business. Ongoing services will include:

Monitoring and support
Extra training
Head office organisation
R&D and Market research
Advertising and promotion
Communication

Monitoring and support
As mentioned before a franchise a system normally offers the franchisee the structure of a reporting and monitoring system with ensures that the franchisor will be able to check if the correct fees are paid but it will also give them the information he needs for monitoring the overall performance. This monitoring system is valuable for both franchisor and franchisee; as the franchisee has to prepare meaningful data that will give him necessary data about his business and its financial performance. The data will give the franchisor an overview on performance as well as a record of network performances from which they can review individual and all franchisees can be reviewed. It is important that the franchisee knows who at the 'head office' is able to assist and help him when needed.

Training
There will always be a need for training, for example franchisees that are not employing the system correctly may need retraining. Also when new innovations are made by franchisor the franchisee will need training in order to use them correctly.

Head office' organisation
The franchisor has to ensure that at his head office a sufficient amount of specialist is available for fields of which a franchisee might need assistance for example: marketing, PR, product quality control.

R&D and market research
A franchisor should have R&D facilities in relation to the products, services or system and the market image projected. A franchisor should constantly be searching for new ideas, innovations and methods for improving the franchise. Market research can be done by desk research as well as through testing by the franchisees.

Advertising and promotion
Normally the franchisor is responsible for advertising and promotional activities and campaigns of the franchise. The costs are borne by the franchisees through the fees they pay for these activities. For advertising the franchisor should bare in mind a couple of factors:

Establishing and maintaining corporate identity.
Finding out the most effective method
Where to generate the required materials; in house or outside services
Do franchisees need to pay a fee for the point of sales materials out of the advertising contributions or is a separate charge necessary.
Will the franchisor provide local advertising?
What degree of consultation does the franchisor intend to have with franchisees?

E **What are the contract and legal aspects for franchising?**

The franchise contract is a very important document, as it forms the critical moment at which the legal commitment between the franchisor and franchisee is established. A franchise contract contains the following considerations:

1. The contract between the franchisee and franchisor also involves other parties such as other franchisees within the network. The franchisee owes a great deal of responsibility to the maintenance of the standards as the consumers expect a certain quality from the brand name.
2. The franchisor will provide the "blue-print" to the franchisee, in the agreement a provision is made for the franchisee to use the blue print as well as preserve the trade secrecy. The agreement permits the franchisee to run the business only according to the blue print.
3. In order to ensure standards, they should be stated as well as consequences when these standards are not met.
4. The duration of the agreement has to be stated, the BFA code of conduct states that the duration of the agreement should be long enough to allow the franchisee to amortise his initial franchise investment. The contract should contain a basis for any renewal of the agreement, other clauses in the contract could be a revamp clause(refitting the outlet) relocation clause(change of premise)
5. The contract should also include provisions for upgrading the outlet, thus the franchisee should set aside amounts periodically only for this purpose.
6. New technology clause, if a new technology arises and the franchisor wants to use it, they have to specify an amount that the franchisor maximally has to spend.
7. The method by which the franchisor obtains income and secures payment from the franchisee without the liabilities. To ensure this a system has to be developed by the franchisor and used by the franchisee:
    a. The franchisor will lay down the guidelines for financial achievement.
    b. The franchisor will establish standard form accounting systems and reporting procedures in order that he can be informed about the performance of each franchisee business**,**
    c. The franchisor will need the right to do audits without prior warning.
    d. The accounting system will enable the franchisor to monitor the franchisees performance and be able to detect warning signs when some things are not well.
    e. The franchisors field support staff will provide back-up to franchisees by regular visits.
    f. It will enable the franchisor to compare the different franchises and will be able to detect underperforming outlets.
    g. Franchisee will be required to make a return of gross profit to customs and excise authorities for VAT purposes. Copies of these returns should be obtained by the franchisor.
    h. The Franchisor has to have access to the franchisees suppliers in, so they know what gross sales figures should be.
    i. Sometimes the franchisor may be able to obtain info on large customers in offer for them to make arrangements

8. The agreement should include a part where the possibility of ending the agreement is mentioned. The COC states that a written notice on breaches has to be given to the franchisees by the franchisor and to allow a reasonable amount of time for the breach to be mended. Consequences of termination have to be thought out to ensure protection of intellectual property.
9. It is important to take into account the possible sale of a franchisees business. The franchisor has to make safeguards to ensure that the buyer of the franchisees business will accept the responsibilities, training and holds the same standards of service and products; as if their wasn't a new franchisee(change of franchisee). The franchisor has to demand the same qualifications and standards of acceptance from the franchisee for the purchaser. The purchaser has to direct the purchaser to the franchisor for a franchise.
10. The franchisor has to think about the possibility that the franchisee dies. In the franchise agreement provisions should be made about this subject; who can take over the business from the deceased (after passing training) or are able to sell the business.
11. The agreement should include (from a franchisee perspective) an amendment which confirms all the obligations from the franchisor to ensure that nothing is left to implication, however most franchisors will not accept this.
12. In some cases a franchisor becomes involved with property transactions, if so the lease and franchise agreement have to be linked together so that renewal or termination of one contract happens in the same matter.
13. The European commission in 1988 adopted a block exemption regulation regarding franchising which subject to complying with their terms, exempts franchise agreements from the competition law of the EU which are contained in Article 85 of the EU treaty. The regulation contains the following definitions for franchising:
    a. "'franchise' means a package of industrial of industrial or intellectual property rights relating to trademarks, trade names, shop signs, utility models, designs, copyrights, know-how or patents, to be exploited for the resale of goods or the provision of services to end users.
    b. 'Franchise agreement' means an agreement whereby one undertaking, the franchisor, grants the other, the franchisee in exchange for direct or indirect financial consideration, the right to exploit a franchise for the purposes if marketing specified types of goods and/or services; it includes at least obligations to:
        i. the use of a common name or shop sign and a uniform presentation of contract premises and/or means transport
        ii. the communication by the franchisor to the franchisee of know how
        iii. the continuing provision by the franchisor to the franchisee of commercial or technical assistance during the life of the agreement
    c. 'Master franchise agreement' means an agreement whereby one party, the franchisor, grants the other, the master franchisee, in exchange for direct or indirect financial consideration, the right to exploit a franchise for the purpose of concluding franchising agreements with third partied, the franchisee;
    d. 'Franchisor's goods' means goods produced by the franchisor or according to its instructions, and or bearing the franchisors name or trademark
    e. 'Contract premises' means the premises used for the exploitation of the franchise, or when the franchise is exploited outside those premises, the base from which

the franchisee operates the means of transport used for the exploitation of the franchise

f. 'Know-how' means a package of non-patented practical information, resulting from experience and testing by the franchisor, which is secret, substantial and identified.

g. 'Secret' means that the know-how as a body or in the precise configuration and assembly of its components, is not generally know or easily accessible; it is not limited in the narrow sense that each individual component of the know-how should be totally unknown or unobtainable outside the franchisors business.

h. 'substantial' means that the know-how includes information for which is of importance for the sale, the processing of goods in connections with the provision of services, methods of dealing with customers, and administration and financial management; the know-how must be useful for the franchisee by being capable, at the date of conclusion of the agreement, of improving the competitive position of the franchisee, in particular by improving the performance or helping him to enter new markets.

i. 'Identified' means the know-how must be described in an sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality; the description of the know-how can either be set out in the franchise agreement or in a separate document or recorded in any other appropriate form" (Mendelsohn p171/172, 1992)

The EU commission include an exemption for franchisors to include the following restrictions:

a.) "The grant of exclusive territorial rights, which can include the franchisor agreeing not to supply its goods to third parties in the territory
b.) The imposition of a location clause restricting the franchisee to operating from premises specified in the contract.
c.) A prohibition against a master franchisee concluding agreements with third parties outside the contract territory.
d.) A prohibition against the franchisee seeking customers outside the contract territory. This prohibition is likely to effect mobile franchises more than those which are tied to premises.
e.) An obligation on the franchisee not to manufacture, sell or use in the course of the provision of services, goods, competing with the franchise; where the subject of the franchises is to sell or use in the course of the provisions of services both certain types of goods and spare parts or accessories thereof, this obligation may not be imposed in respect of these spare parts. "(Mendelsohn, p.172/173 1992)

Structure of the franchise agreements:

The transactions for franchise agreements should be broken down into 6 phases:

1. preparation of the franchise scheme for marketing, development of the concept, protection of property and the development of a business system should not lead to legal activities

2. Marketing the scheme and promoting the scheme, preparation of sales literature, and then followed by negotiations and discussion with prospective franchisees.
3. The time needed from recruitment until the opening of the franchise outlet
4. Continuing relationship
5. Termination of the relationship
6. Consequences of termination

For phase 3 normally an agreement is made which is called a purchase agreement this agreement contains 3 aspects: the franchise package, the price and the initial services that will be provided.

Franchise package
The extent and subject matter if the franchise should be listed as well as the franchise package should contain an inventory of equipment; it should contain every item that the franchisee should expect from the franchise. Also premise related issues may be included

The price
The price needs to be specified as well as the manner of payment.

The initial services to be provided
The franchise agreement should reflect the obligation to provide the franchisee with the services mentioned before. In stage one, confidentiality is an important issue in this phase, the acquired know-how can not if the transactions does not go through.

Stage 2 can be divided into 8 sections:

1. The rights granted to the franchisee

The franchisee has certain rights that may be important in certain situations such as to use the trademark to benefit from the goodwill related to the trademark, using brand image, design and décor developed by the franchisor to project the image of the brand, using the franchisors know-how, using copyright material, using the business systems developed by the franchisor, doing business on premises approved by the franchisor and in accordance with the franchisors business system, the right to obtain products from the franchisor at special prices.

The franchisee often receives exclusivity rights, which would mean in the within a certain radius, the franchisor would not employ a similar unit nearby.

2. The obligations undertaken by the franchisor.

The obligations of the franchisor to the franchisee in the on going relationship that exists after the business has opened should be detailed in part.

3. The obligation imposed upon the franchisee.

The franchisee may have obligations imposed upon him such as only carrying the franchised business on the premises, a minimum of opening hours that ensure maximum profit without too much overhead costs, pay a franchise fee, using the before mentioned accounting and reporting systems, not advertising without approval from the franchisor, using advertising materials made or approved by the franchisor, maintaining a good hygienically premises, Maintaining business insurance cover to ensure problems concerned with liability, the permit for franchisors staff to check the premises, to purchase goods from the franchisor or selected suppliers, to train the staff according to the franchisors methods, not to assign contracts without consent from the franchisor.

4. The trading restrictions and the requirements imposed upon the franchisee

The restrictions that are imposed upon all franchises by the EU commission block exemption which falls under 4 headings: Product sourcing, restriction on other competing activities, protection of the franchisors know-how, a restriction on the franchisee to prevent them from taking staff from other franchisees.

5. Sale of business/death of the franchisee

As mentioned before when the franchisee wants to sell their business or in the case of death, the business could be assigned to someone else. In case of death the franchisee should ensure that a representative will be able to keep the business going until he is qualified as a franchisee, or if they do not qualify they can keep the business going until a new franchisee can be found at the right price.

6. Dispute resolution

The BFA introduced an arbitration scheme as a method to resolve disputes between franchisor and franchisees. Some aspects of the franchise agreement that are suited for arbitration are whether the franchisee performed well under the contract to ensure contract renewal and differences on royalty- and franchise fees.

7. The termination provisions

In case of a possible termination of the agreement (for example default from the franchisee) the franchisor should attempt to investigate whether it is possible to find a solution which will not result in a termination of contract. There are several steps that can be taken such as persuading the franchisee to return to doing his business according to his obligations, extra support when the franchisee has difficulties with keeping his business going or by extra training, possibly reminding the franchisee that selling his business may be beneficial for him, giving the franchisee a default notice requiring him to mend the breaches. If all these steps fail then the franchisor will have not other option then terminating the contract.

8. The consequence of termination.

It is important in case of a termination of contract that the franchisor remains fair but firm. In all cases the franchisee should be left with the assets of the business for what he has paid for. He will no longer be able to do business under the trade name and to the franchisors business system and know-how, he may also be required to change his business lay out. When the contract is terminated the following must be ensured:

The use of the brand name
The use of the franchisors system and know-how has to be stopped
All of the lay out of the former outlet need to be changed, to prevent confusion as well as the possibility that the franchisee illegally profits from the franchisors goodwill
Stopping customer contact

The prevention of competition from the former franchisee with the franchisor

F. International franchising legal issues

Legal status of the parties and the nature of the relationships
In most franchise arrangements both franchisor and franchisee try to ensure that the franchisee is seen as an independent contractor and to make sure that the franchisee does not bind the franchisor and that the franchisee is not the agent, partner or employee of the franchisor. There can be regional laws that restrict the contractual arrangements between the two parties and impose certain obligations on the franchisor in regard to third parties and of a financial character in the form of social welfare contributions, which are normally not part of the calculations.

Franchisors should find out if the government is what stand they have on franchising, know-how and trade secrets. Investigation on government attitude and existing policies, it may be possible to take advantage of grants that can be available for certain types of business or industry, this could make the franchise more certain of success and possibly more profitable for both franchisor and franchisee.

Competition laws
Competition laws can differ per country and should therefore be considered. These laws are normally not directed to franchising they can however affect them because of the generality of their application.

Unfair competition
A franchisor would not want to train a franchisee so they could be a competitor in the future. The franchisor has two options that could defend him:

- Restrains against in-term and post term competition
- Protections of the franchisors know-how

Both of these options can be affected by laws and regulation.

Industrial and Intellectual property laws
The franchisors industrial and intellectual property includes:

- Trade- and service marks
- Trade names
- Goodwill
- Know-how, secrets and methods
- Copyright materials (including designs)

- Patents for products, machines

Registering these properties differs per country and needs to be investigated. In franchising contracts the use of these rights is permitted by license and the franchisor should find out what the correct method of licensing is.

Taxation
The effects of taxation need to be investigated by the franchisor, such as local sales, taxes and international tax considerations. The franchisor should find out whether double taxation agreements exist between the franchisors home country and the prospected country. If not then the franchisor has to find out if how the impact of the taxation can be minimized.

Corporate law
Corporate laws need to be considered for possible taxation implications as well as whether to see if some forms incorporations is necessary or preferable and whether there are requirements for registration of foreign companies that establish a place of business. Also corporate laws have an influence on the development of methods for ensuring that shareholders and directors cannot acquire the know-how and trade secrets and possibly using them in competition with the franchisor. The franchisor needs to be clear on corporate laws and the roles, duties and responsibilities of shareholders and directors.

Other laws that need to be considered are:

- Special industry laws
- Liability
- Property laws
- Export laws duties and import export controls.
- Contract laws
- Employment laws