TRAINING NEEDS OF FRANCHISE
COMPANIES IN AMERICA

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CHAPTER I

INTRODUCTION

Background

Franchising emerged in 1848 with the Singer Sewing Machine Company. Singer used franchisees under contract to represent the company in protected territories (Foster, 1989, pp. 117, 119, 253). Today, a new franchise opens every 16 minutes somewhere in the world.

Last year, more than 18,500 new businesses were created by franchise companies. They employ in excess of seven million people in more than 60 separate and distinct industries. More than 100,000 new jobs were created by franchisors last year. There were more than 3,000 franchise companies with about 551,000 outlets as of 1991.

The dynamic growth of franchising has also created numerous problems for franchisors and franchisees as the industry continues to evolve. Many of these problems are related to government involvement. The Federal Trade Commission (FTC), acting on behalf of the United States Department of Commerce, has created franchising rules, regulations, and guidelines which must be followed.

Franchisors prepare franchisees, supervise them in franchise practice, and protect the commitments agreed to by both parties. Success in these areas requires, among other things, appropriate training for franchisees.

Problem Statement

The problem which leads to this study is the absence of agreement about how to most appropriately prepare franchisors for success in business.

Purpose

The purpose of this study was to identify the training needs of franchisors.

Research Question

What are the current training needs of franchisors in America?

Assumptions

1. Two thousand, three hundred forty-five (2,345) companies in our population pool represent the majority of franchisors.

2. Among this large group of companies there are a number of large size companies, medium sized companies, and moderate sized companies, including some very new, small franchisors.

3. These franchisors operate throughout the United States in both registration states and non-registration states.

4. Educational materials, advertising programs, and an awareness of the rules and regulations and other organizational practices help to improve the success/failure ratio of the franchise companies.

Scope

The scope of the study included a test pilot program of eight randomly chosen companies of various sizes who were questioned in a preliminary investigation. A questionnaire was then sent to a random sample of companies from the total population of 2,345 franchisors operating in all 50 states.

Limitations

Limitations to the study follow.

1. Some states did not have well organized franchising regulation offices.

Definitions

Included below are definitions of terms associated with franchising.

Commerce Department. The Commerce Department is a federal clearing house for franchise information. The Department maintains statistics relating to the strength and number of franchise organizations in every segment of United States industry.

Franchise. A right, license or privilege granted by one entity to another. The term franchise is derived from "Franc", an old French word for free.

Franchise Agreement. A contract between the franchisor and the franchisee granting a franchise and setting forth the mutual obligations of both parties. The franchise agreement, more than any other element of the franchise, defines the relationship between the franchisor and the franchisee and sets the stage for their joint success.

Franchise Fee. The financial consideration paid to the franchisor by a franchisee. Any form of payment by the franchisee to the franchisor is considered a franchise fee. This includes any fee for training, advertising deposits, signs or royalties. Commonly the franchise fee has three forms: an initial fee, an on-going royalty, and an on-going advertising fee. The franchise agreement is an instrument by which the franchisor obligates the franchisee to pay initial fees and on-going fees while the contract is in effect. The initial fee is usually payable by the franchisee when the franchise agreement is signed. The amount is usually a lump sum paid directly to the franchisor. Other fees may also be payable upon signing, such as separate tuition fee for franchise training and a fee for selecting or approving sites.

Franchise Relations Act (FRA). The FRA is designed to protect the rights of franchisees regarding the termination and renewal of the franchise agreement.

Franchise Trademarks. A trademark license entitles a franchisee to use the franchisor's trademark as well as business format and products. Trademarks are protected on both federal and local levels. Federal protection is secured by registering a trademark with the Registrar of Patents and Trademarks.

International Franchise Association (IFA). The IFA is a trade association, founded in 1960, with a membership of more that 500 franchise organizations. It lobbies for favorable legislation on behalf of franchisors and compiles and publishes information on a diversity of subjects relating to franchise marketing, organization and financing law.

License Trademark. The franchisee receives the right to use the franchisor's trademark, name, logo, or other commercial symbols, and to take advantage of the parent company's reputation and image.

Small Business Administration (S.B.A.). The S.B.A. is the federal agency which has provided numerous franchisees with start-up capital over the last three decades. The

S.B.A. provides direct and indirect financial assistance to the small business owner. To qualify for an S.B.A. loan the borrower must first be turned down by conventional lenders. Currently, there are few direct loans. The S.B.A. acts generally as a guarantor of the loan to the lending institution. The S.B.A. also licenses banks and finance corporations to lend money to small businesses, guaranteeing the repayment with federal funds.

Trade Secrets. Besides a familiar trademark, pre-opening assistance and the right to sell a product or service, every franchisee also obtains certain trade secrets along with the business format. The secrets may be recipes, formulas, inventory systems, merchandising technique, accounting programs, customer accounts, and often computer software programs developed by the franchisor and acquired by the franchisee. All of these are considered trade secrets.

Uniform Franchise Offering Circular (UFOC). The UFOC is a prospectus which all U.S. franchisors are required to provide to prospective franchisees prior to signing a franchise agreement, any related agreement, or prior to payment of any franchise fee. The requirements of the UFOC were prepared and adopted by a consortium of Midwestern Securities Commissioners Association in 1977. In 1981 it was amended, resulting in the form of disclosure required today by the FTC.

Overview of the Study

Chapter II consists of a thorough review of the literature.

Chapter III deals with the procedures used to develop the instrument used in research with the population companies. It reviews the questionnaire, the cover letter, and procedures used to perform the research.

Chapter IV consists of findings from the research, the methods used to report the findings, and notation of additional information discovered.

Chapter V includes a summary of the research findings, conclusions drawn from the research, and recommendations suggesting further research or use of the results.

CHAPTER II

REVIEW OF LITERATURE

Scope and Development of Franchising

The term franchising is defined in many ways. Franchising is a marketing system that revolves around a two-party legal agreement, whereby one party is granted the privilege to conduct business as an individual owner but is required to operate according to certain methods and terms specified by the other party. The legal agreement is known as the franchise contract and the privileges it concerns are called the franchise. The sponsor of the privileges is the franchisor and the party receiving the privileges is called the franchisee (Metrotech Franchising Manual, 1992, p. 2).

The potential value of any franchising arrangement is determined by the rights contained in the franchise contract and the extent and importance of these rights are varied. For example, a potential franchisee may desire the right to use a name. Alternatively, the potential franchisee may need an entire marketing system, often with a new retail store and a standardized method of operation. Regardless of the specific need, a franchise is the mechanism which gives birth to an independently owned business, with the franchisee hiring the employees and assuming the operational responsibilities.

Historical Perspectives

Benjamin Franklin was probably the first franchisor. He marketed his popular "Poor Richard's Almanac" through newspaper couriers. Newspaper routes are a classic distribution franchise, charging fees from independent couriers for the marketing rights to designated territories. For a fee of ten cents, he set up territories and allowed franchisees to represent his company (Foster, 1989, pp. 119, 121).

Isaac Singer, the inventor of the modern sewing machine, is commonly regarded as the forerunner of trademark franchising. As early as 1851 Mr. Singer, with a partner, sold "territories" to independent traveling salesmen who would sell sewing machines in the consumer market. Mr. Singer's philosophy was to collect franchise fees in order to replenish inventories. Therefore, the monies from the franchisees were used as his early working capital (Boroian, 1987, p. 28).

As American business developed, soda pop bottlers, automobile manufacturers and petroleum distributors (gasoline stations) were among the franchisors in the late 19th and early 20th centuries. Familiar names from that historic period include the Ford Motor Company, General Motors and Chrysler. They all began franchising auto dealerships almost as soon as the first automobiles came rolling out of the assembly plant. The advent of automobiles gave rise to the modern service stations and companies like Standard Oil of Ohio, Calso, Humble Oil, Esso and Chevron. John D. Rockefeller was the developer of these master franchises to distribute gas and oil. Hertz Rent a Car, which was founded right after World War I, began franchising in the early 1920's (Foster, 1989, pp. 19, 30, 119, 141).

The advent of the automobile necessitated gas and oil service stations, and later accessory items such as polish, waxes, tire repair and mechanical services. All were needed and became part of automobile franchise operations (Foster, 1989, p. 18).

Dr. B.F. Goodrich was the first auto tire franchisor. Dr. Goodrich originally had dealt in rubber coats and rubber boots and rubber hoses, which were expected to be used explicitly by firefighters. In 1925, Dr. Goodrich began the first auto tire franchise stores. Very quickly others joined, including the Goodyear Company, Firestone, Kelly Springfield, and others (Bond, 1985, pp. 22, 31).

Flourishing at about the same time were professional sports leagues, including baseball, basketball, and professional football. All of these sports were dominated by league organizations and each individual team owned a franchise. Dr. George Halas, former owner of the Chicago Bears, paid $32.00 for the Bears franchise which originally operated in a small town in Ohio. The Bears are now worth two hundred million dollars. The value of a franchise can increase dramatically over time.

The need for soft drink distributors became evident when soda pop became a popular consumer item. Pepsi Cola, A & W Root Beer, Coca Cola, Dr. Pepper, and many others flourished at the turn of the century (Boroian and Boroian, 1987, pp. 27, 29).

In the 1930's fast food became popular with companies like A & W Root Beer with its food line, and Howard Johnson's which began on Cape Cod. Roy Kroc acquired the rights to franchise a drive-in hamburger shop, which was named after the McDonald Brothers of southern California. He launched what would become the world's largest and most famous fast food chain, McDonald's restaurants (Sterling, 1985, p. 226).

The Kentucky Colonel, Harlan Sanders, operated a successful independent fried chicken business early in his career, but later, with the assistance of John Y. Brown, got into the franchising business in earnest in the early 1950's (Foster, 1989, pp. 81, 119).

The world's largest hotel chains, the Sheraton, the Hilton, the Holiday Inn, and the Ramada, are all examples of very successful hotel/motel franchises (Foster, 1989, pp. 81, 119).

The Southland Corporation, which began the 7-Eleven chain as ice-houses, has grown to where it has franchisees in 15 foreign countries. Business format franchises have grown dramatically and have become even more popular than conventional trademark and product franchises.

Business format franchises are exemplified by McDonalds, which has a complete plan in which the franchisees operate. Trademark and product franchises are those where the use of the name and possibly territorial protection is given to the franchisee who carries a line of goods and has certain franchisee rights, although the trademark and product franchise operation may not be as thorough and complete as the business format franchise.

In the world today there are about 3,000 separate and distinct franchisors operating through 551,000 outlets. They operate in the United States and throughout many parts of the world. The largest franchisor is now Pepsico, which controls Kentucky Fried Chicken, Pizza Hut, and Taco Bell with a total of about 19,000 outlets. McDonalds is second with slightly over 14,000 outlets. H & R Block is fourth with 8,800 outlets (Naisbitt, 1986, p. 227).

The steady growth of franchising is depicted for the reader with a graph in Appendix B.

International Franchise Association (IFA)

The International Franchise Association was founded in 1960 as a trade association with a membership of more than 500 franchise organizations. The IFA lobbies for favorable legislation on behalf of franchisors and compiles and publishes information on a diversity of subjects relating to franchising, marketing, the organization of franchises, finance and compliance with the law. IFA has a directory of membership and is available for a nominal fee.

One of the important functions of IFA as it began and grew, the members saw a need to work together so they evolved a code of ethics.

Research indicated the necessity for a code of ethics because of so many diverse franchisors dealing with rules, regulations, guidelines, federal and state law. Good business practice necessitated that the code of ethics be accepted by the companies and followed in order to maintain proper relationships and agreement of ethical activities (IFA leaflet, "What You Need to Know When Buying a Franchise", 1985). Listed is basic information concerning the code of ethics.

International Franchise Association

Code of Ethics

1. In the advertisement in granting franchises or dealerships, the members shall comply with all applicable laws and regulations and member offering circulars shall be complete, accurate, and not misleading with respect to the franchisee.

2. All matters material to the members' franchise shall be contained in one or more written agreements which

shall clearly set forth the terms of the relationship and the respective rights and obligations of the parties.

3. A member shall select and accept only those franchisees or dealers who upon reasonable investigation, appear to possess the basic skills, education, experience, personal character, and financial resources required. There shall be no discrimination in the granting of franchises based solely on race, color, religion, national origin or sex.

4. A member shall provide reasonable guidance to the franchisees or dealers in training consistent with the franchise agreement.

5. Fairness shall characterize all dealings between a member and the franchisee dealers. A member shall make every good faith effort to resolve complaints and disputes with the franchisees and dealers through direct communication and negotiation.

6. No member shall engage in pyramid systems of distribution. Pyramid is a system wherein a buyer's future compensation is expected to be based primarily upon the recruitment of new participants rather than the sale of products or services (Foster, 1989, p. 154).

The code of ethics works. The companies generally accept the dictates and try to keep the industry clean by pursuing the code of ethics precisely as they have agreed to as they become members of the association (Siegel, 1983, pp. 41-43).

The Federal Trade Commission (FTC)

The Federal Trade Commission has been an important agency dealing with franchising, a federal regulatory body established by Congress and granted sweeping authority to regulate business practices in the United States. The FTC also serves as the federal watch dog over the offer and sale of franchises (Foster, 1991, p. 1).

The FTC was created when the Federal Trade Commission Act was enacted into law in 1914. The new commission at that time absorbed and superseded the Federal Bureau of Corporations, whose mission was to prevent monopolies and monopolistic practices and preserve competition. The act also concerns itself with unfair methods of competition in commerce and unfair or deceptive acts in commerce (Foster, 1991, p. 1). The FTC is empowered to bring legal procedures against any company or person that transgresses rules and regulations.

In 1978 the commission drafted an amendment which deals with commercial commerce and trade in order to promulgate trade regulation rules relating to the sale of franchises and business opportunity ventures. The new franchise rule went into effect in late 1979 and required franchisors to disclose certain pertinent information to perspective franchisees before any sale could be made. This notation in the law has had a profound effect on the development of franchising in all fifty states (Sherman, 1991, pp. 81, 82-86).

Federal Trade Commission Franchise Rule 436

Franchise Rule 436 is a federal regulation which requires every franchisor to prepare an extensive disclosure document and give a copy to any perspective franchise purchaser before he or she buys a franchise. A copy of a disclosure outline fostered and abetted by the FTC appears in the report as part a Review of Literature and can be located in Appendix C (Sherman, 1991, pp. 81, 82-86).

Within a disclosure document there are 20 categories of information about the franchise: basic investment, bankruptcy and litigation history of the company, how long the franchise will be in effect, a financial statement of the franchisor, and earnings and claims. All are presented in a disclosure document. The IFA recommends an attorney and an accountant review the materials (Boe, Ginalski, and Henward, 1989, pp. 16, 17).

The Uniform Franchise Offering Circular (UFOC)

The UFOC is the offering circular which must be written in narrative form clearly and concisely. The form and the content are prescribed in detail by the FTC rules and by the individual state laws. There are 15 states called registration states who abide by the UFOC (Boroian and Boroian, 1987, pp. 125-128). Each item that is required to be disclosed must appear in specific order with the appropriate positive or negative comments.

The securities commissioner guidelines for the preparation of the UFOC require the disclosure to be readable and understandable. When the offering circular is prepared to fulfill the requirements of a state law additional documents may be required. For example, in some states a franchisor must file the UFOC with a regulatory agency along with an application for registration and a "consent to service of process" which is a document wherein the company designates an agent, usually an officer of the company but sometimes a salesperson, who agrees to be responsible for the company fulfilling its various obligations to the franchisee. (Foster, 1989, p. 287).

A salesperson's disclosure form may be required, providing personal data about the franchisor's sales representatives and brokers. Some states also require a supplemental information page detailing the amount of funds needed by the franchise to complete obligations with respect to all franchisees to be established in a one year period after the effective date of the offering circular (Foster, 1989, p. 239).

A model of a uniform franchise circular appears in Appendix D. There is a difference between the FTC disclosure and the UFOC disclosure. The UFOC delves more deeply with questions which must be answered by the franchisor. FTC Rule 436 disclosure is used in approximately 35 states, and the UFOC is used in 15 separate and distinct registration states (Foster, 1989, p. 298).

Registration and Non-Registration States

As the literature search reviewed the overall organization of franchising, the division of states into two distinct categories was noted. One group of states is called registration states and the other group is called non-registration states. In the registration states there are 15 of our 50 states which have set up rules, guidelines, and regulations which emanate from within the state. It takes some additional effort by the franchisors in this registration group.

As of October 1990, 14 states require franchise companies to file or register their franchise offerings with state agencies. California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin are all registration states (Foster, 1989, p. 236).

These states plus Oregon also have disclosure regulations similar to those of the FTC. Business opportunity laws in certain other states regulate the offer and sale of a franchise. In 1971, California became the first state to enact a franchise investment law requiring registration by franchisors. The law requires that before offering franchises in the state a franchisor must file an application with the Department of Corporations and await approval. Section 31114 declares that the application for registration shall be accompanied by a proposed offering prospectus, which shall contain the information set forth in the application (Tarbutton, 1986, p. 67).

The UFOC was subsequently adopted by a consortium of mid-western securities commissioners. The UFOC is a standardized document designed to fulfill the requirements of various state franchise investment laws. The document emphasized areas which might have a negative impact on franchisees. Besides California, 14 other states, commonly called the registration states, have since enacted similar laws calling for the registration of franchise offerings and the filings of disclosures. In this group of states the application for registration consists of four basic parts:

1. a facing page
2. a supplemental information page
3. a salesperson disclosure form
4. a copy of a proposed offering circular (UFOC) (Tarbutton, 1986, p. 68).

The prescribed forms used by these 15 registration states are shown to all potential franchisors as they register to sell.

In some states, including California, there is also a request for the franchisors to submit copies of any proposed advertising to be used to promote franchise opportunities. In most instances both the registration and any advertisements must be approved by the regulatory agencies before the franchisor may proceed. The State Franchise Investment Laws also stipulate a waiting period, usually ten business days after the UFOC is furnished to a prospective franchisee and before a sale in consummated.

Failure to register can result in criminal as well as civil penalties. In 1988, an Illinois court ruled the executives of a franchise organization can be held personally liable for registration and disclosure violations under the state's Franchise Disclosure Act (Tarbutton, 1986, p. 68).

In the registration states the contents of the disclosure by the franchisor must include:

1. who the franchisor is and any predecessors
2. prior business experience of the franchisor
3. any litigations
4. a listing of bankruptcy, if it has ever taken place
5. the franchisees initial franchise fee or any other payment
6. other fees that might have to be paid
7. the franchisee's initial investment
8. the obligation of the franchisee to purchase or lease from designated suppliers
9. obligations of the franchisee to purchase or lease in accordance with specifications from approved suppliers
10. financing arrangements
11. obligations of the franchisor, other supervisors, assistants or service

12. if there is an exclusive area or territory it must be noted
13. Trademarks, service marks, and trade names listed, including logo types and commercial symbols
14. any patents or copyrights
15. obligations of the franchisee to participate in the actual operation of the franchise business
16. restriction on goods and services that may be offered by the franchisee
17. the renewal agreement, termination, repurchase, modification and assignments of the franchise agreement and other related information
18. arrangement with public figures
19. actual, average, projected, or forecasted sales, profits, or earnings
20. information regarding franchises of the franchisor operated by the franchisor
21. the franchisor's financial statements
22. any other agreements
23. acknowledgement of receipt by the perspective franchisee (Sherman, 1991, pp. 90-97).

With regard to the other 35 states which would be listed as non-registration states, many of those states do not necessitate a registration. It is generally accepted that franchise companies do file with the proper department within those non-registration states and pay a registration fee if they are going to operate in that state.

Enforcement of Federal Trade Commission Rules and Regulations

The FTC is a federal regulatory body established by Congress and granted sweeping authority to regulate business practices in the United States. Today the FTC serves as the federal watchdog over the offer and sale of franchises.

The Federal Trade Commission Act became law in 1914 and superseded any other laws. The mission was to prevent monopolies and to preserve competition in commerce.

The law provides the FTC with the power to make regulations and issue rules which have the full impact and enforcement of the federal law. The FTC was further empowered to bring legal proceedings against any person or company which transgressed the FTC regulation or rule.

In December 1978, the Commission drafted an amendment to Title 16 of the Code of Federal Regulations which dealt with commerce and trade. The amendment promulgated a trade registration rule relative to the sale of franchises and business opportunity ventures. The new franchise rule went into effect October 1979, and requires franchisors to disclose certain pertinent information to perspective franchisees before any sale is made. This change developed what was called FTC Rule 436.1. The FTC Franchise Rule affects the manner in which franchisors may make claims regarding actual or potential sales or earnings of a perspective franchisee. The Rule also refers to a document disclosing 20 points of information about the franchisor, the franchise business and franchising agreements. The Rule defines the time for the making of disclosure as ten business days before the franchise sale is actually made. An outline of the Federal Trade Commission Disclosure is noted in Appendix D (Sherman, 1991, p. 85).

All of the states must abide with the Federal Trade Commission Rules. But in those 35 states which do not have statewide registrations the Federal Trade Commission Rules are in effect.

The superintendent of documents of the United States government printing office in Washington provides publications to explain Federal Trade Commission Rules of the UFOC and other rules, guidelines, and regulations which must be adhered to by franchise companies.

Franchise Fees

In the Review of Literature, the definition of franchisee fees is noted in a number of research books. The FTC does not consider a relationship or a contract to be a franchise unless a financial consideration is paid by the franchisee. Specifically, the total payment or obligation during the first six months of the franchisees operation must exceed $500. If this condition is not met the arrangement is not a true franchise under FTC requirements and is therefore exempt from the federal rules concerning franchises (Siegel, 1988, p. 60).

The Franchise Agreement

Among franchisors and franchisees the contractual agreement is a very basic set of guidelines. The Franchise Agreement is an important aspect of the arrangement and relationship that develops between both parties. Basically, it is a contract between franchisor and franchisee which grants a franchise and sets forth the mutual obligations. The Franchise Agreement, more than any other element of a franchise, defines the relationship between the franchisor and franchisee and sets the stage for their joint success. From the franchisor's perspective the agreement is an instrument for creating uniformity in quality standards from one franchise outlet to another. The franchisee is more likely to view the agreement as a means of enforcing the franchisor's obligations to train and assist the franchisee. Both parties have rights and obligations under the agreement for maintaining uniformity and protecting their respective interests. The franchisor uses the agreement to oblige the franchisee to adhere to the franchisor's standards, specifications, policies, and procedures. The agreement also protects trademarks, and trade secrets licensed to the franchisee. Most agreements seek to restrict the franchisee from engaging in any business or activity that is detrimental to or in direct competition with the franchise outlet. From the franchisee's point of view the agreement should oblige the franchisor to provide assistance promised by the sales representative. Typically, the services include a training program, assistance with selection of a site, help with hiring and training of personnel, the provision of a franchise operating manual, on-going consultations, and periodic visits to the outlet by franchisors or their representatives (Boe, Ginalski, and Henward, 1989, pp. 58-60).

The franchise agreement often bestows territorial rights on the franchisee and, in some cases, the franchisee may have expansion rights within the territory or based on the achievement of certain sales levels or quotas, or the right to acquire additional territory. In the case of sub-franchising or area franchising, the agreement must spell out the financial as well as business relationship between both parties. Although there are numerous differences in the agreements in use by franchise companies most contracts are designed to deal with several common aspects of the franchise relationship. More of these common aspects may be the actual territorial rights, franchise fees, uniformity of standards, quality control, the protection of trade secrets, assistance in supervision, the term of the franchise renewals, transfers and assignments, termination, and the obligations on the part of the franchisor and the franchisee if and when an agreement is terminated. A model franchise agreement is added to the research and appears in Appendix E (Foster, 1989, p. 92).

The Business Plan

In all businesses the company should operate with a complete business plan that gives direction to the company as it operates its small business. Today all small businesses need an up-to-date business plan with financial information which can be taken to a lending institution, or used as a notification to a lender, supply company, management, the government, the internal revenue service, or other interested parties (Sherman, 1991, p. 262).

Franchise companies have a disclosure statement and other financial information which, although they are not business plans, do give the franchise company direction and allow any investigator to review the business operation.

Business Plan Outline

An outline of a business plan would consist of the following segments.

There should be an executive summary which outlines in summary form key information such as the company's name and address, the contact person, the type of business, information about their background and history, who their management includes, what product and service they offer, their competition, what type of funds they are requesting if they are going to borrow money, what collateral would they use, and specifically, how will they use the funds.

A second section of the business plan should note the company's mission statement in one hundred words or less and should outline the goals and objectives of the company. There have been some wonderful but simple mission statements from companies consisting of four to six words, enough to give the company direction and its function as a directive for operations.

Another aspect of a business plan is a future plan, the nature of their business, the direction they plan to take, what products and services the company offers, and who their competition is with names, addresses and other contact information.

A fourth segment of the business plan concerns the company's marketing plan. Demographics are important in marketing. The plan should include: Who the customers are and where they are located; why they come to the company and how are they going to make contact with them, address, occupation, income, and other basic economic information about customers.

Another segment of the business plan concerns an advertising program which includes an advertising budget, promotional ideas, and the organization of salesmanship within the company. Advertising is a four-pronged activity-promotion, salesmanship, advertising and publicity.

Another segment of the business is business operations: the labor force; total employees; names, addresses and telephone numbers of suppliers; inventory of property, facilities and equipment; corporate structure and organizational chart; company owned patents, trademarks, and copyrights. One last segment of operations is research and development. That effort on a continuing basis is part of successful franchising.

The legal forms of the business are part of a business plan. Is the company operating as a proprietorship, a partnership, or under corporate arrangements? List management personnel and key employees with their resumes. Is the corporation involved with remuneration plans, stock options and employee agreements?

The financial procedures should include the following: an up-to-date balance sheet; a recent income statement; a list of accounts receivable and payable, and the debt and payment schedule.

Other detailed segments of the business plan include information about insurance coverage and a three-year projection.

What are the risks involved for the company, including possible future problems and delays of starting the company?

Service literature including pictures, brochures and any publicity should be in the business plan.

Advisory councils are used in businesses today. The council usually consists of someone with an advertising background, successful businesspeople, an accountant, banker, and possibly an attorney.

Also, an implementation schedule should show information of when and where they plan to start the project.

A letter of request for funds, which is simply a notation on company letterhead stationary, officially requesting the money in the loan, should include the terms, and other information that would be appropriate for the lending institution. A letter of request is the official request for funds by the company.

Franchisors are confronted with specific situations, including the franchisee planning and a precisely documented business plan (Sherman, 1991, pp. 261-271). An outline of a model business plan appears in Appendix F.

Franchise Fees, Business Opportunities, Exemptions and State Defined Franchising

As specific franchises are observed by interested practitioners, notations are made about how franchise fees are paid and about differences in the opportunity laws among states.

There are exemptions which should be noted as the literature is reviewed. Many states, particularly those that operate under the UFOC, "have statewide definitions and they may vary from each other." (Foster, 1989, p. 93,94.)

Business opportunities fall into a specific category. These are business arrangements offered for sale to the general public and may fall under the FTC's rules as well. In general, any business relationship which meets the following three conditions is considered a franchise under the federal definition.

1. The franchisee sells goods and services supplied by the franchisor and suppliers designated by the franchisor.

2. The franchisor secures the franchisee outlet customers or in the case of vending machines or display racks, a location is supplied.

3. The franchisee pays a consideration to the franchisor, but it must be more than $500 within six months after the franchise business has commenced (Foster, 1989, p. 94).

The requirement covers product distributors, vending machine routes, and rack jobbers even though a trademark is not associated with the arrangement. If a business relationship involves any form of significant control by the franchisor or significant assistance such as marketing plans, operating manuals, or training programs, then the federal franchise rules may be involved.

Federal and state laws may provide specific exemptions for franchisees. In the federal laws, these exemptions relate to employer-employee relationship as with native populations; general partnerships, co-operative associations, single unit licenses, and departments within a department store. Fractional franchises which account for no more than 20 percent of the gross receipts of the franchisee, are also exempt from the FTC rules.

Various exemptions are granted by the various state laws. For example, California law exempts franchises involved in the petroleum industry, mainly gasoline service stations, as well as franchises for bank credit card services. Finally, there may be some state definitions of franchises in those states which individually regulate franchising practices. There are 34 states in the United States which have exemptions listed specifically. They cover one or a number of business opportunity activities (Foster, 1989, p. 94).

Franchise Territorial Organization

In franchising the many companies who participate use their own judgment to decide how to break down the territory into specific areas. Generally, a franchisee is given a specific territory in writing. The franchisee maintains that territory over a prescribed period of time, usually ten years, unless difficulties arise and problems between the franchisor and the franchisee become visible and termination or cancellation of the agreement is sought by either party (Sherman, 1991, p. 94).

Usually the franchise company operates from a home office where the franchisee and staff are on duty all the time. The staff has specific functions which they handle. An organizational chart appears in Appendix G.

More often that not the franchisor sets up what are known as unit franchises, which means that the buyer of a unit can only operate from that specific unit. The franchisees cannot expand or add other units without permission and payment of a fee to the franchisor for additional territory or sites.

Sometimes the franchisor in order to expand sells off regional franchises, which means that someone gets a larger territory and are allowed in that region over time to develop other franchise outlets, sometimes with a quota on how many can be developed over what specific period of time.

A third arrangement is where the franchisor sets up a sub-franchisor. That individual owns a larger territory and can sell franchises within that area. The sub-franchisor sometimes has a quota on developing a number of franchises over a specified period of time. The sub-franchisor may have training functions for the franchisees in that sub-franchise area. The sub-franchisor may assist in financing or in the construction of buildings. The sub-franchisor may carry on training specifically in the area and do all of the things that the franchisor would do except that the sub-franchisor has control and carries on the duties with supervision from the franchise company. The sub-franchisor makes a number of decisions for the franchisor in territorial growth, development, training, contractual agreements and real estate.

Sometimes this sub-franchisor may control four or five states. The sub-franchisor shares the franchise fees and royalties which are collected in that territory through the efforts of the sub-franchisor, but also specifically with the assistance of the sub-franchisor. The sub-franchisor has a contract in this regard which may last one or more years and quite possibly ten years (Boroian and Boroian, 1987, pp. 147-149).

There are specific types of franchises which have become popular in the United States. In the early days of franchising product and trademark franchises were the most popular. This arrangement goes back to the time of the soft drink bottlers, automobile dealers, and gasoline station organization. The franchisor had an agreement with the various franchisees in prescribed territories, but the franchisor did not control all purchases and business activity. The franchisee may have purchased products and services from the franchise company but it wasn't a complete arrangement where everything had to go through the franchise company. For example, Ford Motor Company was a product and trademark franchise wherein the franchisee, the auto dealer, had the freedom to grow and conduct activities as the dealer saw fit.

In the 1950's the business format franchise became very popular. It is the type where the franchisee used a specific business format, including the agreement, territory, training, the use of logos, trademarks, education, and advertising. It is a complete format in which the franchisee operates under the guidelines of the franchisor, the franchise agreement, the FTC disclosures, and the UFOC.

A good example of a business format franchise would be McDonalds, where all aspects of the business have been stated by the company and adhered to by the franchisee. The franchisor supplies the complete program, marketing, salesmanship, advertising, operations, menu and recipes (Sherman, 1991, pp. 73, 74).

Conversion and Combination Franchises

In recent years a new arrangement has come into existence called conversion franchises. They are usually real estate companies, such as Red Carpet and Century 21, who originally were independent operators and then joined the franchisor who was Century 21, Red Carpet or Better Homes and Gardens. There are a number of these in existence that came under the umbrella of the franchisor company. They were assisted in advertising, organization, and training, for a fee and franchise commitment on the part of the real estate organizations. They are called conversion franchises (Boroian and Boroian, 1987, p. 34).

Another type of franchise is the combination franchise. Combination franchises have come into popularity in recent years as the economy has experienced difficulties across the country. Instead of one franchise operating in one building three or four separate and distinct franchises may share overhead operating expenses and floor space, still maintaining their own image, logos, and trademarks but operating more efficiently with less overhead.

On many of our major highways across the country older franchise companies, such as Howard Johnson's, began to accept a second or third franchise in the same building. It is not unusual to see in one of those older franchise buildings a hamburger franchise like Hardy's, Pizza Hut or Dunkin Donuts operating in a smaller space for practical reasons such as lowering overhead, operating more efficiently, and allowing more than one kind of service to be given simultaneously (Boroian and Boroian, 1987, p. 147).

Obligations of a Franchisee to the Franchisor

Uniformity of standards are generally guarded as critical in a franchise organization. Consumers patronize a franchise because of an assurance that the level of performance, quality and service will be largely the same from one outlet to another.

To maintain uniformity among outlets franchisors frequently obligate franchisees to adhere to strict standards and specifications. A franchisee is obligated to abide by the following rules:

1. maintain high standards of integrity and ethical business conduct
2. promote a favorable image in all business activities where the public customers and persons with whom they come in contact
3. provide a high level of customer service

4. maintain a full force of licenses, permits, certificates and other applicable documents required by the community and by state laws and regulations when they conduct their business
5. promptly and accurately pay all fees and royalties that are due to the franchise company
6. pay all monies owed to suppliers for products and supplies and to pay them promptly and accurately
7. maintain their place of business in a clean, orderly and functional condition at all times and to keep all the equipment, the inventory and the supplies in proper working condition
8. maintain a clean, attractive, efficient customer area where proper safeguards and security are visible
9. maintain fair but rigorously enforced personnel policies to promote a favorable image to the public
10. maintain all records, including tax, information, employee data and the books desired to fulfill local state and federal requirements
11. complete their franchisor training programs
12. determine a site for the business, obtain applicable leases or financing, and commence improvements within the stipulated time after signing the franchise agreement

13. agree to open the franchise outlet within a stipulated period of time after signing a franchise agreement
14. maintain business liability and comprehensive public and motor vehicle liability insurance as specified in the franchise agreement or in the operating manual
15. adhere to all franchise standards and specifications for advertising, inventory quality, service, performance, working hours, and other procedures.

(Foster, 1989, p. 114).

Franchise Reports

Besides adhering to quality standards franchisees usually are required to furnish their franchisor with various reports. Some of the ones which are necessary are as follows:

1. weekly summary of the outlet sales
2. a monthly recap of the weekly sales which may be required on a monthly basis
3. an operating statement or a profit and loss statement; a statement of the outlet's income and expenses; showing business profits or losses may be required monthly, quarterly, and annually

4. a pro forma operating statement, which is really a projected profit and loss statement may be required monthly, quarterly, and annually
5. copy of the federal tax returns
6. miscellaneous reports such as change in ownership, changes in management, equipment failures, trademark infringements; maintenance of the franchise outlet appearance in a manner consistent with quality standards; which includes all routine, normal maintenance and repair, replacements of worn out or obsolete accessories, fixtures, equipment, signs, obsolete or unsalable inventory, and periodic refurbishing (Sherman, 1991, p. 69).

The franchisor often prohibits the franchisee from making any material or alterations to the outlet or to the business system without written approval. This prohibition may include any alterations to the layout, accessories, fixtures, signs and equipment. Most franchise agreements stipulate that employees of an outlet must maintain their appearance and grooming on the job in a manner consistent with quality standards of the franchise company. They must exhibit neatness, cleanliness, and a friendly professional demeanor in the presence of the customers. The franchisee is invariably required to maintain accurate records to indicate income, expenses, and to calculate tax liabilities to determine profitably and to compute franchise royalties, and coop advertising fund contributions. Inspections in audits are made mandatory by the franchisor. The franchisor or a representative may conduct inspections periodically with a visit. Unannounced visits are normal procedure. The franchisee may be monitored for adherence to the franchise laws, standards, specifications, policies and procedures.

If the franchisor should discover discrepancies in reporting a franchise royalties and other fees the franchise may be held responsible for payment of those and the paying of all costs associated with an order. Non-payment of fees are a basis for termination (Foster, 1989, pp. 114-115).

Basic information was pursued concerning the franchise industry and its beginnings. Information was drawn concerning the IFA, its code of ethics, and the evolution of law, rules, regulations, and guidelines which franchisors and franchisee practice. A definition of franchising was derived and notation of how it is an agreement between franchisors and franchisees, an actual arrangement between both parties. Textbooks on the subject referred to a variation in registration states and non-registration states. Studies were made regarding the specific agreements that are the basis of franchising, the franchise agreement, the disclosure statements that must be made, the operations manual, and other areas of interest that are universally used by franchisors and franchisees as they operate together.

The research question is, "What are the current training needs of franchise companies in America?"

This segment dealt directly with information about franchisors and how they deal currently with their own training needs. The study showed a rationale for the research question and then followed it through with specific examples of how the franchisor and the franchisee operate together for the good of both parties.

The distribution of franchise companies by size has some interesting aspects to it concerning the actual size of operating franchises.

There are 686 franchise companies which have from one to ten operating franchises and 761 franchise companies which operate between 11 and 50 franchises. A total of 1,447 companies are quite small in total number of franchises. The larger companies do not have as many outlets. For example, there are 53 franchisors which have in excess of 1,000 outlets. Another 67 franchisors have between 500 and 1,000 and the large companies total only 120 franchises. Therefore, a question arises which gives substance to the research question. Since a majority of the franchisors are quite small and do not have many outlets, they may not have the number of staff on hand or outside consultants to assist with training and development. A majority of the franchise companies in America may not be large enough to have complete franchisor staffs, therefore, they are not able to conduct franchisor training programs or conduct other administrative functions. The research question should indicate that the search of literature reveal other areas where franchisor training may need to be improved. It has been observed those specific areas in franchising where the franchisor may need assistance in being more efficient in the approach to operating the franchisor activities.

A graph showing distribution of franchise companies by size is displayed in Appendix H (Boroian and Boroian, 1987, p. 77).

In the search of literature while looking at the growth and development of franchising companies and the franchise industry, a conclusion must be reached that the franchisors who succeed do it because of a lot of time and effort used to make the franchise operational and success oriented.

When looking at franchise companies, understand that consideration must be given to the difficulty involved as franchisors form the franchise, develop a prototype, make that franchise successful, and then emulate the franchise a number of times as they acquire franchisees who work under contract as partners in the franchise development.

It is noteworthy to point out that in addition to developing programs in-house, the franchisor must also develop the franchise and all of the ramifications of it with people whom the franchisor agrees to work, takes a franchise fee, develops contractual agreements, makes certain commitments, and accepts some obligations to assist the franchisee. It is a multipurpose effort being a franchisor and operating as such and also assisting the franchisees in marketing. The franchisee looks to the franchisor for direction. The franchisee must get that direction from the company to succeed in the business.

A research planning and flow chart simulating the way a franchise company can develop over time was organized by Boe, Ginalski, and Henward, 1979, 1987. The flow chart was part of a project development registered in 1979 by the franchise group. It appears in Appendix I.

The Franchisors Development

A review of the literature points out that there have been historically a number of franchisors who have been successful after very meager beginnings and sometimes with a shortage of capital. Some well known examples of evolution from nothing to something dynamic are the following:

It is said that McDonalds, under leadership of Ray Kroc, began in the middle 1950's by Mr. Kroc and his associates, the McDonald brothers, after Mr. Kroc actually mortgaged his house a number of times and scraped dollars together to get the business off the ground. Eventually, he was able to pay to the McDonald brothers for the rights to the McDonald format. He did it in a reasonably short period of time, about three years (Sherman, 1991, pp. 73, 74).

Fantastic Sams, which is a hair salon business with hundreds of outlets, was begun by a man named Sam Ross who became ill while he was in the construction business. When he recuperated he became a barber and from those meager beginnings he very quickly developed the Fantastic Sams salons. It has grown to all parts of the world and has about 1,300 franchisee and is financially very capable to handle their function (Foster, 1989, p. 79).

Colonel Sanders of Kentucky Fried Chicken for a long time was a chicken cook and only sought two cents per chicken from his franchisees when they used his eleven herbs and spices. Naturally he sold them the ingredients, but his royalty was two cents. From that beginning with some ups and downs eventually he became organized, with the assistance of an attorney, John Wyatt Brown, and the company grew and developed very profitably. In the early days there was very little money and a limited staff. A story of a meager start, saving one's pennies and operating efficiently is well known throughout the franchise industry and continues to this day (Foster, 1989, p. 88).

There are many small franchisors in existence with limited outlets. Some will remain that way, others will take their profits, use them properly to acquire franchisees and franchise fees and using those fees possibly as working capital will grow dramatically.

Monies must be used for the franchisor to fill out his staff and to gather around him experts who can expand the business. Many franchisors have been multi-talented people and have operated by themselves or with very little assistance in their early days. Eventually, the need for in-house development becomes a necessity if a firm is going to grow and prosper in the franchise industry.

The Gallup poll (1992) said that 94 percent of franchises succeeded. There are people in franchising who have failed but the franchise survives because while the franchisee might be terminated, a new operator takes over an existing franchise and succeeds with it. So, the 94 percent success rate may be slightly skewed or distorted. But the IFA and other experts look to the fact that the success/failure ratio is far more dominant than what takes place in conventional small business, where about 80 percent of independent operators fail in the first five years and some are gone in two years.

Franchising still remains a dominant force in the market and the growth to 3000 or so companies around the world indicates that whether with meager funding and slow growth and development, success may come with hard work and effort.

Eight Keys to Franchisability

Taking into account the various factors that contribute to the success of a franchise program, Boroian and Boroian, 1987, have identified eight keys to franchisability against which a franchisor can measure the business. Keys to franchisability are, size and longevity, profitability, teachability, systematization, marketability, transferability, originality, and affordability.

Boroian and Boroian, 1987, have incorporated key factors into a simple franchisability test that can be applied to see if the franchises work similarly. It is pointed out that a careful analysis of a specific business is important. Doing a check-up should give an idea whether and how soon franchising could become a part of the company's strategic plan for the future. This check-up consists of making notations about the location and whether it could be a profitable operation.

Another part is keeping records on how many units are in operation, how long the business has been in operation, and does the company have enough experience to prove anything? Has anyone inquired about the possibility of buying a franchise?

Other check-ups would include length of time to teach someone how to operate the business, presuming the company has the capabilities of teaching and training.

How much capital do is required to invest in the development of a franchise program? This could be a very difficult question that needs to be answered properly, because without proper funding, it will fail. Does the potential operator have the necessary management experience? Is actual cash in shortage, and what is the actual financial position of the company? Does it have any credit at the bank? Will it improve over time? Is there a market for the business or service? Is it a local, national, or international market? Is the industry highly competitive? Is the industry here to stay? Is there minimal competition thus far? Whether it has lots of competition or little, is that good or bad?

Some franchises should not expand. They may not be ready for prime time. There are others that get off the ground and do as well as the original prototype, but it is still questionable if they should expand. Then there are others wherein the chance may appear quite good to become a dominant company, even if it is only in a regional area. Some may find out that the business has outstanding potential for rapid growth through the franchising method. If the assessment is done correctly, the concept is sound, there is a broad market of acceptance, and sufficient capital to make it happen, those factors should give a significant indication of success (Boroian and Boroian, 1987, pp. 80-81).

When a potentially large franchisor or a very small franchisor who plans to expand thinks it through, the franchisor usually has many personal opinions concerning the hypothetical benefits of developing the proposal or the small system. The franchisor is often quick to enumerate those in factors in the franchise sales literature. Therefore, the franchisor must be aware of the possibilities of national growth, the possibilities of needing national advertising, public acceptance, franchisee training, start-up assistance, centralized buying, training, perhaps site selection, bookkeeping assistance, and other franchisee/franchisor necessities (Boe, Ginalski, and Henward, 1989, p. 26).

"What a franchisee really wants out of a franchise relationship is someone to assist in making correct decisions. The franchisee wants to learn by example, classroom instruction, operating manuals, and all such methods, how to make correct decisions. A good deal of the structure mentioned earlier is addressed to the accomplishments, the transfer of correct decision-making processes from the franchisor to the franchisees." (Boe, Ginalski, and Henward, 1989, p. 26). It becomes evident that the franchisees depends on the franchisors and their abilities. The franchisors must perform to gain any measure of success. To carry on this training the franchisor must be capable of doing what is necessary. Therefore, the staff must be already trained to carry on in the training format or the company must recruit consultants, experts, specialists, and teach them the franchise business from the company's point of view and make them capable assistants to the franchisor.

Screening the Franchisee

Many times franchises, even brand-new small ones that are understaffed, get off the ground and do well. Recruits seem to be at their disposal. The Wall Street Journal advertisement sections pulls leads and magazines respond with the names of potential buyers of franchises. The company feels good about its position and its progress. Beginning at once, all franchisees must be put into training classes after they have signed a contract, paid their fees, and have been investigated to make sure that they are right for the business, and the applications and appropriate monies put into place. The franchisor work is really just beginning. In that early training the franchisor must eliminate some of the potential franchisees and looks at them from different aspects, psychologically, ability to perform, level of interest, and dedication to the franchise. If any of those and many other criteria are missing, the franchisor must eliminate or cancel some of the franchise agreements.

Usually, it is not easy for the franchisor to do this because of the commitments and the fees received, but the final contract is not completed. The franchisor should reconsider and return the money before the business transaction goes any further with this potential franchisee whom the franchisor has reason to believe will not fit suitably into the program. The franchisor has a hard decision to make but it must be made for the simple reason that the franchisor does not need franchisees who will not perform and stay under the umbrella of guidance and direction.

Interview applicants must be screened. Depending on the size of the company, the desired depth of the process, and the number of people applying for franchises, interviews are conducted by the company's sales department, training department or personnel department. The primary job of the franchisor becomes one of screening managers and processing them through the company's training school. How does one anticipate those who are earnest and will stay with the company? (Tarbutton, 1986, p. 141). A good way to eliminate applicants is to evaluate and make a personal profile of a cross section of good managers, borderline managers, and poor managers or those who were terminated or quit. It was found that each of the three groups had certain qualities and faults. They identified the good qualities of the successful managers and started hiring only those who matched (Tarbutton, 1986, p. 141).

Reasons for Franchising and the Foundations of Franchising

There are a wide variety of reasons given by successful franchisors for why franchising has been selected as the method of growth. Through franchising they are able carry on a number of functions effectively. They become efficient as they obtain experience and they achieve greater market penetration at lower costs and capital once they know what they are doing. They can reach the targeted consumer effectively through co-op advertising between they, the franchisor, and the franchisees paying part of the costs. They usually have dedicated members through which they can sell products and services. They can replace the need for internal personnel with these motivated owner-operators, but they will still need capable in-house staff.

Sometimes, the primary responsibilities for site selection, employee training and personnel management, and other administrative concerns to the franchisee is taken over by the franchisee. Many smaller franchisors tend to do this and as their company grows, using its own in-house staff may be preferable (Sherman, 1991, p. 4).

Responsible franchising is the only way that franchisors and franchisees will be able to co-exist in the twenty-first century. Responsible franchising requires a secure foundation from which the franchising program is launched. Any company considering franchising as a method of growth and distribution, or any individual considering franchising as a method of getting into business, must understand that there are key components of this foundation, including developing a proper prototype, developing a strong management team, having sufficient capital to launch and sustain the franchising program, having a distinctive and protected trade identity, including the various registrations by state with trademarks as well as uniform trade appearance. This includes signs, logos, slogans, and overall image. Other key components are having proven methods of operation and management that can be reduced to writing and a comprehensive operations manual which always remains in the control of the company. Training programs for franchisees, field support staff, skilled trainers, and communications people must be available for the company (Sherman, 1991, pp. 6, 7).

Curbing the Failure Rate for Franchisors in Development

"Our mission is to avoid the mistakes made by hundreds of franchisors that have failed over the past few years. That's right, hundreds. Each year since 1986, between seventy-five to one hundred franchisors went out of business (U.S. Department of Commerce, February, 1988, reported by Sherman, 1991, Pg. 9). This figure represents three to five percent of all franchisors operating during those years."

Sherman (1991, P. 10), develops a list of common reasons why franchisors fail. It would be good to read and re-read these reasons so that any company, if they are a new franchisor, or even if they are not, hopefully by understanding the reasons for failure, would avoid the same fate in launching and building their franchise program.

It is natural that there is a percentage of franchisors who fail. There are reasons for this, which are unique and far-flung. The franchisor must constantly fight for success as well as fight to eliminate or overcome potential failure factors. The franchisor must face a number of potential reasons why failure is at the doorstep and may consume the franchisor if the franchise does not continually grow and develop. Some of the things that enter the picture are lack of adequate control over the company, failure to attract qualified franchisees, the use improper consultants in training programs, improper paperwork completion, and lack of understandability of disclosure documents. There are lack of communications systems and premature launch into international markets. The franchisor may be in the wrong, or saturated, markets. The franchisor may lack quality control which affects the product and customer satisfaction. There are many others. These are just a few areas which the franchisor must face, sometimes on a daily basis (Sherman, 1991, p. 11).

The notations made indicate that there are a number of franchisors, among them some of the smaller, newer ones, who may not be capable of, or may be very novice in their approach to developing their franchise system. The research question, therefore, becomes very viable, in that the training of the franchisor. The many aspects of franchising which the franchisor must face are parts of franchising which are important to the success of the franchisee who may not be getting the proper direction.

A franchisee pays for training assistance and if the franchisor is not capable or ignorant of the need, the franchisor should better become aware of it quickly and do something about it educationally, for the key staff who are going to administer to the franchisees.

As noted, Sherman makes a viable list of failure factors which franchisors must be very careful about and hopefully will avoid these pitfalls. In addition, Tarbutton makes note of some additional failure factors that may be just as important, including poor pricing structure, bad customer relations, lack of planning and forward impetus in the sales department, poor human relations, loss of key personnel, complacency about competition, and not understanding the market trends. These are among many others which could affect the success of a franchisor (Tarbutton, 1986, p. 30).

Things Which Potential Franchisees Look for in Their Arrangements with Franchisor

The franchisor must be exposed to additional information and insights through the franchisor's staff in order to work with the franchisees who will probably fail without adequate help. This list of items would be those things that the franchisees feel that the franchisor is obligated to supply to them. Therefore, the obligations of the franchisor are numerous. Some of the more important include location analysis and development of individual unit, constructional design, employee and management training, controls on standardized operations, territory, termination, initial franchise and royalty fees, cost and earnings figures, marketing program, compliance with FTC and state registrations, franchisor's position in the market and the ability to acquire more of the market, success ratios of other franchisors, basic franchisor relations policies, and trademark and tradename protection (Tarbutton, 1986, pp. 56, 57).

Tarbutton also notes that it must be understood that there are risks in any venture and some franchises have greater risks than others. The risk may be greater than investing in the stock market, because often one is not only investing one's money, but one's time and perhaps, life's work. Therefore, one must rely on the business skills of franchisors and be very aware of their strengths and possible weaknesses.

Franchisor Organization of Proper Departments and Their Activities

When a franchisor lays out the program and decides on organization of the company, there are many departments which may be considered as being important in the overall makeup of the project. The most important departments might be considered communications, architecture and design, sales, site approval, training, operations, accounting, and marketing (Tarbutton, 1986, p. 169).

The Eight Major Departments

The major departments which may be effective and necessary are as follows.

Communications Department

When a franchisee makes a purchase of a franchise, the franchisee usually is apprehensive, wonders whether the right decision was made; and wonders what is actually going to happen as the franchisee gets training and begins to operate the franchise.

It is very important for the franchisor to remain in contact with the franchisee during these early days when there is much to be learned and the franchisee has a lot of expectations. The franchisee usually is very enthusiastic at this time and wants to get off the ground quickly, doing the right things and participating in the program as the franchisor would want.

The franchisor, therefore, has the responsibility of communications in many different ways. Telephone calls, visits to the site, weekly reports, returned to the franchisor from the new franchisee, an open phone line to receive comments from the franchisee, and the ability to take care of the needs as they happen with no delay.

A monthly newsletter, constant awareness by the franchisee of what is transpiring as the store or outlet comes into being. The franchisee should feel wanted and that needs and desires are taken care of or at least being given attention.

Communications is very important. It will manifest itself in many other ways as the two parties work together. Failure on the part of the franchisor to maintain this two-way communication can cause a lot of difficulties down the road. A franchisor company which accepts franchise fees and signs a contract and is obligated to the franchisee as the franchise grows and develops, by letting the franchisee down, will cause trouble sooner or later. Communications are a key to success for any franchisor.

Architecture and Design Departments

Architectural creations are very nice. Many franchisors have spent a lot of money in designing and creating a specific look. Color schemes, interior decor, outside architectural lines, planting of shrubs and flowers and that sort of thing many times can make a franchise building very attractive.

One must make sure that design and creativity of the building is functional and cost-conscious as well. Often the creative genius of architects can obscure functionality and can skyrocket costs which sometimes the franchisee has difficulty in appreciating. All franchisees would like to make a profit. Large overhead and expenses for building and other items of design may deter a franchisee from truly believing that the franchisee is in the right franchise and is being directed properly by the company.

The architecture and design department is very important in terms of attitude on the part of both parties. If it functions properly, it makes the franchisee feel good about the environment and may make some other jobs, such as staff recruiting, pleasing the customers, and setting an image in the community, easier. So, it is very important for the franchisor to be aware of the aesthetic things and to work hard with the franchisees and sometimes to expect franchisees to have ideas on the development of the building or surroundings and have positive input which would be listened to and, on occasion, accepted as being a good idea.

Franchise Sales Department

The essence of success in almost anything we encounter in a small business operation, and it is also true in franchising, is sales. Sales are extremely important when a franchise company is getting off the ground. Retail sales in the store are a necessity to offset overhead and to give the operator the feeling that something positive is happening and that the franchise is making progress as it begins. But salesmanship of the franchises themselves by the franchise department can be one of the more important activities by the franchisor company.

Any franchise company that considers selling franchises more important than actually performing its functions for the franchisee in training, development and the other activities within the company, is making a big mistake.

The franchise company must have a very dedicated sales force who are properly trained and motivated and are oriented towards service to the franchisee. It is very important for the franchisee not to feel defrauded. The company must have the right attitude and its representatives, in particular the sales department, must carry on their functions morally and ethically and with dedicated service to the buyer of the franchise.

In recent years, franchise sales people must be registered so that their background, their experience, and business record is visible. Over the years, there have been a number of sales people who have not been as honest as they might be and have made a lot of promises to the buyers of the franchises that very possibly the franchisor could not follow through to completion. Therefore, the relationship between the two is questionable. The franchisor must recruit properly, investigate the franchise sales people, register their names, addresses, and all the information about them, so that the franchisors feel good about their own representation and the buyer of the franchise understands that the staff who represent the company are doing it in an ethical and proper manner.

Therefore, training, preparation, and complete understanding between the franchisor and the sales representatives is important. The franchisor should never allow anyone with a nefarious background to represent the company or to do anything that will affect the company's overall operation.

Sales representatives need to be equipped to carry on their function properly. They usually need a quantity of application forms, question and answer forms, and a franchise or licensee agreement in order to explain them properly, advertising brochures, brochures of the service which the franchise offers, a list of references and endorsements, a training brochure, possibly a film or video tape presentation, a franchise presentation book, a company financial information packet, a disclosure packet in order to explain that thoroughly to the potential buyer, site selection criteria, and advertising assistance information to be able to develop all leads as the company progresses.

The franchise sales department must be supported by leads developed through newspaper advertisements, radio and television advertising, trade shows, visiting existing franchisees, direct mail pieces, special seminars, industry publications, leads that may be supplied to the sales department from suppliers, friends of the company, employees, competitors who already have an operation nearby, and business associates. There must be public relations which are planned in-house through the franchise sales department. The franchise sales department is very important in the growth and development of the company and the training of the representatives and an ongoing sales program must be part of the overall package for training that the company pursues.

Site Approval Department

It has been said for many, many years that the most important thing in any business is location, location,

location. It has always been thought that a good location can make up for lack of ability or other difficulties and problems that a company may have. If they are in a good location, the right place at the right time, business will come. Therefore, choosing the proper location with approval by the franchisor becomes an important factor in success.

Many companies use their own staff to choose locations and to approve them. On occasion, companies will have real estate brokers in various parts of the country whom they can call on to look at a location and make a decision for the company whether that specific location may be perfect, above average, good, or poor, so that the company can make a logical decision on whether they want to use that specific location.

Therefore, choosing a proper location may not be easy and there are certain considerations that must be looked at when a specific location has been found, including things like traffic flow, location of stop lights, numbers of traffic lanes, median or dividers, the quantity of cars that go by every day, walking traffic, speed of the traffic as it goes by, area housing demographics, employment of people who live nearby, the presence of proper utilities including water, sewage, electricity, and telephone, population density, business demographics in the area, location of churches, schools, medical facilities, and recreational centers.

A breakdown of competition by classification, compatibility with neighbors, the needs of potential buyers nearby, the ability of the franchisor to fill voids as well as to capture the business audience, the possibility of creating needs among potential buyers, the possibility of market changes that may take place in the future, and how that may be handled, must all be considered. Therefore, the franchisor must decide to train real estate locators or site locators or use experts from the outside to develop a master plan through demographics and through close attention to possible sites where the business has a good opportunity to get started.

Training Department

Any good team has members with specific talents and abilities. A good franchisor/franchisee relationship depends on the ability of both parties to perform properly for themselves and for each other. When a new franchisee comes into the company, the franchisee should be trained to do all of the functions that the franchisor expects. The franchisee has certain obligations to the franchisor and the franchisor has certain obligations to the franchisee.

Training may be one of the most important factors in success. Screening out people who may not qualify is a prerequisite. The franchisor might have to turn down a franchise fee from a potential buyer if the franchisor believes that this person could possibly create problems.

Therefore, the prospective franchisee should be cut off at the beginning.

Training of the franchisee should never be short-lived. In other words, it is an ongoing proposition. There are so many different things to learn that it would seem that the franchisee can participate in in-house on-site seminars and workshops and never really learn everything there is to know. The franchisor has an obligation to plan the franchisees business education and to make sure that it is done at the right time and place, and in the proper fashion. Training is important and maintains its importance forever.

The Operations Department

Operations of the activities of the franchise are of prime importance. How are things done? What are the company's standards? What are the various policies that are important in the overall operation? The franchisee must be aware of the operations manual and how that is laid out and what it is used for and how the operations manual really is the Bible that everyone must adhere. It is the document which the franchisor spent a lot of time developing, and through the use of it has proved that the concepts work.

It is important that there is uniformity of quality, uniformity of operations, uniformity of daily activity, opening hours, closing hours, clean-up, detail, maintenance of the building, maintenance of the work staff, workers being trained properly, being on time, dressed properly, understanding their job descriptions, and doing the work that they are supposed to do under the guidance of the manager.

The company must be concerned with quality in its product, in its services, in its menu, in its recipes, in its service plans, and whatever form the franchise takes, the operations of the actual unit and the image that is conveyed by the people and by the appearance of the building and interior cleanliness, creates customers or deters them from coming back again. Therefore, the franchisor has an obligation to make sure that people are aware of all the activities of operations and that the function is carried on as best as everyone can do with a dedicated effort.

The Accounting Department

All businesses need to make a profit. They are supposed to be money-making organizations. Accounting procedures and all of the financial aspects of a franchise are important to the results in profit. What the franchisor makes in royalties and the profitable activities on the part of the franchisee are of prime importance. The accounting department may be involved in activities like collecting the franchise fees and using that money properly as the company sees fit, making sure that all records are kept precisely by the franchisee, and that weekly and monthly reports are reported.

In franchising today many of the companies are provided with accounting systems and computer programs to be used by the franchisee in keeping good records. Sometimes the franchisor's accounting department develops these software packages to meet their needs. Most franchise companies have computer programs available for the franchisee.

Marketing Department

In any business, marketing is a prime effort. Without the ability to find out where a product could be sold, who the potential customers might be, when and why they would come to the company, and what the demographics of the territorial expansion are, the franchise cannot be marketed effectively.

The location and the selection of the site, building appearance, where is it located, and the characteristics of this specific site make up part of the marketing program. Pricing of goods so that the price is attractive to the potential customers, oriented towards profit and sufficiently high to make sure that the franchisor and the franchisee pay their overhead, meet their payroll and have enough left for all parties to be able to continue operations, is essential.

Planning in marketing is important. Some of the things that must be kept in mind for the marketing department are the development of an advertising program to sell franchises, a good public relations image, and the use of advertising agencies because of their creative abilities.

The company must develop a marketing plan with a number of elements, including penetration in the market place, laying out geographical territories, the logistical support available to carry out the programs, and getting maximum effectiveness from the marketing program. There are many other aspects to advertising which will be noted in other sections of the report.

Marketing is an on-going program. It is necessary for the company to have continual promotional ideas and actually have the franchisees aware of what the promotions are going to be now and in the future, with specific dates and programs planned at all times.

Expansion

Most companies are interested in expansion. The decision when to expand and into what new territories the company may want to concentrate. The earlier companies franchised and expanded quite rapidly and the franchise fee was used to carry on quick expansion.

Overseas growth and development is happening now. There are over 400 companies in the United States which are operating in foreign countries.

Rules, regulations, and guidelines in those foreign countries in adherence to local law is taking place. There are now fifteen franchise associations operating throughout the world in many of the larger commercial countries. Canada is growing tremendously in franchising, as are Japan, Continental Europe, the United Kingdom, Australia, Asia, the Caribbean, Africa, Mexico, South America, New Zealand, the Near East, and Central America.

Before a company decides to expand to other countries, it should be financially sound and well organized here and thoroughly prepared to expand.

The companies' training, their business abilities and a philosophical understanding of foreign markets are important for success. Education is the key. Literature indicates that those companies who are prepared to go overseas are doing well. Others who are considering overseas expansion should evaluate their business before they attempt to expand.

The Future of Franchising

In 1986, John Naisbitt, who wrote the best seller Megatrends, compiled a study on the future of franchising for the IFA. He identified many trends that predict what will take place in the future. His study shows a continued decline in product and trade name franchising and, the growth of business format and conversion franchising. Business format franchising are franchises where the buyer of the franchise receives training, guidelines, direction, business plan, operation manuals, and all the tools which may be needed to operate the franchise. The buyer is given a complete format to follow and is monitored by the franchisor, meets with the franchisor periodically, participates in seminars and workshops and although an independent operator, the franchisee operates under close direction from the franchisor.

Conversion franchising consists of those businesses which at one time were independent operators and then as a group converted under the direction of a specific franchisor. Examples might be Red Carpet and Century 21 Real Estate where, previously operating independently, they took on the name of a franchisor company and were given guidance and direction by that franchisor as they operated what previously had been an independent real estate program. Sometimes their name is included with the franchisor's name. This trend has been growing since 1972 with projections of more than 11 percent for the five year period since 1987. Conversion franchising is particularly applicable to service businesses.

For years American business has been gradually redirecting itself from the production of goods to providing services.

Business format franchising is appealing to people who want to own businesses of their own but want to minimize the risk. Persons new to the business arena are drawn by simplicity. It attracts people with some business experience who seek a proven program that requires less investment than starting an independently operated business.

Naisbitt's study sees continuous growth in conversion franchising as entrepreneurs develop strategies for unifying and marketing fragmented industries.

In the study, Naisbitt identified ten franchise industries for the period between 1985 and 1990 and summarized their growth. (See Appendix J, p. 182.) They are restaurants, retail businesses, hotel/motels, convenience stores, business aids, automotive products, retailing other than convenience stores, rental services, construction, home services, recreation, travel, and entertainment.

The Naisbitt study indicated that consumers are willing to pay for convenience and quality. This will benefit home service franchises and construction companies. Consumers will pay for a name that they recognize, which may drive small independent operators out of business, make them reorganize or convince them to join conversion franchise companies such as Mr. Build, which is a home improvement lumber yard type operation. The fact that it is relatively easy to start a franchise and even easier to buy one will attract under capitalized and under prepared franchisors as well as franchisees. Therefore, the need for training will be even more dominant than it is now. This may even lead to unscrupulous franchisors and unsophisticated franchisees, although there is legislation and regulatory efforts.

Franchising will be successful in creating more jobs, but one of the problems is having to fill those jobs. The American economy is rapidly changing from being proprietary oriented to service oriented. By the 1990's, 70 percent of the work force will be in service industry jobs. Most of these will be low paying and will offer little in the way of advancement. The kinds of work offered in these franchises would be traditionally those jobs done by teenagers in recent past. Fast food restaurants currently are claiming that they can't interest younger people in filling these simple positions even when the salary is over minimum wage.

There will be a trend toward specialization in retailing which will require sales clerks to be more knowledgeable about their production. Franchisors will be faced with the task of designing programs and operating skills that are attractive not only to the franchisee and to the consumer but also to the work force. Franchisors and franchisees will have to look to other segments of the population for employees, including housewives, handicapped individuals, and senior citizens (Boroian and Boroian, 1987, p. 231).

Trends for the Future of Franchising

Record numbers of companies will franchise.

Corporate reorganization and the need to earn a higher returns on assets and equity will bring about a wave of acquisitions of companies who own chains and subsequent resale to franchisees.

Franchisors and franchisees will expand into each other and toward outside businesses.

More institutional money will be attracted to franchise companies. Larger companies are even currently buying out franchisors.

More than 70 franchisors now offer public stock and these numbers will continue to grow.

Conversion franchising will grow in dramatic proportions.

More franchisors will be acquired by large companies.

Combination franchising will flourish. Combination franchising is a group of franchises operating out of the same building in order to offset overhead, to give the customer variety, and to operate more efficiently.

Franchising is growing tremendously in foreign countries and will continue to make the world smaller. The recent approval of NAFTA by the United States, Canada and Mexico will create additional interest in franchise development in these three countries. The natural evolution of commerce on a worldwide basis should naturally create additional markets around the world for the United States and its trading partners.

This creates a situation where many foreign countries became aware of their own franchise regulations which emanate from their various governments. This may require compliance, better training, better organization by the franchisors, and a continual evolution of rules, regulations and guidelines under which foreign franchise industries will operate (Boroian and Boroian, 1987, p. 234).

Franchising in the Next Century

Among the most positive developments in franchising are a growing interest from the commercial banking and venture capital industries in franchising, and franchisors joining forces through master franchises and join ventures and domestic and international mergers and acquisitions in order to offer combination franchises. There is an increasing commitment from our nation's schools and universities to recognize franchising as a separate educational discipline.

There is an increasing number of U.S. based franchisors entering into international markets, which positively contribute to trade deficit and the spirit of the American innovator. Other developments include a deliberate effort by franchisors, sub-franchisors, and state and local governments to expand the role of women and minority groups in franchising.

There is also a growing commitment among existing franchisors to set up franchisee advisory councils, awards programs, regional and national meetings and seminars, and other programs to insure that franchisees receive the support and recognition that they deserve. There is an increasing number of Fortune 500 companies entering into the franchising area, and the maturation and growth of many of our nation's franchisors are forcing the entrepreneurial and the free-wheeling management style of the companies' founders to be replaced by more seasoned corporate executives and management systems (Sherman, 1991, p. XIII).

Summary

Franchising has evolved dramatically since its beginning approximately 150 years ago, when it was used as a methodology for a company to expand its business without having to invest large amounts of capital to become operational. The evolution of franchising with the franchise fee collected by the franchisor and used as working capital began a system in business that has grown tremendously.

In the early days the original franchisors may have been soda pop bottlers, automobile dealers and gasoline station owners. Since that time, many new industries have joined the franchise method. There are now in excess of one hundred different industries represented in franchising. Many of the franchise companies have evolved from small ones whose numbers of outlets were very limited, to current times where there are more than fifty franchisors that have more than 1000 outlets each, worldwide.

Franchising has grown dramatically in foreign countries. There are IFA in fifteen countries around the world. The IFA has grown and has been very helpful in the organization of franchise companies and helping those companies operate under the guidance and direction of the FTC and other entities that have come into existence as franchising has grown.

In the world today, there are about 700 franchise companies which have between one and ten outlets. There are another 800 franchise companies which have between ten and fifty outlets. In total, there are approximately 3,000 franchise companies operating around the world.

About one out of every three sales jobs in the country emanates through a franchise company. There are in excess of 551,000 outlets with over 7,000,000 people employed by franchises. Last year, 100,000 new jobs were created by franchise companies, in comparison to the Fortune 500, which actually lost almost 4,000,000 jobs during the last ten year period.

A new franchise opens every sixteen minutes. More than 18,000 new businesses were created last year. According to studies conducted by the United States Chamber of Commerce and by the Gallup Poll, less than five percent of franchises have failed or discontinued on an annual basis.

Franchising has been moving dramatically forward. According to John Naisbitt, by the year 2,010, franchisors will produce in excess of one trillion dollars worth of business on an annual basis.

Women and minorities have found a niche in franchising, where they have been able to work their way through the ranks and in many instances, have become managers or part of the management team.

Along with growth usually comes problems, and franchising has had its problems. As a result, new laws, rules, regulations, guidelines, and the necessity for compliance to the law has become part of everyday business activity. There has been a breakdown among the states where registration in fifteen different states is necessary. The other thirty-five states operate under the guidelines of the FTC.

As franchising reaches out toward the next century, there can be conclusions drawn from a review of the literature. What becomes particularly visible are the basic ingredients and foundations and foundations which a franchisor must develop and carry to franchisees and through the entire organization. These are the basic ingredients in success for franchisors as they train their franchisees and themselves to become bigger and better.

The review of literature indicates that franchising is developing rapidly in the United States as well as in many other countries. The franchisor must carry on the programs with continued training of staff, with updated management efforts and continual evolution of knowledge, information, new techniques, and guidelines for the franchisee to operate.

CHAPTER III

METHODOLOGY

Background

The purpose of this chapter is to explain the procedure and instrumentation used in the study. A questionnaire was developed which focused on the kinds of questions that were pertinent to franchisors and their need for training as they operated their programs.

Descriptive research attempts to describe existing behavior, opinion, attitude, or other characteristics of a group under study (Drew and Hardman, 1985, p. 107).

The nature of survey research involves asking questions of a sample of individuals or companies who are representative of a larger group or groups being studied. Survey studies may have a variety of purpose. The purpose of this study was to determine the training and development needs of franchisors.

Construction of the Questionnaire

The questionnaire instrument was directed to 672 randomly chosen franchises out of 2,345 potential respondents. Voluntary participation was sought.

Descriptive research attempts to describe the existing behaviors, opinions and attitudes, and other characteristics of the group under study. It was decided that a viable group for the study was the franchise companies of America, located from coast-to-coast. Many of these companies are experienced and sophisticated and have enjoyed high levels of success over the years. According to the search of the literature, there are many other smaller, newer, less experienced franchise companies which have a number of training needs they must pursue to remain in business successfully (Drew and Hardman, 1985, p. 107).

Population and Samples

In order to develop a viable population which might be used in the study of franchise training, contact was made with the IFA, located in Washington, D.C. Since 1960, the IFA has worked with authors and published resource material, text books, and research papers done by various individuals associated with the IFA organization. This group sent their newest mailing list, complied in a book which is distributed every six months through the IFA.

Of the 2,345 franchise companies, the name, address, and telephone number of each was listed, along with other pertinent information which noted the specific person in charge or the contact person in various companies. This was their newest issue, which had up to date listings of people who could be contacted very easily to send out the questionnaire to any company in the entire group.

In addition to the franchise companies, there was a listing of approximately 250 attorneys around the country who were franchise specialists. The questionnaire was not sent to these attorneys, since their interests mostly concerned franchise law and were not particularly interested in the franchise training situations.

Current literature sources indicate that there may be as many as 3,000 franchise operators all over the world. The population in the list of 2,345 seemed appropriate to use in the questionnaire development.

A computer generated listing of 672 random numbers was used with the expectation of a return of 335 respondents, or about a 50% return rate. Fifty percent is a reasonably high response, and would be a good goal.

Every company in the book was given a number. Thereafter, the computer generated random numbers and one was assigned to each company. For example, if random number 34 appeared, it was assigned to the company listed as number 34. If 596 appeared, it was applied that to the company numbered 596. The end result was that 672 random numbers were assigned to 672 of the total 2,345 companies. A list was made of those 672 companies, with their names, addresses and pertinent information. We used these as the random sample group. Each of these companies received a cover letter of instructions with a questionnaire, a postage-paid addressed envelope, and a target date for response to the questionnaire inquiries.

Sampling Procedures

Statistical sample tables indicate that from a population of 2,345, a minimal response rate for a 95% confidence rate of reliability would be a return of 335 completed questionnaires. Six hundred seventy-two were used to give us an ample response. The sampling procedures were developed. The questionnaire was practical and focused. The cover letter was simple and understandable. The post office was used to mail out these items to various parts of the country. The questionnaire and cover letter folded, stamped, bundled and delivered to the post office. All items were stamped as needed. The total mailout package was weighed at the post office to make sure that postage of $.58 was sufficient to get the letter out and to have it returned without postage due or any other insufficiencies. The program was targeted to get a response in about twenty-one days or sooner.

Instrument Description and Development

The instrument used was the questionnaire directed toward franchisors. It consists of twenty multiple choice questions with a choice of appropriate answers. A cover letter with instructions to the respondents was included. A copy of the questionnaire and cover letter appears in

Appendix A. The questionnaire appeared on two pages, typed on both sides in order to keep the weight of the package below 2 ounces.

The questionnaire was designed to seek out an answer from the respondents concerning various aspects that the franchisor company must be aware of as they train franchisees and as the franchisor performs functions as per the franchise agreement.

The questionnaire consisted of multiple choice items, giving the reader four different choices for twenty different questions. In addition, there were two lines to be used for comments for each of the twenty questions.

In the cover letter, the respondents were notified that they were participating voluntarily and that the information given would be held in confidence. On the back of the questionnaire there was room for the company name, address, city and state, and a place for a signature, which was optional. Confidentiality was maintained so that the companies who responded knew in advance that they need not sign anything or disclose their company name. The questionnaires could be returned anonymously if the respondent so chose. It was also noted that they were entitled to a copy of the summation report when completed, if they so desired.

In the development of the questionnaire, much time and effort was spent to validate the questions in terms of simplicity, focus and avoidance of asking two or three things in the same question. It was a trial and error process which took time.

There was one question for 20 different categories in the questionnaire. These were all appropriate and had meaning to the franchise companies. Responses should provide an indication of how the franchisors feel about their various responsibilities to the franchisees in training and for themselves in order to develop their own in-house programs.

Data Gathering Procedures

Data were gathered from the respondents as they returned the questionnaires. The returns were gathered and counted in an orderly fashion. A tabulation device was developed based on the responses and tallied, daily, the total number of letters mailed out, quantity returned, those not returned, those returned not deliverable, and the number and percentages of responses received.

Textbook information indicates that respondents are most likely to complete and return their questionnaires if they attend to it quickly (Key, 1988). Approximately seven responses arrived long after the deadline noted on the instructional sheet, and were not included in the totals. An attempt was made to decipher why questionnaires were not returned, whether the company went out of business or moved to another location or otherwise could be contacted.

A follow-up letter was used to assist in expediting a high return rate. As deadline approached, final check-outs were made to some of the companies who had not responded to see if they were interested in participating in the research.

A concern was how to improve response rates while using good taste and techniques which would not appear to harass respondents.

CHAPTER IV

FINDINGS

Demographic Data and Return Percentages

The purpose of this study was to determine the training needs of franchisors.

The actual demographics of the companies were that they were small companies (1-50 units), medium-sized companies (51-500 units), and some larger ones (501+ units). There was a good cross-section of companies represented in all size categories.

The actual size of the response is noted here. Six hundred seventy-two questionnaires were mailed out. One hundred twenty-four viable responses were received, but in addition, 70 pieces of mail were returned because they were not deliverable for one reason or another. Some of the reasons being that the company had moved, the company had gone out of business, it was not known where the company was currently located, or in some instances, where they had moved was noted and a follow-up letter was sent to those companies to give them an opportunity to participate in the research.

In the category of those responding the second time, when they were finally located, sixteen responses were received. The final tally was that 618 questionnaires actually were delivered. Viable responses were received from 124 different companies. This count gave a percentage return of 20.1%. The group answered all 20 questions with very few exceptions, who may have answered 19 or 18.

Tables Summarizing Data

The report of the data from the 20 survey questions are presented here. One hundred twenty-four respondents sent completed questionnaires and comments.

1. To what extent do you make use of an in-house legal staff?

BAR GRAPH OF VARIABLE ITEM(1), N = 123, MEAN = 2.84

	VALUE	COUNT	PERCENT
Always	1.	37	30.08
Moderately	2.	13	10.57
Very Seldom	3.	6	4.88
Not at All	4.	67	54.47

Figure 1. Bar Graph of Question 1 Responses

For this item, the mean value would indicate that franchisors seldom make use of in-house legal staff. A majority (54%) of franchisors do not use an in-house legal staff. Among those franchisors who do use in-house legal staff, 66% (37 of 56) of the respondents report that they always use their legal staffs.

Most comments restated the item categories by indicating that those commenting used or did not use an in-house legal staff to some degree.

2. To what extent do you use outside consultants as trainers for your staff?

BAR GRAPH OF VARIABLE ITEM(2), N = 122, MEAN = 2.98

	VALUE	COUNT	PERCENT
Always	1.	5	4.10
Moderately	2.	33	27.05
Very Seldom	3.	44	36.07
Not at All	4.	40	32.79

Figure 2. Bar Graph of Question 2 Responses

One hundred twenty-two of the companies responded to this question. Only 4% used outside consultants all the time. Sixty-nine percent very seldom or never use outside consultants. The mean value indicates that franchisors also seldom make use of outside consultants.

3. Does your Company use commissioned marketing specialists?

BAR GRAPH OF VARIABLE ITEM (3), N = 121, MEAN = 2.95

	VALUE	COUNT	PERCENT
Always	1.	23	19.01
Moderately	2.	16	13.22
Very Seldom	3.	26	21.49
Not at All	4.	56	46.28

Figure 3. Bar Graph of Question 3 Responses

One hundred twenty-one companies responded to this question with the notation that 46.28% used commissioned marketing specialists. This indicates that they do have a sales force in the field which works on a commission basis or are independent agents.

The comments suggested some confusion among the respondents about which type of marketing specialists they use, and whether they were selling franchises or products. The intent was to find out if there were a large number of commissioned agents selling franchises in the field. A majority of the companies that responded to this question indicated that the sales people may work on a commission and a base salary.

4. To what extent do you use employee evaluations with your employees?

BAR GRAPH OF VARIABLE ITEM(4), N = 119, MEAN = 2.71

	VALUE	COUNT	PERCENT
Quarterly	1.	14	11.76
Semi Annually	2.	22	18.49
Annually	3.	68	57.14
Not at All	4.	15	12.61

Figure 4. Bar Graph of Question 4 Responses

One hundred nineteen companies responded to this question. Eighty-seven percent indicated that they use some sort of annual evaluation or semi-annual evaluation, and 12%

said that they did evaluations every three months. A vast majority of the franchisors find evaluations a necessary part of the training of their own people, and they view it in an ongoing basis. Only about 12% do not use evaluations of some sort.

5. Are you satisfied with the way your research and development department is operating?

BAR GRAPH OF VARIABLE ITEM(5), N = 107, MEAN = 1.71

	VALUE	COUNT	PERCENT
Very	1.	40	37.38
Moderately	2.	59	55.14
Dissatisfied	3.	7	6.54
Very Dissat.	4.	1	.93

Figure 5. Bar Graph of Question 5 Responses

The bar graph indicates that 55% of the respondents are moderately happy with their research and development programs. Only about 1% indicated that they were very displeased with that area of their business.

In their overall commentary, a large number do not have a research and development department. The commentary generally addressed ways research and development is done, rather than satisfaction with how it is done. Other notations made the point that the company may lack some technical skills and go to outside sources for research and development or, because of their small size, they may not have developed a research department and so use outside sources when they need assistance.

6. Is the recruiting of competent employees being conducted satisfactorily?

BAR GRAPH OF VARIABLE ITEM(6), N = 117, MEAN = 1.68

	VALUE	COUNT	PERCENT
Very Satis.	1.	49	41.88
Moderately	2.	57	48.72
Dissatisfied	3.	11	9.40
Very Dissatis.			

Figure 6. Bar Graph of Question 6 Responses

About 90% of the companies felt that recruiting was a satisfactory area. They commented that they were looking all the time for new people, sometimes finding competent employees. They indicated that there were plenty of candidates who were looking to become associated with a good company.

7. Are you satisfied with the workshops conducted for your staff?

BAR GRAPH OF VARIABLE ITEM(7), N = 97, MEAN = 1.71

	VALUE	COUNT	PERCENT
Very Satis.	1.	35	36.08
Moderately	2.	56	57.73
Dissatisfied	3.	5	5.15
Very Dissat.	4.	1	1.03

Figure 7. Bar Graph of Question 7 Responses

In response to this question, 58% were moderately satisfied and another 36% were very satisfied, which give a total of about 94% of the respondents who felt that the workshops conducted for their staffs were satisfactory.

In the overall commentary, ten respondents felt that workshops in their franchising programs were not applicable or were rarely done.

8. Are you satisfied with your advertising program?

BAR GRAPH OF VARIABLE ITEM(8), N = 122, MEAN = 1.76

	VALUE	COUNT	PERCENT
Very. Satis.	1.	43	35.25
Moderately	2.	66	54.10
Dissatisfied	3.	12	9.84
Very. Dissat.	4.	1	.82

Figure 8. Bar Graph of Question 8 Responses

Fifty-four percent indicated that they were moderately satisfied with their advertising programs. The second highest group were those who were very satisfied. Between the two, 90% of the respondents, seemed to feel that their advertising programs were working.

9. Are you satisfied with your staff development program?

BAR GRAPH OF VARIABLE ITEM(9), N = 107, MEAN = 1.90

	VALUE	COUNT	PERCENT
Very Satis.	1.	23	21.50
Moderately	2.	73	68.22
Dissatisfied	3.	10	9.35
Very Dissat.	4.	1	.93

Figure 9. Bar Graph of Question 9 Responses

Seventy-eight out of 107 respondents (63%) indicated that they were moderately satisfied with the staff development programs of their company.

Sixteen companies made additional comments. Five of those said that staff development was not applicable for their particular circumstance. Others indicated that budget restraints kept their staff development program down, that they were cutting back on expenditures, and that they used the school of hard knocks rather than staff development programs. Others indicated that they had such a small staff that they did not do it. Still others felt that they were doing it a little at a time in a controlled growth effort. One company commented that they were willing to invest in equipment rather than their people.

10. Are you satisfied with your leasing and real estate department?

BAR GRAPH OF VARIABLE ITEM(10), N = 71, MEAN = 1.65

	VALUE	COUNT	PERCENT
Very Satis.	1.	30	42.25
Moderately	2.	37	52.11
Dissatisfied	3.	3	4.23
Very Dissat.	4.	1	1.41

Figure 10. Bar Graph of Question 10 Responses

There was a low response to this question, the lowest of any of the 20 questions asked. Of those who did respond, 52% were moderately satisfied and 42% were very satisfied. Forty-three decided that the leasing and real estate departments were not applicable, which supports that they might rely on outside people to do that work for them. Other overall comments indicated that finding leases and finding real estate was not a big problem. Places were available, although they were always looking for better ways and better locations. Many of these franchisees operated from their homes rather than from an outlet. The bar graph for this question overwhelmingly indicates that leasing and real estate is no big problem. Ninety percent were happy with the way things were at the time.

11. Do you feel your company is in compliance with governmental regulations?

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BAR GRAPH OF VARIABLE ITEM(11), N = 122, MEAN = 1.12

               VALUE   COUNT PERCENT

Very Satis.     1.      107   87.70
Moderately      2.       15   12.30
Dissatisfied
Very Dissat.
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Figure 11. Bar Graph of Question 11 Responses

One hundred twenty-two of the 124 did respond to this question, and 87.7% said that they were very satisfied that they were in compliance with governmental regulations. Some individual commentaries included: looking for full compliance; adhering strictly to the disclosure regulations and earnings; using their in-house staff to their advantage; following laws properly; worrying about constant change; spending a lot of time and effort with federal and state regulations and training their people to comply properly; and using a full-service law firm to keep their companies out of trouble. Companies indicated that if they stay in compliance, government regulations are acceptable as long as everyone stays current and maintains honesty and integrity in dealing with the government.

12. Do your franchisees want more voice in business decision-making?

BAR GRAPH OF VARIABLE ITEM(12), N = 119, MEAN = 2.23

	VALUE	COUNT	PERCENT
Very Often	1.	20	16.81
Moderately	2.	60	50.42
Very Seldom	3.	31	26.05
Not at All	4.	8	6.72

Figure 12. Bar Graph of Question 12 Responses

Sixty-seven percent (67%) of the respondents, were interested in having more voice in business decision-making by their franchisors.

13. Do you find state franchise regulations confusing?

BAR GRAPH OF VARIABLE ITEM(13), N = 118, MEAN = 2.32

	VALUE	COUNT	PERCENT
Very Often	1.	22	18.64
Moderately	2.	50	42.37
Very Seldom	3.	32	27.12
Not at All	4.	14	11.86

Figure 13. Bar Graph of Question 13 Responses

Sixty-one percent of the respondents found state franchise regulations confusing.

More than 20 companies made additional comments regarding state franchise regulations. The majority said that their legal counsel was responsible for keeping them in compliance. Others said it was not burdensome, and still others said that the language of the rules and regulations might be improved. There were a couple of comments concerning specific states and the franchisors indicated that they do not do business in those states any more. There also seemed to be a need for better trained state personnel with more consistency.

14. To what extent are you adding new products and services?

BAR GRAPH OF VARIABLE ITEM(14), N = 124, MEAN = 1.88

	VALUE	COUNT	PERCENT
Very Often	1.	37	29.84
Moderately	2.	68	54.84
Very Seldom	3.	16	12.90
Not at All	4.	3	2.42

Figure 14. Bar Graph of Question 14 Responses

The graph indicates that 54.8% were adding new products and services moderately often after their original products had been accepted.

Overall comments by just a few made the point that developing new products and services is the only way to stay number one and, ultimately, survive. One company indicated that they were in a technical area and that adding new products and services was very expensive and done on a very limited basis. The final comment was that approximately seven companies were always looking for better ways to do things.

15. How often do you qualify new potential franchisees?

BAR GRAPH OF VARIABLE ITEM(15), N = 119, MEAN = 1.48

	VALUE	COUNT	PERCENT
Very Often	1.	74	62.18
Moderately	2.	34	28.57
Very Seldom	3.	10	8.40
Not at All	4.	1	.84

Figure 15. Bar Graph of Question 15 Responses

The overall majority, actually 62%, indicated that they qualified new potential franchisees very often. They believed that investigation of the new franchisee in terms of qualification of ability and financial and economic resources must be adequate for the franchise company to succeed.

Other worthwhile comments were that it 2,000 contacts by one company annually to get 40 franchises opened. Constant screening seemed to be one of the more important factors. Other comments were that a profile questionnaire was very helpful; qualifying from the first contact and continuing that qualifying attitude is important; and meeting numerous criteria before offering a franchise was helpful. One last company said that they got a constant lead flow, and were qualifying people on a daily basis and they found that to be worthwhile.

16. To what extent is your company involved with international franchise development?

BAR GRAPH OF VARIABLE ITEM(16), N = 121, MEAN = 2.99

	VALUE	COUNT	PERCENT
Very Involved	1.	17	14.05
Moderately	2.	25	20.66
Slightly	3.	21	17.36
Not at All	4.	58	47.93

Figure 16. Bar Graph of Question 16 Responses

Thirty-five percent of responding franchisors said that they were moderately to very involved with international franchise development. One overall comment was that this particular company was located in six other countries besides the United States. Another indicated that they were not involved due to language limitations. Another company was operating in Canada, China and Australia. An additional six said that they were involved in Canada and the United States.

The overall general commentary is that about 20 of the respondents were deeply involved in international franchise development and were actually operating in about 12 different countries besides the United States.

17. How important is your company's participation in trade shows?

BAR GRAPH OF VARIABLE ITEM(17), N = 124, MEAN = 2.71

	VALUE	COUNT	PERCENT
Very Important	1.	23	18.55
Somewhat Imp.	2.	30	24.19
Slightly Imp.	3.	31	25.00
Not at All	4.	40	32.26

Figure 17. Bar Graph of Question 17 Responses

Forty-three percent of franchisors said that participation in trade shows was moderately to very important. Some comments indicated that it was not economically feasible to go to trade shows. Other respondents said that they attended trade shows, both large and small. They suggested that they were good leads, that the cost per lead was minimal, and that it was good exposure. Others felt that there was a need for more franchise shows. Companies would participate in more shows if they knew where and when they were. Others have outside people on staff at the trade shows. One last comment makes a point that follow-up from leads generated through their stores was their best source of leads to get new franchisees.

18. Is governmental intervention important in the franchise industry?

BAR GRAPH OF VARIABLE ITEM(18), N = 114, MEAN = 2.17

	VALUE	COUNT	PERCENT
Very Important	1.	38	33.33
Somewhat Imp.	2.	37	32.46
Slightly Imp.	3.	21	18.42
Not at All	4.	18	15.79

Figure 18. Bar Graph of Question 18 Responses

Sixty-six percent of responding franchisors said that governmental intervention was somewhat to very important.

This was the largest category of comments, with 38 individual comments. One of the more defined responses was that the less intervention on the part of the government, the better. Other comments were that relationship and the disclosure laws were important. A few said that registration was not important. Some said there was a catch-22 in that too much intervention would only add burdensome paperwork. Others responded that additional regulations would slow franchise growth and deprive people of owning their own businesses. Examples included that there was too much red tape; existing regulations were adequate; over-regulation was not necessary or helpful; regulation was getting out of hand; the UFOC plan for all states was needed; it was disruptive and not important; and one said that it was getting harder to register and get active in certain states, but that that was good.

19. Is a uniform franchise offering prospectus helpful to your company?

BAR GRAPH OF VARIABLE ITEM(19), N = 119, MEAN = 1.59

	VALUE	COUNT	PERCENT
Very Important	1.	79	66.39
Somewhat Imp.	2.	21	17.65
Slightly Imp.	3.	8	6.72
Not at All	4.	11	9.24

Figure 19. Bar Graph of Question 19 Responses

Eighty-four percent of respondents said that a uniform franchise offering prospectus was somewhat to very helpful to their companies.

Six respondents said that it was essential for prospects to make an intelligent decision and therefore, the offering prospectus might help them. Others said it was a good sales tool. One outspoken company said that uniformity was a joke, that they needed 11 different offerings, one for the 39 non-registration states and 10 more for each of the 10 additional registration states. One company suggested that they register in all registration states, and that if one document was in use, it would greatly resolve their paperwork. One last comment was that the document establishes credibility with potential franchisees that they might not have without it.

20. How important is it to teach franchising at the college level?

BAR GRAPH OF VARIABLE ITEM(20), N = 123, MEAN = 1.87

VALUE		COUNT	PERCENT
Very Important	1.	53	43.09
Somewhat Imp.	2.	40	32.52
Slightly Imp.	3.	23	18.70
Not at All	4.	7	5.69

Figure 20. Bar Graph of Question 20 Responses

Seventy-six percent of the respondents said that teaching franchising at the college level was somewhat to very important.

In the comments it was mentioned that there were not very many colleges or curricula which offered franchise courses. Other comments included the following: franchising represents about 1/3 of our gross national product, but no one really discusses it on a college level; others would love to have college courses available; education could make a difference in continuing success; and any economic segment as large as franchising should be taught. Another comment was that the company acted as consultants/teachers for college programs. Four companies indicated that unless more attention was paid to the eduction of franchising executives in college, future executives were doomed to make the same errors of their predecessors. One other comment was that business ownership was the most successful path, and that franchising being taught in college might not be as important as actual ownership and experience.

TABLE I

SUMMARY TABLE OF RESPONSES TO QUESTIONNAIRE

		Response Values			
Survey Item Number	Item	Always	Moderate	V/Seldom	Not at All
1	To what extent do you make use of an in-house legal staff?	37	13	6	67
2	To what extent do you use outside consultants as trainers for your staff?	5	33	44	40
3	Does your company use commissioned marketing specialists?	23	16	26	56
4	To what extent do you use employee evaluations with your employees?	14	22	68	15
5	Are you satisfied with the way your research and development department is operating?	40	59	7	1
6	Is the recruiting of competent employees being conducted satisfactorily?	49	57	11	0
7	Are you satisfied with the workshops conducted for your staff?	35	56	5	1
8	Are you satisfied with your advertising program?	43	66	12	1
9	Are you satisfied with your staff development program?	23	73	10	1
10	Are you satisfied with your leasing and real estate department?	30	37	3	1
11	Do you feel your company is in compliance with governmental regulations?	107	15	0	0
12	Do your franchisees want more voice in business decision-making?	20	60	31	8
13	Do you find state franchise regulations confusing?	22	50	32	14
14	To what extent are you adding new products and services?	37	68	16	3
15	How often do you qualify new potential franchisees?	74	34	10	1
16	To what extent is your company involved with international franchise development?	17	25	21	28
17	How important is your company's participation in trade shows?	23	30	31	40
18	Is governmental intervention important in the franchise industry?	38	37	21	18
19	Is a uniform franchise offering prospectus helpful to your company?	79	21	8	11
20	How important is it to teach franchising at the college level?	53	40	23	7

Summary of the Findings

Fifty-four percent of the respondents do not use an in-house legal staff. They use outside people when they have a need for legal guidance and advice.

A total of 84 companies out of 122 do not use outside consultants. They seem to train themselves and do not use hired experts.

Another large group indicated that they do not use commissioned agents for marketing.

All of the companies seemed to be interested in evaluating their own people and just about everyone does it. Although some evaluate every three months, almost everybody does an evaluation annually.

Research and development is usually performed by outside sources. The companies do not maintain their own research and development department which is a formal part of their business. They do rely on suppliers, other manufacturers and other outside kinds of research.

Recruiting is an important part of franchisor business. They feel like there are people out there who would like to be recruited. They need some training. Good people are hard to find. About 48% are not happy with their recruiting of personnel. They feel that there is too much turnover and there are people not yet qualified who need to be trained. They would like to be associated with franchising but just do not have the background to get into franchising.

The respondents attend workshops conducted for their staffs and the majority are satisfied with the workshops they attend.

The overall view about advertising is that almost 90% of the 122 respondents were happy with their advertising programs.

They also indicate that they were happy with the staff development projects.

The number of companies who responded concerning their leasing and real estate activities indicated that they do not manage them internally. They use outside people and they are aware of the need for good locations, but they let a third party outside real estate or a leasing person find locations for them.

The overall view about compliance with governmental regulations is that a vast majority indicate that they know that government regulations are necessary and can be very helpful. Very few people complained about over-regulation or the possibility of under-regulation, but they felt that it was necessary and they abide by it, or their legal staff or an outside attorney keeps them within the law.

Franchisee participation in business decision-making seemed to be important to the respondent franchisors. An additional 20 companies showed interest in business decision-making. This seems to be a trend in the industry which was indicated through a review of the literature.

Franchisees would like more to say about franchisor decision-making.

Seventy-two companies of the 118 responding indicated that government regulations could be confusing, that there was too much variation among the states and between the registration and non-registration states.

A majority would like to add new products and services. Sometimes they were deterred by the fact that it was very costly and they had to put off decisions because of the costs and the type of their franchise. A total of 84% of the 124 companies responding were very interested in adding new products and services.

Almost everyone qualifies new potential franchisees. Some of the companies use the in depth qualification process presented above before they finally accept a new potential franchisee.

They are aware of international franchising and some are participating. They note fairly consistent within fifteen countries mentioned above. Canada appeared to be one of the areas where franchising was growing by leaps and bounds.

They liked the idea of trade shows, although they felt that they did not have the information all the time to know where and when such shows were available. Sixty-eight percent of the respondents thought that there was some importance in participating in trade shows. Forty companies did not see it as an important marketing tool.

They felt that governmental intervention was necessary. Sixty-five percent of the companies readily agreed that governmental intervention should be part of the franchise industry. There were a few disgruntled individuals who saw the government interfering with the growth and flow of the franchise industry and thought that if the government backed off, franchising would become even bigger very quickly.

With reference to the UFOC, a surprising number indicated that they would like to see more uniformity with regard to disclosures and compliance. Sixty-six percent thought it was very important.

Forty-three percent of the companies, plus an additional 32%, for a total of 76%, felt that teaching franchising at the college level should be done. They also believed that the colleges and universities really could increase their efforts by using franchising as a business program to be learned by more people for the present and future development of experts through college training.

The first finding which seems to have some importance is the fact that there is an up to date mailing list from the IFA. It is by far the largest group of organized companies which participate in franchising activities. The companies involved include the largest and the most successful, as well as smaller companies which have joined in recent years and may not be nearly as sophisticated in their activities.

The finding that only 53 companies have more than 1,000 outlets was a surprise. It would seem that there would be more companies in the larger categories since franchising has been in existence for between 150 and 250 years, based on either the Singer Sewing Machine Company or Benjamin Franklin.

In the sample of 672, more than 60 companies were reported not in business, or moved, or moved without a forwarding address. In a review of the literature, Sherman made a point in his estimate that at any given time about five percent of the franchisors in the United States had stopped operating. This seems to be a consistent statistic. About five percent are always going out of business.

The communications figures on the mailout indicate that no one really knows how many franchises are actually in existence and operating.

Research indicates that about 3,000 franchise companies are operating at any one time. More work needs to be done to determine if, in fact, there are any more franchise companies which consider themselves to be franchisors who may just be getting off the ground and are really a very minor part of the overall franchising picture.

The 20 percent response rate was acceptable. The goal had been a 50% return.

The overall collection of comments made by the respondents was of interest, even though the percentage of respondents to the comment section was much lower than to the questionnaire.

Of the 125 who responded to the survey, 91 wanted a copy of the compiled information and gave their names, addresses, and various other pertinent information to receive a copy.

Many of the companies which asked for a report were among the largest companies in the United States in the sample. Some of the companies that indicated that they would like the follow-up report included companies like AlphaGraphics, Athletic Attic, Carvel Corporation, ComputerTots, Express Personnel, H & R Block, Little Professor Book Stores, Maaco, Matco Tools, Midas, Piggly Wiggly Corporation, Radio Shack, Roy Rogers Restaurant, ServiceMaster, Snap-On Tools, Golden Corral, Sonic Corporation, Ben Franklin Stores, Deck the Walls, Doubletree Club Hotels, and Big O Tires.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The purpose of this study was to determine the training needs of franchisors.

A review of the literature indicates that there may be a need for franchisor companies to direct more effort toward training (Siegel, 1983, pp. 93-98). Training includes training of franchisors, training of the people whom they deal with as franchisees, and training of personnel in their own organizations. Other vital areas of concern to the franchisor are recruiting people and developing a systematic approach to all areas to which a franchisor must address efforts. The franchisor must be concerned with the marketplace.

Summary of the Study

Franchisor interest is widespread. There is a need for the training of franchisors. There is evidence that they look forward to additional training for themselves and their programs.

There are many new smaller companies emerging in the franchising industry. Many have just a few outlets and have been operating their franchises for just a few years. Some are making dramatic in-roads into the franchising methodology and have great hopes of surviving.

About five percent of the franchise companies that are in operation fail on an annual basis. About five percent of the overall total of companies in the business cease operations every year, but are replaced by an additional group of above five percent who get into the business and succeed.

Not very many of the companies actually use in-house legal departments. They have access to lawyers and people who give them legal insight, but they are not employees. They are used when and where they are needed. This seems to be a general trend, possibly caused by the fact that there are many smaller companies that can not afford an in-house attorney at this point in their development.

There is a large group of companies that use outside commissioned agents to represent them. They do not have a quantity of sales staff operating for the company within the company on a salary basis. Most of their sales representatives are commissioned agents operating independently.

Outside consultants to give guidance and direction are used only on a limited basis.

A large majority of the companies use employee evaluations. Some are very aggressive and evaluate their people every month. Some evaluate every six months or on a yearly basis, but just about everyone evaluates.

Franchise companies do not invest very frequently in research and development for new products and services. Research and development is usually carried out through a source close to them, a manufacturing company, another agency, an outside lab or other kinds of investigators who give reports to the franchise companies. Most of the franchise companies do not have their own research and development departments.

Recruitment is widespread of in-house people, outside people who operate for the company, and new franchisee clients who would operate the franchise. Most companies make a good effort in recruiting and feel that they could improve. They know the necessity of continual flow of people into the business. Hopefully, some good ones stay, get trained, and become viable sources for the company.

Many people would like to get into franchising and be recruited into various types of franchising activity. Yet, the percentages of those who actually do become franchisees in companies is limited.

Workshops are conducted, and for the most part, companies are happy with the results of workshops either put on by them or visited by the companies at the workshops put on by outside interests.

Most of the companies feel that they have successful advertising programs which produce leads. Many companies rely on leads which emanate from their own business by visitors who come to the store who show an interest and ask about the possibility of getting into the franchising business themselves.

Staff development is considered to be sufficient. The companies in general feel that they are doing a pretty good job of staff development, although some franchises do have a limited number of staff.

Leasing and real estate seems to be one of those areas of business that the companies feel outsiders can do as well as they can. Therefore, they do not have large leasing and real estate departments operated by themselves using employees or in-house staff. They hire real estate experts and leasing agents, whom they have confidence to work in the leasing and real estate areas.

The companies showed a lot of interest in government regulations and compliance. They seem to want to comply. A few seemed to have negative attitudes to the point where they thought that government should not be involved as deeply as it was in some of the states. Companies recognize government regulation is necessary, but there should be control in implementing new government regulations gradually in a non-confusing manner.

A trend revealed in the review of literature and reinforced in the questionnaire responses was the fact that franchisees, in increasing numbers, would like to participate in business decision-making by the franchisor. In other readings it was noted that would like a portion of the operation and close association with the franchisor; and utilize their expertise and abilities to be involved in the decision-making with their franchisor companies.

Good franchises continually develop or add new products and services to their program. The survey indicated that many companies are interested in new products and services, but financial difficulties may make it problematic. Most franchisors look forward to increasing the number of products in their franchise program.

Many franchise companies qualify new potential franchisees in an ongoing manner over a long period of time. All of them make an attempt to register the person as a potential franchisee, investigate them thoroughly, observe them, and, in many instances, allow franchisees to fall by the wayside if they do not feel that they would be capable operators after they are trained. Companies are concerned with the recruitment of qualified potential franchisees.

International franchise development is here to stay and it is spreading to many, many franchises, with about fifteen countries being focused upon as potential homes of franchises. International franchising will expand as the companies become aware and as the potentially new franchise territories in foreign countries become better developed through the enactment of law.

Trade shows good a source of leads, although some of the companies feel that they are not adequately knowledgeable of the franchise shows. Many indicated that their best leads came from franchise shows, although franchisors indicated that the best came from people who visited the outlets.

Government intervention is believed to be important for the franchise industry. The companies reported that they liked government intervention, but did not want to be curtailed by cumbersome rules and regulations throughout the various states. The companies were concerned with a few states which have become very difficult in which to operate.

The companies coincide in their efforts to understand the UFOC prospectus. They would like to see one uniform prospectus being used rather than having to deal with various states which have their own franchise regulations. They would like to see simplicity and uniformity across the states.

Education should be involved in franchising, where teaching franchising methodology, organization, and administration introduces a new generation of people into the field. Franchising knowledge would be gained in the classroom. Franchising should be taught in America's colleges and universities. There are not enough schools who address that program.

Conclusions

Conclusions to the study follow.

1. There is viable interest among franchise companies, large and small, concerning franchisor training.

2. The companies would be more collaborative as they learned to manage their programs more effectively.

3. There is interest among franchise companies to try to better understand franchise marketing and to conduct their functions properly, as they abide by the laws, rules, regulations, and guidelines.

4. There is evidence that the companies are interest in improving their success/failure ratio and to increase their profit goals.

5. There is a need for a more cohesive nationwide effort on the part of all of the companies to work more closely together for the mutual benefit of the industry.

6. The franchisors would like to attract more experienced executives to the industry.

7. There is a need for experienced administrators in the franchises who would require limited training.

8. Franchising is becoming a world-wide business method. More companies will be located beyond our borders, which will mean that franchise organizers must adapt to foreign governments, foreign laws, and foreign traditions.

9. Many companies see the need for franchising to be taught at college and universities.

Recommendations for Research

Recommendations may be broken down into two categories, those concerning research and others concerning practice. Recommendations for research follow first.

1. There should be a more cohesive effort to have nationwide regional franchisors meet periodically and communicate about the field.

2. There is a need for a more coordinated effort to upgrade lists and memberships so that more companies can participate in the industry's goals and objectives.

3. Colleges and universities should be approached by the IFA and various other franchise groups to request franchising as a college program. There are many difficulties that must be faced by franchise companies, universities, and colleges.

4. Vocational technical education schools may be the place where education could begin more quickly and be more responsive to the franchise industry.

5. A stricter set of guidelines should be adopted than are currently provided by the FTC regulations and the UFOP.

Recommendations for Practice

Recommendations for practice follow:

1. A Uniform Franchise Offering Prospectus to be adopted a and utilized by all fifty states.

2. Women and minorities should be recruited and trained for management and administrative positions.

3. The development of an accepted training curriculum to be administered by universities and business and technical schools could be organized.

4. A cohesive monthly newsletter to be circulated to all franchise companies through various associations.

5. Preparation of franchise companies for international franchise development.

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Guidelines for Prospective Franchisees. State of Michigan, Department of the Attorney General, Frank J. Kelly, Attorney General, Lansing, MI 48913.

Introduction to Franchising. Minnesota Small Business Assistance Office, Brigs and Morton Public Accountants, Minnesota Department of Trade and Economic Development, Minneapolis, MN.

Minnesota Franchise Registration Check List. Ann Hagestad, Commerce Analyst II, Registration Division, State of Minnesota, 133 East 7th Street, St. Paul, MN 55101.

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Uniform Franchise Offering Circular Item 201. Michael Goetz, Chief Franchise Division, State of Illinois, Springfield, IL 62706.

APPENDIXES

APPENDIX A

INSTRUMENT

//////Metro Tech
Downtown Center
101 Park Avenue, Suite 1030 ▪ Oklahoma City, OK 73102 ▪ 405/424-TECH

^D

1~
2~
3~

Ladies and Gentlemen:

I am in the process of completing work on a dissertation at Oklahoma State University, Stillwater, Oklahoma. The subject of my research is "What are the Training Needs of America's Franchise Companies for the 1990's Era."

I have received a listing of 2,345 franchise companies throughout the United States from the International Franchise Association. Through random sampling, we have chosen 670 companies like yours, whom we are asking to help us in filling out the enclosed questionnaire concerning franchising.

Would you take a few minutes to answer the questionnaire? We welcome any comments you wish to make. You may remain anonymous if you choose. Confidentiality is maintained and you need not sign the questionnaire when completed. We have enclosed a stamped, addressed envelope for your convenience.

I have high expectations that we will receive at least 335 responses from various franchise companies, both small and large. We hope to have a good response by April 15, or as close to that date as possible. If you would like a copy of the summation report when the research is completed, make a notation and we will be very happy to expedite.

Thank you for all considerations. We appreciate your cooperation.

Sincerely,

Francis X. Kerr
Self Employment Training Coordinator

FXK:kc

Franchisor Questionnaire

1. To what extent do you make use of an in-house legal staff?

   Always **Moderately** **Very Seldom** **Not At All**

   Comments: ____

   ____

2. To what extent do you use outside consultants as trainers for your staff?

   Always **Moderately** **Very Seldom** **Not At All**

   Comments: ____

   ____

3. Does your company use commissioned marketing specialists?

   Always **Moderately** **Very Seldom** **Not At All**

   Comments: ____

   ____

4. To what extent do you use employee evaluations with your employees?

   Quarterly **Semi-Annually** **Annually** **Every _______ Years** **Never**

   Comments: ____

   ____

5. Are you satisfied with the way your research and development department is operating?

   Very Satisfied **Moderately Satisfied** **Dissatisfied** **Very Dissatisfied**

   Comments: ____

   ____

6. Is the recruiting of competent employees being conducted satisfactorily?

   Very Satisfied **Moderately Satisfied** **Dissatisfied** **Very Dissatisfied**

   Comments: ____

   ____

7. Are you satisfied with the workshops conducted for your staff?

Very Satisfied **Moderately Satisfied** **Dissatisfied** **Very Dissatisfied**

Comments: ____________________

____

8. Are you satisfied with your advertising program?

Very Satisfied **Moderately Satisfied** **Dissatisfied** **Very Dissatisfied**

Comments: ____________________

____

9. Are you satisfied with your staff development program?

Very Satisfied **Moderately Satisfied** **Dissatisfied** **Very Dissatisfied**

Comments: ____________________

____

10. Are you satisfied with your leasing and real estate department?

Very Satisfied **Moderately Satisfied** **Dissatisfied** **Very Dissatisfied**

Comments: ____________________

____

11. Do you feel your company is in compliance with governmental regulations?

Very Satisfied **Moderately Satisfied** **Dissatisfied** **Very Dissatisfied**

Comments: ____________________

____

12. Do your franchisees want more voice in business decision making?

Very Often **Moderately** **Very Seldom** **Not at All**

Comments: ____________________

____

13. Do you find state franchise regulations confusing?

Very Often **Moderately** **Very Seldom** **Not at All**

Comments: ____

____

14. To what extent are you adding new products and services?

Very Often **Moderately** **Very Seldom** **Not at All**

Comments: ____

____

15. How often do you qualify new potential franchisees?

Very Often **Moderately** **Very Seldom** **Not at All**

Comments: ____

____

16. To what extent is your company involved with international franchise development?

Very Involved **Somewhat Involved** **Slightly Involved** **Not Involved**

Comments: ____

____

17. How important is your company's participation in trade shows?

Very Important **Somewhat Important** **Slightly Important** **Not Important**

Comments: ____

____

18. Is governmental intervention important in the franchise industry?

Very Important **Somewhat Important** **Slightly Important** **Not Important**

Comments: ____

____

19. Is a uniform franchise offering prospectus helpful to your company?

Very Important	Somewhat Important	Slightly Important	Not Important

Comments: ____

____

20. How important is it to teach franchising at the college level?

Very Important	Somewhat Important	Slightly Important	Not Important

Comments: ____

____

____
Company Name

____
Company Address

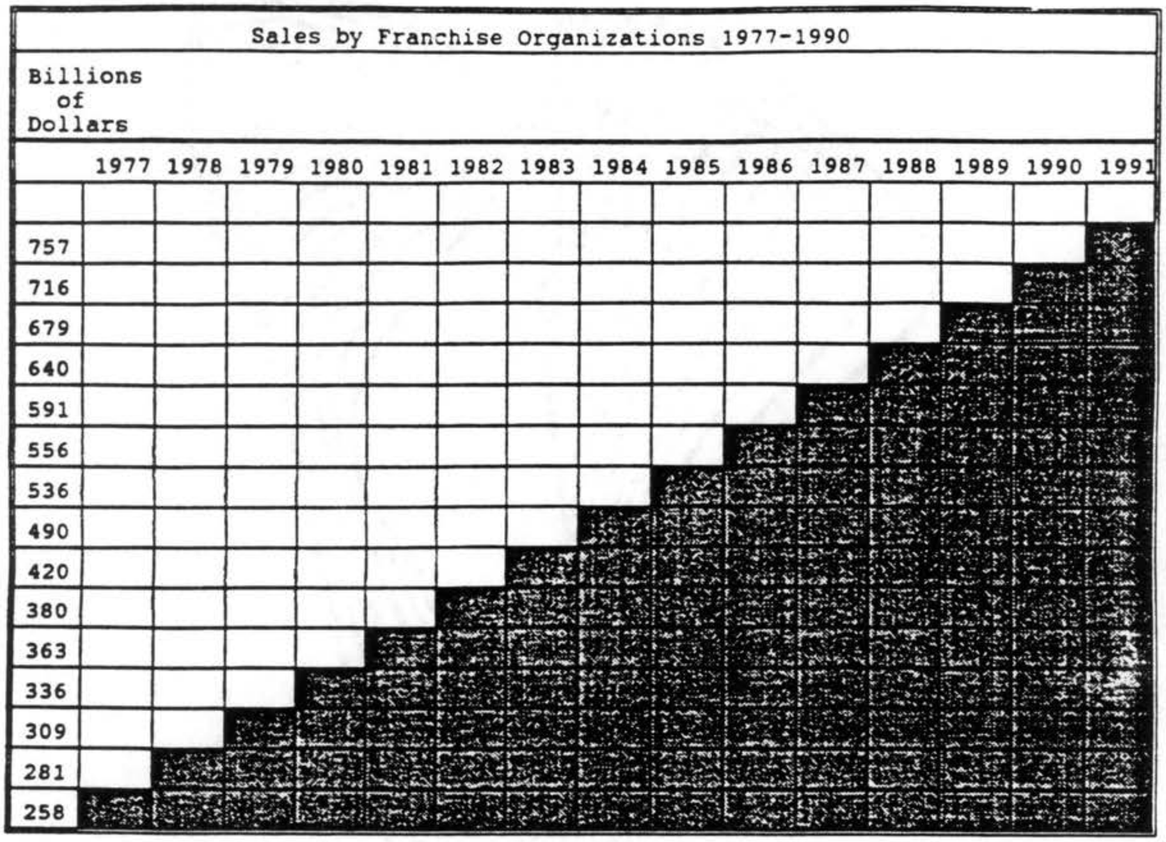
____
City State Zip Code

Signature (Optional) ____

Would you like a copy of the summation report? Yes ______ No ______

APPENDIX B

GROWTH CHART OF SALES BY FRANCHISE ORGANIZATIONS 1977-1990


Sales by Franchise Organizations 1977-1990
Billions
of
Dollars
1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991
757
716
679
640
591
556
536
490
420
380
363
336
309
281
258

APPENDIX C

UNIFORM FRANCHISE OFFERING CIRCULAR

UNIFORM FRANCHISE OFFERING CIRCULAR

1. THE FRANCHISOR AND ANY PREDECESSOR

The Franchisor

Franchisor is a [state of incorporation] corporation organized on [date], under the name [corporate name]. Its predecessor was [predecessor name], which was organized as an [state] corporation on [date].

The franchisor maintains its principal business offices at [address].

Franchisor's Business

Franchisor is a franchising company which grants franchises and trains, advises, and assists franchisees in the establishment and operation of [type of outlet] businesses known as [trade name] outlets. Franchisor's primary activities are education, market planning, advertising, consulting, and coordination for its franchisees.

Franchisor's predecessor, [predecessor name] does business under the name [trade name] and is engaged in the business of [description of predecessor's business].

The Franchise Business

The franchise business is [description of franchise business], utilizing the franchisor's curricula, teaching materials, systems, procedures, and trade marks. The primary customers for the outlet are [description of primary customers]. The franchisee will have to compete with [primary competitors].

2. **PRIOR BUSINESS EXPERIENCE OF THE FRANCHISOR AND PREDECESSORS**

Franchisor's predecessor, [predecessor name], has operated a business similar to the business to be operated by the franchisee since [date].

Neither the franchisor, its affiliate, nor any other principals have offered any other franchises in any line of business.

PRIOR BUSINESS EXPERIENCE OF PERSONS AFFILIATED WITH FRANCHISOR; FRANCHISE BROKERS

The following table summarizes the prior business experience of the persons affiliated with the franchisor for the five-year period prior to the date of this offering circular.

[Description of prior experience of persons associated with the franchisor]

3. **LITIGATION**

Neither the franchisor nor any other person identified in Item 2 above has any administrative or material civil action (or a significant number of civil actions irrespective of materiality) pending against them alleging a violation of any franchise law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive business practices, misappropriation of property, or comparable allegations, other than a pending proceeding involving the arrest of such a person.

Neither the franchisor nor any person identified in Item 2 above has during the 10-year period immediately preceding the date of this offering circular been convicted of a felony or pleaded nolo contendere to any felony charge or been held liable in any other civil action or other legal proceeding where such felony, civil action, complaint, or other legal proceeding involved violation of any franchise law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or comparable allegations.

Neither the franchisor nor any person identified in Item 2 above is subject to any currently effective injunctive or restrictive order or decree relating to the franchise or under any federal, state, or Canadian franchise, securities, antitrust, trade regulation or trade practice law as a result of a concluded or pending action or proceeding brought by a public agency; nor is subject to any currently effective order of any national securities association or national securities exchange (as defined in the Securities and exchange Act of 1934) suspending or expelling such persons from membership in such association or exchange.

4. **BANKRUPTCY**

During the 15-year period immediately preceding the date of the offering circular, neither the franchisor nor any predecessor, current officer or general partner of the franchisor has been adjudged bankrupt or reorganized due to insolvency or been a principal officer of a company or a general partner of a partnership within one year of the time that such company or partnership was adjudged bankrupt or reorganized due to insolvency or is otherwise subject to any pending bankruptcy or reorganization proceeding.

5. **FRANCHISEE'S INITIAL FRANCHISE FEE OR OTHER PAYMENT**

The full franchise fee is payable to franchisor upon execution of the franchise agreement. The franchise fee is placed with the other general funds of the franchisor and is non-refundable.

The initial franchise fee is $________________________.

6. **OTHER FEES**

Franchisee is obligated to purchase [products required to be purchased by franchisee]. The initial cost to the franchisee is $______________________.

Under the franchise agreement, franchisee is obligated to pay to franchisor an ongoing royalty of __________________ _________ percent (____________________%) of gross revenues of the franchise outlet.

There are no other franchise fees or royalties connected with the franchise.

7. **FRANCHISEE'S INITIAL INVESTMENT**

The initial investment may vary according to franchisee's choice of site, method of business organization, equipment requirements, and improvements. Following is a summary of estimated initial investment requirements for a low and high investment:

Estimated Initial Investment:

ITEM	HOW PAID	LOW(1)	HIGH(2)	WHEN DUE	PAID TO
Initial Fee	Lump sum	_____	______	Signing of Agreement	Franchisor
Equipment	As ordered	_____	______	As ordered	Suppliers
Lease Deposits	As ordered	_____	______	As Agreed	Lessor
Furn-ishings	As agreed	_____	______	As ordered	Vendors
Licenses & Permits	As incurred	_____	______	As agreed	Licensing Body
Working	As incurred	_____	______	As incurred	Various Capital (3)
TOTALS		_____	______		

NOTES TO ESTIMATED INITIAL INVESTMENT BREAKDOWN:

(1) Low investment is based on ____________________.

(2) High investment is based on ___________________.

Fixed costs such as rents and salaries will vary, depending upon geographic location.

(3) The estimate for working capital includes ___________.

Franchisor does not offer either direct or indirect financing to franchisee for any other item. The franchisee must obtain his own financing, if needed, and should be aware that the availability and terms of financing will depend on factors such as the availability of financing in general, the credit-worthiness of the franchisee, other security the franchisee may have, policies of lending institutions regarding the type of business to be operated by the franchisee, and so forth.

There are no other direct or indirect payments in conjunction with the purchase of the franchise.

8. **OBLIGATIONS OF FRANCHISEE TO PURCHASE OR LEASE FROM DESIGNATED SUPPLIERS**

Franchisee is obligated to purchase [description of obligatory purchases] from the franchisor's affiliate, [affiliate name], or from another approved supplier. Franchisee is not obligated to purchase any other equipment or supplies from designated suppliers.

9. **OBLIGATIONS OF FRANCHISEE TO PURCHASE OR LEASE IN ACCORDANCE WITH SPECIFICATIONS OR FROM APPROVED SUPPLIERS**

Franchisee is required to purchase all of the furnishings and initial supplies specified in franchisor's operating manual, in conformance with franchisor's specifications relating to quality, design, image, or other standards.

Franchisee is required to purchase or cause to be printed certain advertising literature for use in promotion of the franchise outlet. These items may be purchased in printed form from franchisor at a price equal to franchisor's actual printing cost plus ten percent (10%). If franchisee elects to have these materials printed by another source, the printed materials must be of equal quality to those offered by franchisor and must contain only the art, photographs, and working approved by franchisor.

Franchisee is obligated by the Franchise Agreement to purchase business liability, comprehensive and fire/damage insurance in the amount of One Million dollars ($1,000,000)combined single limit and Three Million Dollars ($3,000,000) per occurrence for business liability, and fire/damage coverage sufficient to repair or replace all equipment, tools, inventory, and supplies essential to the operation of the franchise business. Neither the franchisor nor its affiliate will or may derive profits from the required purchase of equipment or supplies except for equipment or supplies made available by franchisor.

10. **FINANCING ARRANGEMENTS**

Neither the franchisor nor its affiliates offer any financing directly or indirectly, or arrange or guarantee financing for franchisees. There are no payments received by franchisor or its affiliate from any person, lending institution, or other source for its placement of financing with such person, lending institution or other source.

There is no past or present practice of the franchisor to sell, assign, or discount to a third party any note, contract, or other obligation of the franchisee in whole or in part.

11. **OBLIGATIONS OF THE FRANCHISOR; OTHER SUPERVISION, ASSISTANCE OR SERVICES**

Upon execution of the franchise agreement and prior to the opening of the franchise business, it is the obligation of the franchisor to:

1. designate an exclusive territory;

2. provide a training program at a time and location designated by franchisor prior to the opening of the business;

3. provide a list of specifications, standards, and suppliers for inventory, equipment, and supplies;

4. provide guidance in methods, procedures, techniques and operations in the form of an operating manual and other printed materials;

5. provide camera-ready art work for printed materials to be used by franchisee in the conduct of the franchise business.

There is no other supervision, assistance, or service to be provided by the franchisor prior to the opening of the franchise business pursuant to the franchise agreement or otherwise.

Upon commencement of the franchise business by franchisee, franchisor is obligated to:

1. protect the exclusive territory by assuring that no other franchises or company-owned outlets are granted or established therein;

2. modify the operating manual, as required, to improve or update the systems and procedures;

3. provide ongoing assistance and guidance by personal visits to the franchise outlet by authorized personnel of the franchisor;

4. administer a cooperative advertising fund to conduct advertising and promotions in selected media as the franchisor may deem appropriate, and

5. provide on-site training and assistance in opening and operating the outlet for at least [number of days] business days prior to the opening of the franchise outlet. The training program consists of industry background, business operations, personnel hiring and training, business management, expansion strategies, and [other training topics].

There is no other supervision, assistance or service to be provided by the franchisor during the operation of the franchise business pursuant to the franchise agreement or otherwise.

Franchisor does not select the location of the franchisee's business, but must approve the location prior to the franchisee's commencement of the business. Franchisor, at no charge, provides guidelines for site selection. Pursuant to the franchise agreement, franchisee is obligated to complete all of the required tasks necessary to commence the franchise business within ninety (90) days after execution of the agreement.

12. **EXCLUSIVE AREA OR TERRITORY**

Franchisor grants to franchisee during the term of the franchise an exclusive area (franchised territory). Neither the franchisor nor its affiliate will establish other franchises or company-owned outlets using the franchisor's trade marks in the designated territory.

A designated territory is exclusive to the franchisee for the length of the franchise and is not altered by the achievement of a certain sales volume, market penetration or other contingency. Other than the territory granted by the agreement, franchisee may obtain another territory only by executing a separate franchise agreement.

A franchisee shall have no sub-franchising rights whatsoever.

13. TRADE MARKS, SERVICE MARKS, TRADE NAMES, LOGOTYPES AND COMMERCIAL SYMBOLS

Franchisor has applies for a trade mark registration on the Principal Register of the U.S. Patent and Trademark Office for the following:

[trademark registration data]

14. PATENTS AND COPYRIGHTS

Franchisor owns no special patents that pertain to the offering.

Franchisor and its principals possess proprietary know-how in the form of trade secrets, operating methods, specifications, technique, information and systems in the operation of [type of business] outlets. The know-how is disclosed in part in the copyrighted operating manual which franchisee receives solely for the purpose of developing the franchise and for the term of the franchise agreement.

15. **OBLIGATION OF THE FRANCHISEE TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

Franchisee is not obligated to participate full time in the operation of the franchise business, provided, however, that if franchisee opts not to participate full time, a qualified manager must be in the employ of the franchise business.

16. **RESTRICTIONS ON GOODS AND SERVICES OFFERED BY FRANCHISEE**

Pursuant to the franchise agreement, the franchisee may not offer any classes or products or services not approved by franchisor. Franchisor will not unreasonably withhold its approval for any products or services which franchisee desires to offer.

Franchisee may not own an interest in, perform any business activity on behalf of, or be in the employ of another [type of business] business without franchisor's permission. Franchisee is not limited in the customers whom he may solicit.

17. **RENEWAL,, TERMINATION, REPURCHASE, MODIFICATION AND ASSIGNMENT OF THE FRANCHISE AGREEMENT AND RELATED INFORMATION**

The term of the franchise agreement is ten years and is not affected by any agreement other than the franchise agreement.

Upon expiration of the initial term, if the franchisee is in compliance with all the provisions of the agreement, franchisee shall have the option to renew for an additional term by notifying the franchisor of its intention to renew six months prior to the expiration of the franchise and by executing a new franchise agreement and supportive agreements as are then customarily used by the franchisor. No fee is charged for renewal of the franchise.

If, upon expiration, the franchisee is in default of the agreement or fails to renew the franchise agreement within thirty (30) days following the expiration, the franchise shall be deemed terminated.

The franchisee may terminate the franchise if franchisor does not fulfill its obligations under the agreement. franchisee may terminate by exercising its option to sell the franchise to a fully disclosed and approved purchaser.

Franchisor may terminate the franchise if franchisee fails to open the business within 90 days following the signing of the agreement, or if franchisee is in default of the agreement and fails to cure such default within thirty (30) days of notice. Further, the franchisor may terminate the franchise if franchisee abandons the franchise, becomes insolvent or bankrupt (to the extent permitted by the federal Bankruptcy Law), is convicted or pleads no contest to a felony or crime involving moral turpitude, or makes an unauthorized assignment of the franchise, discloses any trade secrets of the franchisor, of has an interest in or engages in a business activity competitive with the franchise (except to the extent permitted by the California Franchise Relations Act, if franchisee is located in California).

Upon termination or expiration, franchisee is obligated to pay franchisor within 15 days any amounts that are due and unpaid for products, services, cease to identify himself as a franchisee, return all advertising materials, forms, stationery, or other printed matter bearing franchisor's trade marks, cancel all fictitious name permits, business licenses or other permits relating to the franchise, notify the telephone company and other listing agencies of the termination, honor the non-compete covenant and return all manual and written communications to the franchisor. Franchisee would thereafter have no interest in or rights to the franchise business.

If franchisee notifies franchisor that it desires to sell any interest in the franchise, franchisor has the right at its sole discretion to repurchase the franchise. Further, should the franchisee obtain a bona fide written offer from a responsible and fully disclosed purchaser, franchisor would have the right at its discretion to purchase the interest for the same price and on the same terms and conditions as contained in the offer. Franchisor shall have 30 days to exercise its right of first refusal to repurchase the franchise.

With prior approval of franchisor, franchisee may assign its assets and liabilities to a newly formed corporation that conducts no other business than the franchise and in which franchisee owns and controls not less than sixty percent (60%) of the equity and voting power, and for which franchisee personally guarantees all performance, obligations, and debts created by the franchise agreement.

Except as set forth in the above paragraph, none of the ownership of the franchise may be voluntarily, involuntarily, directly or indirectly assigned, sold, subdivided, or otherwise transferred by franchisee without prior written approval of franchisor. In the event of an approved assignment, other than to a corporation controlled by franchisee, assignee must pay to franchisor a transfer and retaining fee equal to fifty percent (50%) of the initial franchise fee. The approved assignee must execute the then-current franchise agreement.

The agreement may not be modified or amended except by mutual consent and execution of a written instrument. franchisor is not restricted from transferring the franchise agreement or from designating any subsidiary, affiliate or agent to perform any and all acts franchisor is obligated to perform Franchisor has the right to modify the operating procedures and specifications of the franchise, but has no right to modify the terms of the agreement subsequent to its signing. Upon death or disability of the franchisee or the principal owner, the executor, administrator, or other personal representative must assign the franchise to a fully disclosed and approved person who meets the standard qualifications for franchisees of the franchisor. If such assignment is not made within 90 days after the death or disability, the failure to transfer the interest in the franchise would constitute a breach. Notwithstanding the above, at any time subsequent to the death or disability of the franchisee or principal owner, franchisor may obtain an interim manager to run the business until such assignment is made.

Franchisee agrees by signing the franchise agreement that it will not engage in any business activity competitive with the franchise for a period of one year from the date of termination or expiration of the franchise. However, such a covenant may or may not be enforceable in the State of California, under the laws of California.

18. **ARRANGEMENTS WITH PUBLIC FIGURES**

Franchisor does not give or promise any compensation or other benefit to any public figure arising in whole or in part from the use of any public figure in the name or symbol of the franchise or the endorsement or recommendation of the franchise by any public figure in advertisements.

No arrangements have been made by franchisor under which franchisee may use a public figure. Franchisee is wholly unrestricted in its use of public figures in its advertisements and promotions, with the exception that, pursuant to the franchise agreement, printed materials, including endorsements, must be approved in advance by franchisor.

19. **ACTUAL, AVERAGE, PROJECTED OR FORECASTED FRANCHISE SALES, PROFITS, OR EARNINGS**

Franchisor does not make any statement regarding actual, average, projected, or forecasted franchise sales, profits, or earnings.

20. **INFORMATION REGARDING FRANCHISES OF THE FRANCHISOR**

As these are the first franchises offered by franchisor, franchisor does not currently have any outlets open or operating.

No franchises have been canceled, terminated, refused renewal, or re-acquired by repurchase or otherwise by franchisor.

Franchisor estimates it will grant franchises as follows during the one-year period following the date of this offering circular:

State	Number of Outlets
[State names]	[outlets to be sold in each state]

21. **FRANCHISOR'S FINANCIAL STATEMENTS**

Attached are the most recent audited financial statements of the franchisor.

22. **AGREEMENTS**

Attached is a copy of the franchisor's franchise agreement and all related contracts and agreements.

APPENDIX D

MODEL DISCLOSURE STATEMENT - RULE 436

The Disclosure Statement

1. Identification of the franchisor and its affiliates and their business experience.

2. The business experience of each of the franchisor's officers, directors and management personnel responsible for franchise services, training and other aspects of the franchise programs.

3. The lawsuits in which the franchisor, its officers, directors and management personnel have been involved.

4. Any previous bankruptcies in which the franchisor and its officers, directors and management personnel have been involved.

5. The initial franchise fee and other initial payments that are required to obtain the franchise.

6. The continuing payments that franchisees are required to make after the franchise opens.

7. Any restrictions on the quality of goods and services used in the franchise and where they may be purchased, including restrictions requiring purchases from the franchisor or its affiliates.

8. Any assistance available from the franchisor or its affiliates in financing the purchase of the franchise.

9. Restrictions on the goods or services franchisees are permitted to sell.

10. Any restrictions on the customers with whom franchisees may deal.

11. Any territorial protection that will be granted to the franchisee.

12. The conditions under which the franchise may be repurchased or refused renewal by the franchisor, transferred to a third party by the franchisee and terminated or modified by either party.

13. The training programs provided to franchisees.

14. The involvement of any celebrities or public figures in the franchise.

15. Any assistance in selecting a site for the franchise that will be provided by the franchisor

16. Statistical information about the present number of franchises, the number of franchises projected for the future, the number of franchises terminated, the number the franchisor has decided not to renew and the number repurchased in the past.

17. The financial statement of the franchisor.

18. The extent to which the franchisees must personally participate in the operating of the franchise.

19. A complete statement of the basis for any earnings claims made to the franchisee, including the percentage of existing franchises that have actually achieved the results that are claimed.

APPENDIX E

MODEL FRANCHISE AGREEMENT

FRANCHISE AGREEMENT

1. Grant of Franchise

A. [Franchisor name] (the "Franchisor") hereby grants to ____ whose business address is ____ ____ (the "Franchisee") a license to use the trade name "[Trade name]" and the trade marks associated therewith, and a franchise to operate a [Trade name] outlet (the "Outlet") in the geographical market identified in exhibit A of this agreement.

B. Franchisee shall use the trade name and marks in the conduct of a [outlet description], and franchisee's place of business shall incorporate the name [Trade name].

C. The name of any corporation operating this franchise may include the name "[Trade name]" or any other trade mark owned or licensed by franchisor, but only with the written consent of franchisor.

2. Exclusive Territory

Franchisor shall not, while this agreement is in force, conduct a similar operation, or grant a similar franchise to any other franchisee, within the territory defined in Exhibit A.

3. Term

This agreement shall continue for a period of [length of term] years from the date hereof, and shall be automatically renewed for an additional term unless at least six (6) months before the expiration of this agreement, franchisee gives to franchisor notice in writing of termination at the end of the term.

4. Development and Opening

Within ninety (90) days of the execution of this agreement, franchisee shall do or cause the following to be done:

A. Secure all financing required to develop the outlet;

B. Complete all arrangements for a site for the outlet. Franchisor shall have the right and option to approve the selected site prior to the development and opening of the outlet.

C. Execute a lease for the premises in which the outlet shall be operated, and deliver to the franchisor a true and correct copy;

D. Obtain all licenses and permits required to conduct the business;

E. Obtain all improvements, fixtures, supplies, and inventory.

5. Payments

A. Franchisee Fee Franchisee shall make payment to franchisor the sum of $_______________ Dollars ($__________) upon execution of this agreement, receipt of which is hereby acknowledged. In return for this payment, franchisee shall receive the right to do business as a licensed ______________

____ franchise under the terms of this agreement, and to receive the services and assistance hereinafter set forth. The initial fee shall be fully earned by the franchisor and is non-refundable.

6. Advertising

A. Franchisee agrees to use all advertising designs, materials, media, and methods preparation described by or which conform to franchisor's standards and specifications.

B. Franchisee shall refrain from using any advertising designs, materials, media, and methods of preparation which do not meet franchisor's standards and specifications.

C. Franchisor shall make available to franchisee any assistance that may be required, based on the experience and judgment or franchisor, in the design, preparation, and placement of advertising and promotional materials for use in local advertising.

D. Franchisor shall administer the Franchisee Cooperative Advertising Fund, and direct the development of all advertising and promotional programs. The content of the advertising, as well as the media in which the advertising is to be placed and defined advertising area, shall be at the discretion of the franchisor.

7. Trade Marks

A. Franchisor shall make available to franchisee franchisor's trade names and marks. For the purpose of this agreement, "the marks" shall be defined as all symbols, logos, trade marks, and trade names owned and/or under application by franchisor.

B. Franchisee agrees that its rights to use the marks are derived solely from this agreement, and franchisee shall not derive any right, title, or interest in the marks, other than a license to use them in connection with the franchise outlet while this agreement is in force,

C. Franchisee shall use the name and service marks only in such manner as prescribed by franchisor and in no other way.

D. Franchisee shall immediately notify franchisor of any apparent infringement of the use of the marks.

E. If it becomes advisable at any time in franchisor's sole discretion to discontinue or modify the use of any mark, franchisee agrees to comply within a reasonable time after notice thereof by franchisor.

8. Products, Supplies, and Equipment

Franchisee understands and acknowledges that every detail of the franchise system is important to franchisor, to franchisee, and to other franchises to develop and maintain high and uniform standards of quality, cleanliness, appearance, services, courses, and techniques, and to protect and enhance the reputation and goodwill of the franchise system. Franchisee accordingly agrees:

(1) To use all course materials, supplies, goods, signs, equipment, methods of exterior and interior design and construction, and methods of recruitment and instruction

prescribed by or which conform to franchisor's standards and specifications.

(2) To refrain from using or offering any courses, materials, supplies, goods, signs, equipment, and methods of recruitment and instruction which do not meet with franchisor's standards and specifications.

(3) To offer any such classes of products or services as shall be expressly approved for sale in writing by franchisor, and to offer all classes of products or services that have been designated as approved by franchisor.

(4) To purchase all products, supplies, equipment, and materials required for conduct of the franchise operation from suppliers who demonstrate, to the reasonable satisfaction of franchisor, the ability to meet all of franchisor's standards and specifications for such items; who possess adequate capacity and facilities to supply franchisee's needs in the quantities, at the times, and with the reliability requisite to an effective operation, and who have been approved, in writing, by the franchisor. Franchisee may submit to franchisor a written request for approval of a supplier not previously approved by franchisor.

9. Standards and Procedures

A. Management Standards

Franchisee agrees to comply with franchisor's standards with respect to products or services, customer solicitations, equipment, and facility maintenance, as documented in franchisor's Franchise Operating Manual for franchise outlets.

B. Personal Standards

Franchisee shall hire only efficient, competent, sober, and courteous employees for the conduct of the business, and shall pay their wages, commissions, and other compensation with no liability thereof on the part of the franchisor. Franchisee shall require all employees to comply with franchisor's standards for grooming and appearance.

C. Best Efforts

Franchisee agrees to devote his/her best efforts to the operation of the outlet and to the supervision of its employees. Franchisee agrees that it will not engage in any other business activity which may conflict with the obligations of this agreement or impair the operation of the outlet.

D. Insurance

Franchisee shall, at his own expense, procure and maintain in full force and effect during the entire term of this agreement, comprehensive public, fire damage, product and motor vehicle liability insurance in the amount of One Million Dollars ($1,000,000) for each person and Three Million Dollars ($3,000,000) for each occurrence of bodily and personal injury, death and property damage. Fire damage insurance shall be sufficient to cover repair or replacement of all equipment, inventory, tools, and supplies normally required to operate the outlet, as specified in franchisor's operating manual. Franchisor shall be named as an additional insured under all such insurance policies, as its interests may appear, and contain a waiver by the carrier of all subrogation rights against franchisor. Maintenance of insurance under this paragraph shall not relieve franchisee of liability under the default provisions set forth in this agreement.

10. Training and Assistance

A. Franchisor agrees to provide personal training to franchisee, to furnish an operating manual, to make promotional and other recommendations, and to furnish franchisee, at franchisee's place of business, a qualified supervisor for not less than three (3) days during the initial six-day period of franchisee's operation.

B. Franchisor shall loan to franchisee for the term of this agreement an operating manual containing the standards, specifications, procedures, and techniques of the franchise system, and may, at its sole discretion, revise, from time to time, the contents of the manuals, incorporating new standards, specifications, procedures, and techniques.

C. Franchisor agrees to furnish franchisee with the following:

(1) guidelines and approval for the location of a suitable site for the outlet. By providing such guidelines and approval, franchisor in no way promises, warrants, or

otherwise represents that the site location is the optimal location for the outlet;

(2) assistance in negotiating a lease for the outlet, when appropriate;

(3) assistance is planning the layout of the outlet;

(4) assistance in the conduct of a Grand Opening promotion for the outlet.

11. Business Conduct

A. All representations made by franchisee to others shall be completely factual. Franchisee agrees to abide by all laws, regulations, and codes.

B. Franchisee agrees to protect, defend, and indemnify franchisor and to hold franchisor harmless from and against any and all costs, expenses, including attorney's fees, court costs, losses, liabilities, damages, claims and demands of every kind or nature, arising in any way out of the occupation, use or operation, of any fixtures, equipment, goods, merchandise, or products used or sold at the outlet.

C. Franchisee will not divulge any business information, whether written or oral, received from franchisor or from any meetings of other of franchisor's franchisees, until such time as disclosure to the public may be required by the nature of the information. Such information may include, but is not limited to, promotional material or plans, expansion plans, new products, marketing information, costs or other financial data.

12. Inspections

A. Franchisor shall have the fight to inspect franchisee's outlet and records, provided, however, that franchisee shall have been given reasonable advance notice. Franchisee agrees to cooperate fully with representatives of the franchisor making any such inspection.

13. Relationship of the Parties

A. Franchisee shall be an independent contractor, and nothing in this agreement shall be construed as to create or imply a fiduciary relationship between the parties, nor to make either party a general or specific agent, legal representative, subsidiary, joint venture, or servant of the other.

B. Franchisee is in no way authorized to make a contract, agreement, warranty, or representation on behalf of franchisor to create any obligation, express or implied, on behalf of franchisor.

C. Franchisee shall be responsible for his/her own taxes, including without limitation any taxes levied upon the outlet.

14. Assignment of Franchise

Franchisee's fights in the franchise may be assigned only as follows:

A. Upon franchisee's death, the rights of franchisee in the franchise shall pass to franchisee's next of kin or other beneficiaries, provided that such next of kin or other beneficiaries shall agree in written form satisfactory to franchisor to assume all of franchisee's obligations under this agreement.

B. Franchisee may sell his interests in the franchise to another party, provided that the following conditions are met:

(1) The assignee is of good moral character, meets franchisor's normal qualifications for franchisees of franchisor, will comply with franchisor's training requirements, and enters into any and all direct agreements with franchisor that franchisor is then requiring of newly franchised persons.

(2) all monetary obligations of franchisee hereunder are fully paid, and franchisee executes a general release of all claims against franchisor, its officers, and directors;

(3) The assignee pays franchisor for its legal, training, and other expenses in connection with the assignment;

(4) franchisee has first offered to sell his franchise to franchisor upon the same terms as the purchaser has offered franchisee in writing, and franchisor has refused the offer or failed to accept it for a period of thirty (30) days;

(5) franchisee shall reaffirm a covenant not to compete in favor of franchisor;

C. Franchisee may assign and transfer his rights hereunder to a corporation without, however, being relieved of any personal liability, provided that the following conditions are met:

(1) the corporation is newly formed and shall conduct no other business but the franchise business, which shall continue to be managed by franchisee;

(2) franchisee owns the controlling stock interest in the corporation and is the principal executive officer thereof;

(3) the articles of incorporation, by-laws and other organizational documents of the corporation shall recite that the issuance and assignment of any interest therein is restricted by the terms of this agreement, and all issued and outstanding stock certificates of such corporation shall bear a legend reflecting or referring to the restrictions of this agreement;

(4) all stockholders of the corporation guarantee, in written form satisfactory to franchisor, to be bound jointly and severally by all provisions of this franchise agreement;

(5) franchisee shall not use any mark in a public offering of his securities, except to reflect his franchise relationship with franchisor.

15. Termination

If franchisee defaults under the terms of this agreement and such default shall not be cured within thirty (30) days after receipt of written notice to cure from franchisor, then, in addition to all other remedies at law or in equity, franchisor may immediately terminate this agreement. Termination under such conditions shall become effective immediately upon receipt by franchisee of a written notice of termination. Franchisee shall be considered to be in default under this agreement if:

(1) franchisee fails to open the business within the time specified in Section 4 of this agreement;

(2) franchisee abandons the franchise;

(3) franchisee attempts to assign this agreement without prior written approval of franchisor;

(4) franchisee misuses or makes an unauthorized use of the mark in a manner which materially impairs the goodwill of the franchisor;

(5) franchisee has made a material misrepresentation to franchisor before and after being granted the franchise;

(6) franchisee discloses or reproduces any portion of the franchisor's operating manual to any unauthorized party;

(7) franchisee fails to abide by his covenant not to compete as provided in this agreement;

(8) franchisee fails to comply substantially with any of the requirements imposed upon franchisee by this agreement.

16. Rights and Obligations of the Parties Upon Termination or Expiration

A. On termination or expiration of this agreement, franchisee shall no or cause to be done the following:

(1) promptly pay all amounts owed to franchisor which are then unpaid;

(2) immediately cease to use any and all marks and names, and any other trade secrets, confidential information, operating manuals, slogans, signs, symbols, or devices forming part of the franchise system or otherwise used in connection with conduct of the franchise outlet.

(3) immediately return to franchisor all advertising materials, operating manuals, plans, specifications, and other materials prepared by franchisor and relative to the franchise system.

B. Covenant not to compete

Franchisee, its officers, directors, and shareholders agree during the term of this agreement, or upon expiration or termination, or non-renewal for any reason, they shall not have any interest as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, or in any other capacity for any reason for a period of two (2) years after the occurrence of said events in any business or activity involving the conduct of a proprietary post-secondary educational institution or training school or program, or proposing to engage in the conduct of a proprietary post-secondary educational institution or training school or program, except with the written permission of franchisor.

Franchisee acknowledges that this covenant is reasonable and necessary and agrees that its failure to adhere strictly to the restrictions of this paragraph will cause substantial and irreparable damage to franchisor. Franchisee hereby acknowledges, therefore, that any violation of the terms and conditions of this covenant shall give rise to an entitlement to injunctive relief.

17. Enforcement and Construction

A. Severability

The paragraphs of this agreement are severable, and in the event any paragraph or portion of the agreement is declared illegal or unenforceable, the remainder of the agreement shall be effective and binding on the parties.

B. Notice

Whenever, under the terms of this agreement, notice is required, the same shall be deemed delivered if delivered by hand to whom intended, or to any adult person employed by franchisee at franchisee's place of business, or upon deposit in any U.S. depository for mail delivery, addressed to franchisee or franchisor at their respective business addresses.

C. Specific performance

Nothing contained herein shall bar the franchisor's or franchisee's right to obtain specific performance of the provisions of this agreement and injunctive relief against threatened conduct that will cause it loss or damages, under customary equity rules, including applicable rules for obtaining orders and preliminary injunctions.

D. Governing law

This agreement is entered into and shall be construed in accordance with the laws of the state of __________________, as of the date of execution of this agreement.

E. Successors

This agreement shall inure to the benefit of and be binding upon the executors, administrators, heirs, assigns and successors in interest of the parties.

Agreed to and executed on this _________________ day of __________________________________, 199_____, by and between the parties whose signatures appear below.

____
Franchisee

Its: ____

____
Franchisor

Its: ____

APPENDIX F

MODEL BUSINESS PLAN

BUSINESS PLAN

I. **EXECUTIVE SUMMARY**
   A. **Company Name, Address and Phone Number**
   B. **Contact Person**
   C. **Type of Business**
   D. **Company History to Date**
   E. **Management Team**
   F. **Product/Service and Competition**
   G. **Funds Requested**
   H. **Collateral**
   I. **Use of Funds**

II. **COMPANY MISSION STATEMENT**

III. **THE BUSINESS AND ITS FUTURE**
   A. **The Nature of the Business**
   B. **Future Business Direction**
   C. **Products and Services Offered**
   D. **Business Competition**

IV. **MARKETING PLAN**
   A. **People**
   B. **Product**
   C. **Place**
   D. **Promotion**
   E. **Pricing**
   F. **Plans**

V. **ADVERTISING**

VI. **BUSINESS OPERATIONS**
   A. **Labor Force and Employees**
   B. **Suppliers**
   C. **Property, Facilities and Equipment**
   D. **Patents, Trademarks and Copyrights**
   E. **Corporate Structure and Organizational Chart**
   F. **Research and Development**

VII. **LEGAL FORM OF BUSINESS**

VIII. **THE MANAGEMENT**
   A. **Key Employees with Resumes**
   B. **Corporation Remuneration, Stock Options & Employee Agreements**

IX. **DESCRIPTION OF FINANCING PROCEDURES**
   A. **Balance Sheet**
   B. **Income Statement**
   C. **Accounts Receivable**
   D. **Accounts Payable**
   E. **Debt Schedule**

X. **INSURANCE COVERAGE**

XI. **PROJECTIONS**

XII. **RISKS INVOLVED, INCLUDING PROBLEMS & DELAYS**

XIII. **PRODUCT AND SERVICE LITERATURE, BROCHURES & PUBLICITY**

XIV. **PROFESSIONALS AND ADVISORS**

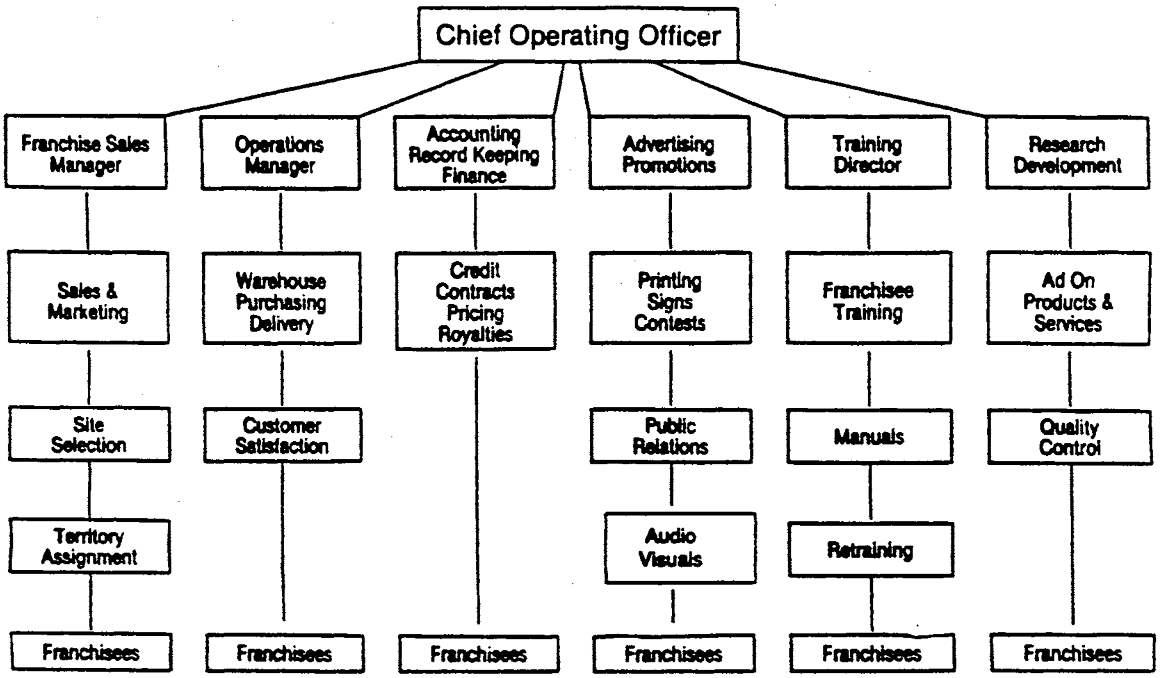
XV. **PROJECT IMPLEMENTATION SCHEDULE**

XVI. **LETTER OF REQUEST**

APPENDIX G

ORGANIZATIONAL CHART

MODEL
FRANCHISOR ORGANIZATIONAL
CHART



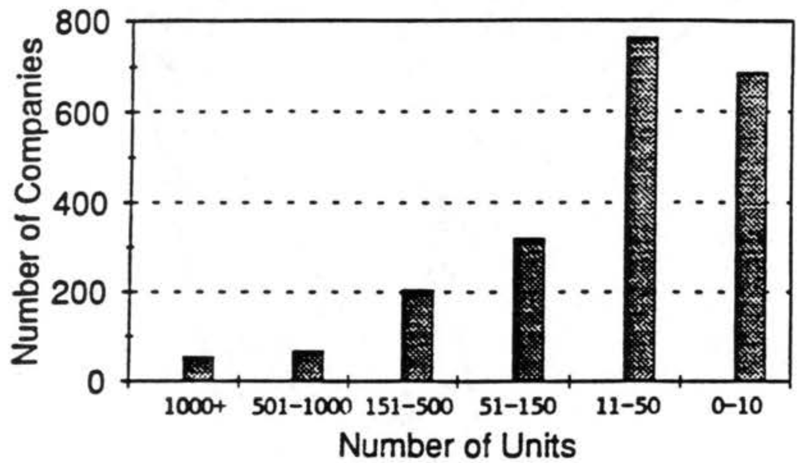
Developed By
Frank X. Kerr
Business Services

APPENDIX H

GRAPH OF DISTRIBUTION OF FRANCHISE COMPANIES

Distribution of Franchise Companies

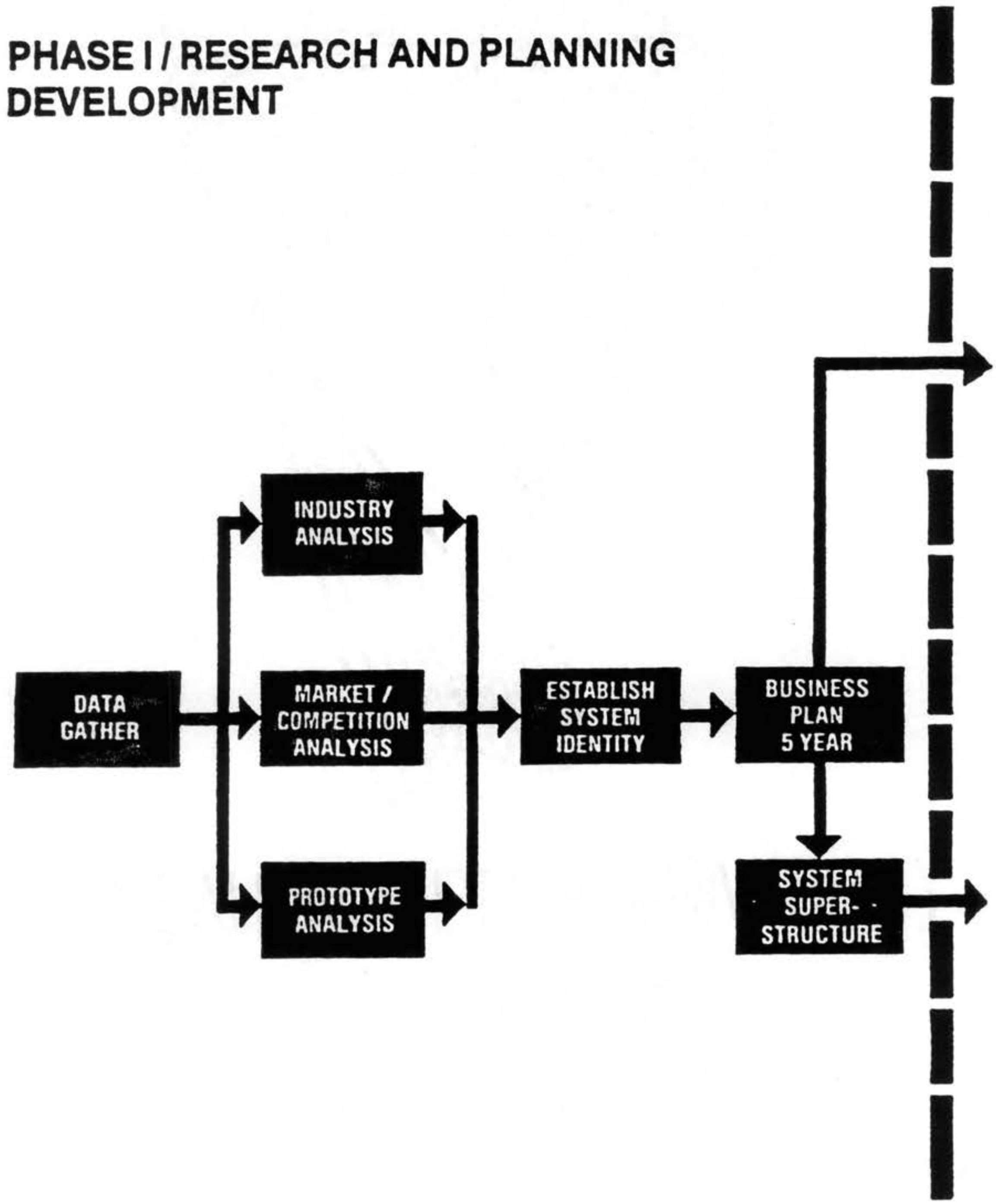
by Size



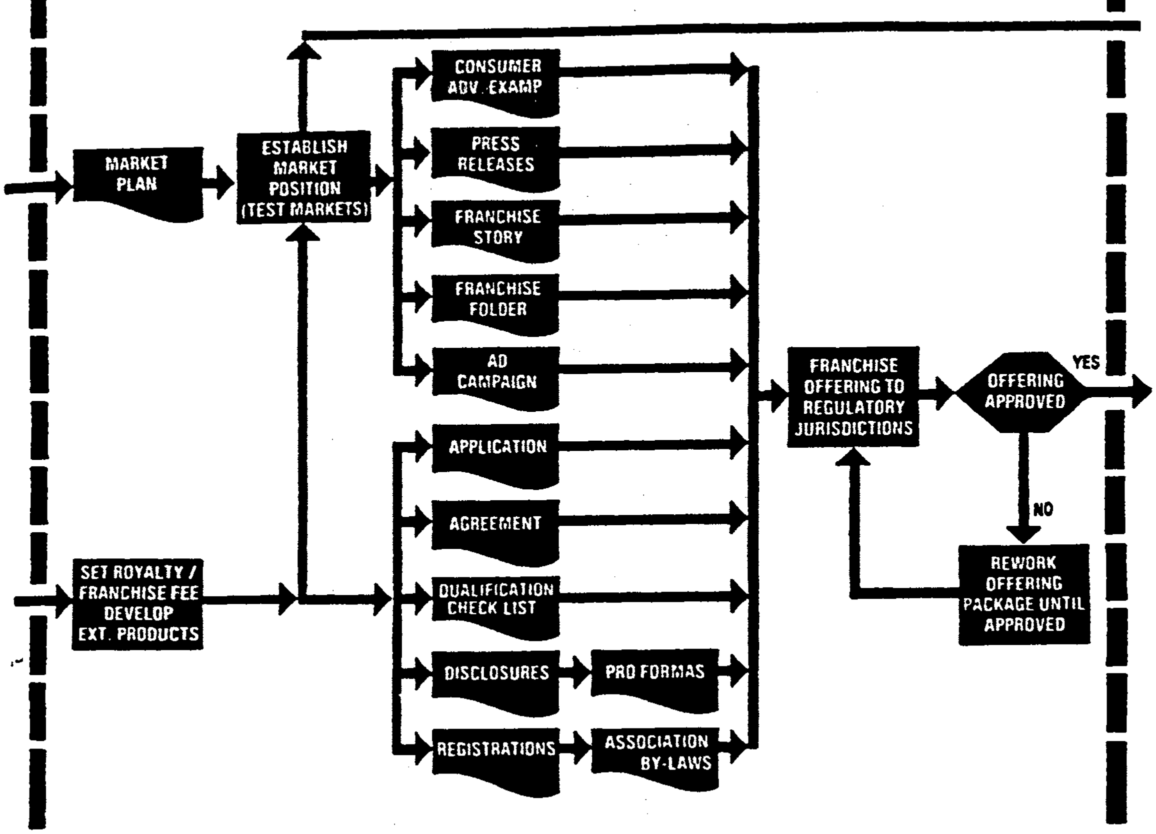
APPENDIX I

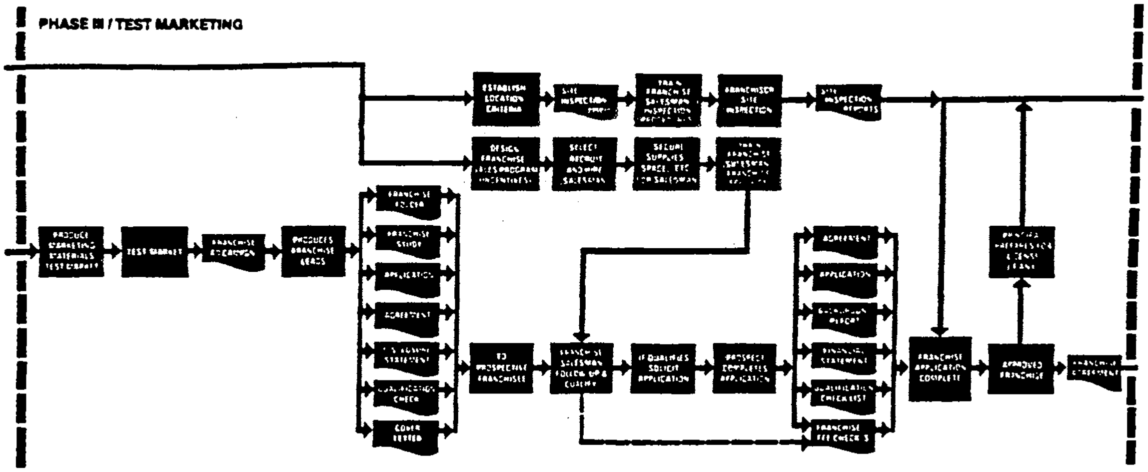
FLOW CHART SIMULATING FRANCHISE COMPANY DEVELOPMENT

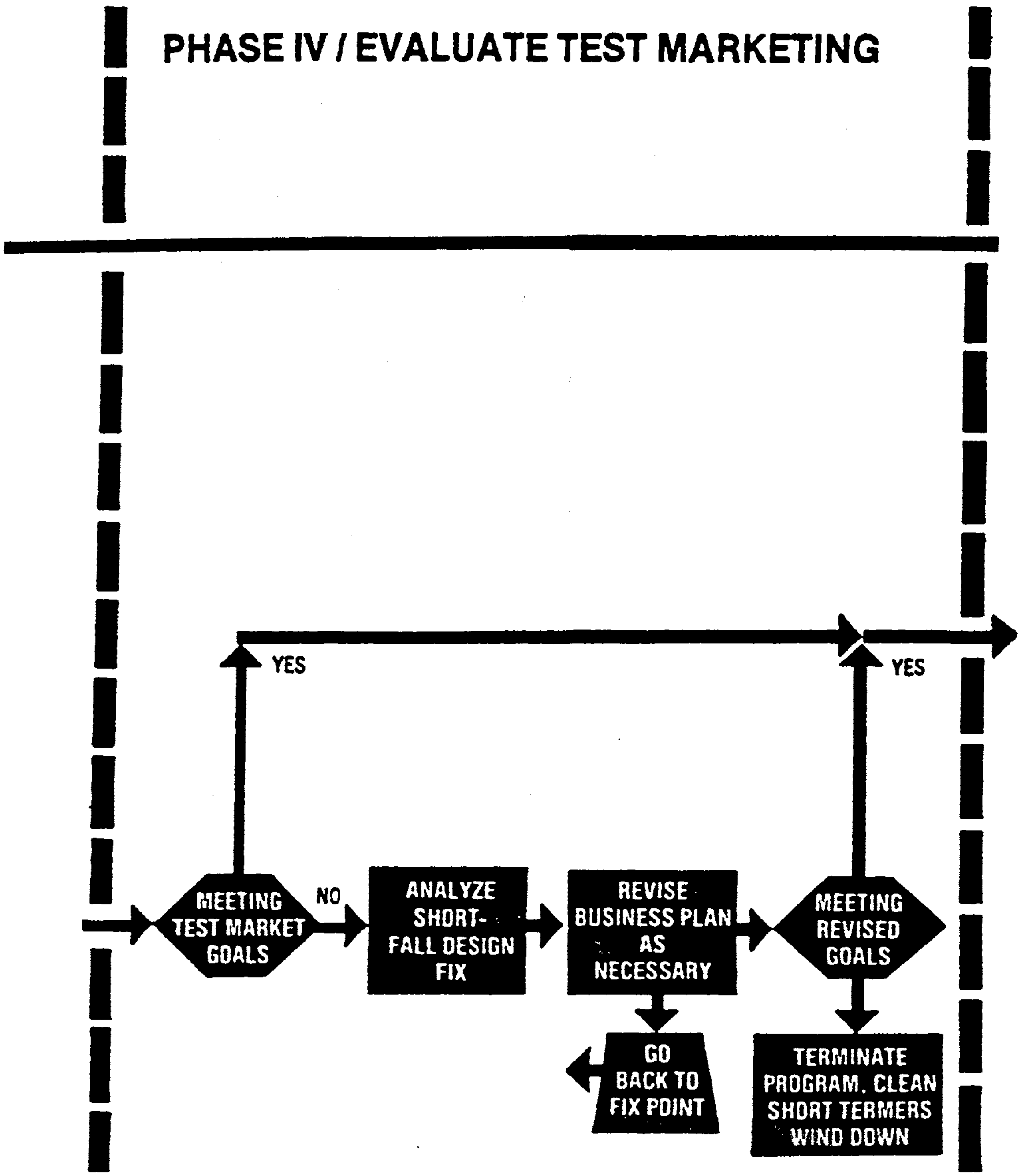
(Boe, Ginalski, & Henward, 1989.)

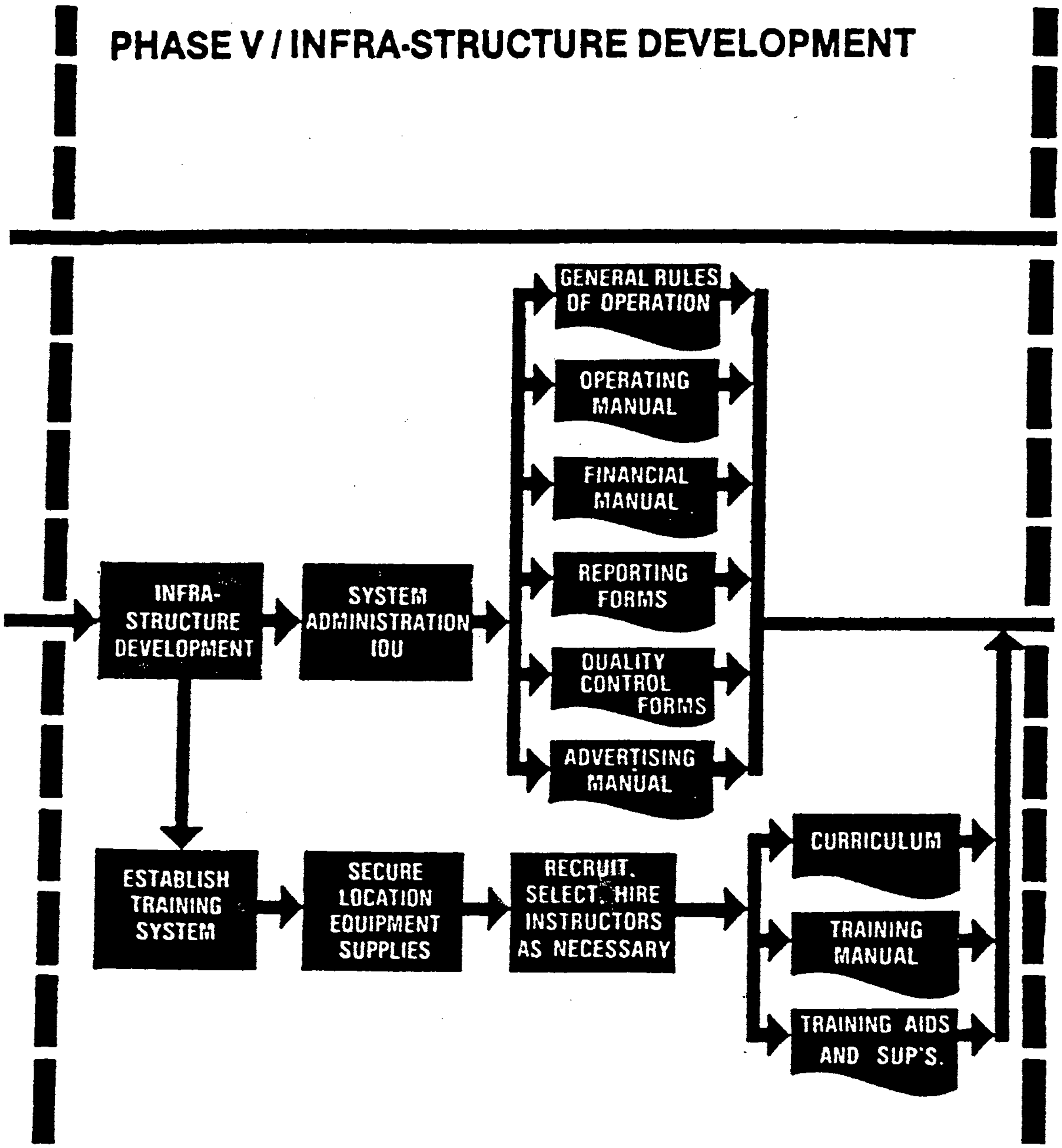


PHASE II / EXTERNAL STRUCTURE

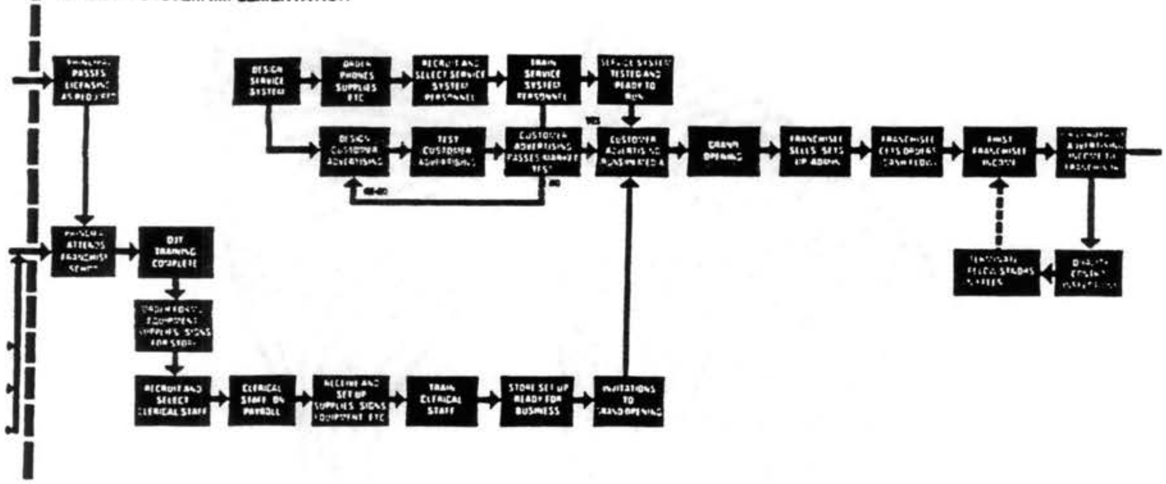


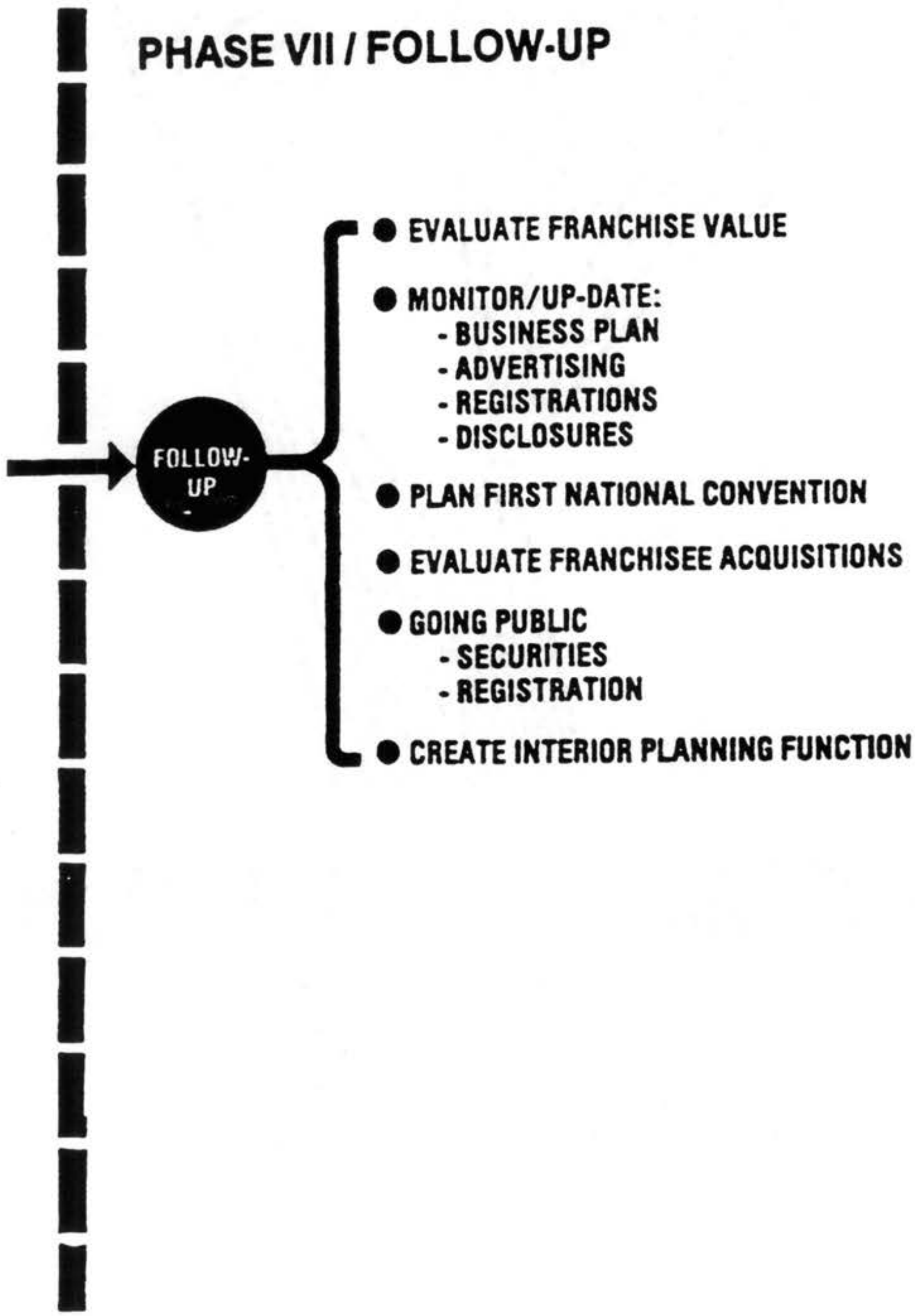

PHASE III / TEST MARKETING
ESTABLISH LOCATION CRITERIA
FRANCHISOR SITE INSPECTION
SITE INSPECTION REPORTS
DESIGN FRANCHISE SALES PROGRAM (INCENTIVES)
SELECT RECRUIT AND HIRE SALESMAN
SECURE SUPPLIES SPACE, ETC. FOR SALESMAN
TEST MARKET
PRODUCES FRANCHISE LEADS
FRANCHISE STUDY
APPLICATION
AGREEMENT
COVER LETTER
TO PROSPECTIVE FRANCHISEE
IF QUALIFIES SOLICIT APPLICATION
PROSPECT COMPLETES APPLICATION
AGREEMENT
APPLICATION
FINANCIAL STATEMENT
QUALIFICATION CHECKLIST
FRANCHISE FEE CHECK $
FRANCHISE APPLICATION COMPLETE
APPROVED FRANCHISE


PHASE IV / EVALUATE TEST MARKETING
YES
YES
MEETING TEST MARKET GOALS
NO
ANALYZE SHORT-FALL DESIGN FIX
REVISE BUSINESS PLAN AS NECESSARY
MEETING REVISED GOALS
GO BACK TO FIX POINT
TERMINATE PROGRAM, CLEAN SHORT TERMERS WIND DOWN


PHASE V / INFRA-STRUCTURE DEVELOPMENT
INFRA-STRUCTURE DEVELOPMENT
SYSTEM ADMINISTRATION IOU
GENERAL RULES OF OPERATION
OPERATING MANUAL
FINANCIAL MANUAL
REPORTING FORMS
QUALITY CONTROL FORMS
ADVERTISING MANUAL
ESTABLISH TRAINING SYSTEM
SECURE LOCATION EQUIPMENT SUPPLIES
RECRUIT, SELECT, HIRE INSTRUCTORS AS NECESSARY
CURRICULUM
TRAINING MANUAL
TRAINING AIDS AND SUP'S.

PHASE VI / SYSTEM IMPLEMENTATION




PHASE VII / FOLLOW-UP
FOLLOW-UP
EVALUATE FRANCHISE VALUE
MONITOR/UP-DATE:
- BUSINESS PLAN
- ADVERTISING
- REGISTRATIONS
- DISCLOSURES
PLAN FIRST NATIONAL CONVENTION
EVALUATE FRANCHISEE ACQUISITIONS
GOING PUBLIC
- SECURITIES
- REGISTRATION
CREATE INTERIOR PLANNING FUNCTION

APPENDIX J

CHART INDICATING GROWTH OF TOP

FORMAT INDUSTRIES

1985 - 1990

Growth of Top Format Franchise Industries
1985-1990

Business	Sales (in billions) 1985	1990	Annual % Growth
Restaurants (all types)	$48.9	$86.1	12.0
Retailing (non-food)	$18.8	$33.6	12.3
Hotels, Motels, Campgrounds	$14.6	$22.5	9.0
Convenience Stores	$12.3	$19.4	9.5
Business Aids and Services	$12.1	$21.3	12.0
Automotive Produces and Services	$10.6	$15.9	8.5
Retailing (food other than convenience stores)	$10.4	$15.9	7.0
Rental Services (auto, truck)	$5.3	$8.9	11.0
Construction and Home Services	$3.7	$9.2	20.0
Recreation, Entertainment, Travel	$1.8	$6.6	29.0
Total Top Ten	$138.5	$238.1	11.5

APPENDIX K

LARGEST U.S. FRANCHISORS

Largest U.S. Franchisors by Number of Outlets

1. Pepsico (18,960)
   Kentucky Fried Chicken (10,200)
   Pizza Hut (6,000)
   Taco Bell (2,760)

2. McDonald's (13,900)

3. 7-Eleven Stores (12,000)

4. H&R Block (8,800)

5. Century 21 Real Estate (7,000)

6. Dairy Queen International (5,000)

7. Domino's Pizza (4,600)

8. Burger King (4,500)

9. ServiceMaster (3,875)

10. Jazzercise (3,380)

11. Wendy's International (3,650)

12. Budget Rent A Car (3,600)

13. Baskin-Robbins (3,450)

14. Hardee's Food System (3,000)

15. ERA Electronic Realty Associates (2,840)

16. SUBWAY Sandwiches & Salads (2,400)

17. Diet Center, Inc. (2,330)

18. Midas Discount Muffler (2,200)

19. Little Caesar's Pizza (2,000)

20. Arby's (2,000)

21. Chem-Dry (1,840)

22. Western Auto (1,800)

23. Realty World (1,760)

24. Dunkin' Donuts (1,735)

25. Dollar Rent A Car (1,600)
    Hertz Rent A Car (1,600)
    Holiday Inns (1,600)

28. Goodyear Tire (1,570)

29. Long John Silver's (1,500)
    Arby's (1,500)
    Church's Fried Chicken (1,500)

32. National Video (1,400)
    RE/MAX (1,400)
    American Int'l Rent A Car (1,400)

35. Denny's (1,390)

36. JaniKing (1,300)
    Red Carpet Realty (1,300)

38. PIP Postal Instant Press (1,120)
    Packy the Shipper (1,120)

40. Sonic Drive-Ins (1,100)
    Ben Franklin Stores (1,100)

42. TCBY "The Country's Best Yogurt" (1,075)

43. Nutri System, Inc. (1,000)
    One Hour Martinizing (1,000)
    Kwik Copy (1,000)

46. Almost Heaven Hot Tubs (975)

47. Coast to Coast Stores (965)

48. Quality Inn/Comfort Inn (950)

49. Jack in the Box (940)

50. AAMCO Transmission (920)

APPENDIX L

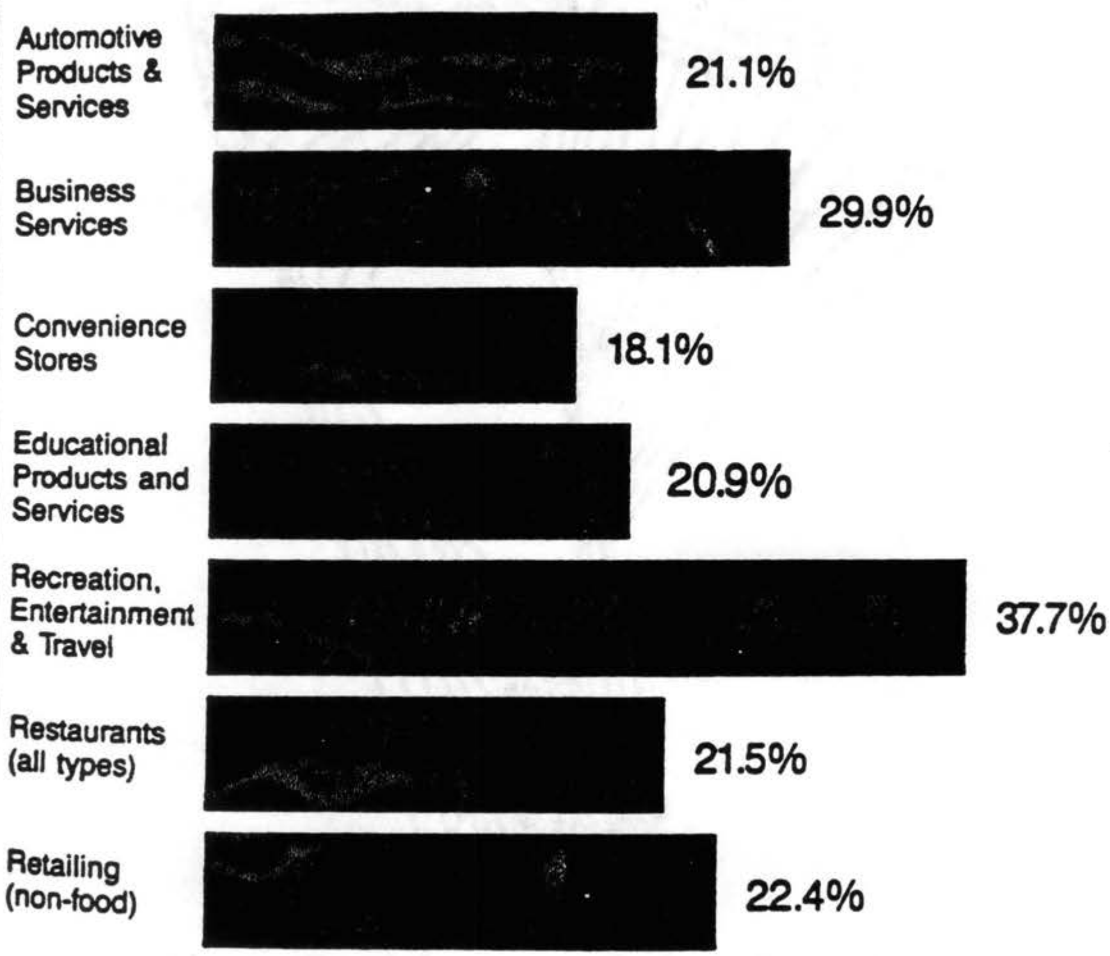
FRANCHISOR EARNINGS CHART

	Franchise Fees Earned by Franchisor	Royalties Earned by Franchisor
Individual	$35,000	6%
Multi-unit (10 units)	$25,000 each, payable as $125,000 down, $12,500 as each unit opens	6%, 1-3 units
		5¾%, after 3 units
		5½%, after 5 units
		5¼%, after 7 units
		5%, when all 10 open
Sub-franchise	$100,000 for territory plus $2,500 per unit sold	2% (of 6%)

APPENDIX M

ESTIMATED SALES INCREASES FOR POPULAR FRANCHISE-OWNED BUSINESSES

Sales increases 1985-1987 (estimated) for popular franchise-owned businesses



Source: Franchising in the Economy, 1985-1987

APPENDIX N

THE FEASIBILITY STUDY

The Feasibility Study

Franchisors should, when organizing their franchise, develop a feasibility study using the 30 points outlined here.

1. Architecture
2. Awareness research
3. Change potential
4. Competitive studies
5. Control
6. Exclusivity factor
7. Graphics
8. Heightening of exclusivity
9. Image and identification
10. Impact
11. Inspections
12. Logotype
13. Market analysis
14. Market history
15. Market shares
16. New benefits
17. Operations
18. Portability
19. Promotability
20. Protectability
21. Public impressions
22. Purchasing
23. Recruitment
24. Reporting
25. Self sufficiency
26. Specifications (product)
27. Start-up
28. Strategy
29. Totality
30. Training

APPENDIX O

MODEL OPERATING MANUAL

OPERATING MANUAL
Contents

PURCHASING AND INVENTORY CONTROL

Inventory Management
9.00 Introduction to Inventory Management
9.01 Approved Specifications
9.02 Opening Inventory
9.03 Inventory Control
9.04 Inventory Planning

Suggested Pricing Strategies
9.10 Factors Which Influence Pricing
9.11 Figuring Margins and Markups
9.12 Figuring Hourly Rates

PERSONNEL ADMINISTRATION

Personnel Recruitment
10.01 Principles of Personnel Recruitment
10.02 The Self-Motivated Applicant
10.03 Classifies Advertising
10.04 Employment Placement Offices
10.05 Community Colleges, High Schools, and Trade Schools
10.06 Screening Applications
10.07 Interviewing Techniques
10.08 Selecting and Hiring Employees

Employment Regulations and Laws
10.10 Summary of Employment Regulations and Laws
10.11 Equal Opportunity Employment Policy
10.12 Policies Regarding Discrimination on the Basis of Sex
10.13 Policies Regarding Discrimination on the Basis of Age
10.14 Minimum Wage

Personnel Policies
10.20 The Importance of Personnel Policies
10.21 Employee Safety Policies
10.22 Employee Probationary Period
10.23 Policy Regarding Review System for Problems or Complaints
10.24 Policy Regarding Jury Duty
10.25 Policy Regarding Funeral Leave
10.26 Policy Regarding Voting in Public Elections
10.27 Policy Regarding Public Holidays
10.28 Policy Regarding Vacations
10.29 Service Awards
10.30 Policies Regarding Employee Termination

APPENDIX P

LIST OF RESOURCES AND REFERENCES

List of Resources and References

Non-Registration States - Region Five

Illinois

Neil F. Hartigan, Attorney General, 500 South 2nd Street, Springfield, Illinois 62706

Indiana

Secretary of State, 201 State House, Indianapolis, Indiana 46204

Michigan

Frank J. Kelly, Attorney General, Department of the Attorney General, Law Building, Lansing, Michigan 48913

Minnesota

Department of Commerce, Fifth Floor, Metro Square Building, 133 East 7th Street, St. Paul, Minnesota 55101

Ohio

Anthony J. Celebrezze, Jr., State Office Tower, 30 East Broad Street, Columbus, Ohio 43266-0410

Wisconsin

Commissioner of Securities, 111 West Wilson Street, Box 1768, Madison, Wisconsin 53701

Registration States - Region Six

Arkansas

Arkansas Franchise Regulations, Franchise Practices Act, Gas Distributors and Dealers Act, Wholesale Farm Equipment Act, c/o Randy Morley, State Capitol, Little Rock, Arkansas 72401

Louisiana

Department of Economic Development, P.O. Box 94185, Baton Rouge, Louisiana 70804-9185

New Mexico

Franchise Regulations Department, State Capitol Building, Santa Fe, New Mexico 80310

Oklahoma

Patty LaBarthe, Attorney, Business Opportunities Division, State Capitol Complex, Will Rogers Building, Fourth Floor, Oklahoma City, Oklahoma 73125

Texas

Office of the Secretary of State, Capitol Station, Austin, Texas 78711 c/o George S. Bayoud, Jr., Secretary of State

√

VITA

Francis X. Kerr

Candidate for the Degree of

Doctor of Education

Thesis: TRAINING NEEDS OF FRANCHISE COMPANIES IN AMERICA.

Major Field: Occupational and Adult Education

Biographical:

Personal Data: Born in New York City, New York, April 30, 1925, the son of Charles and Mary Kerr.

Education: Graduated from St. Michael's High School, Jersey City, New Jersey, in June 1943; received Bachelor of Science Degree in Secondary Education from Seton Hall University at South Orange, New Jersey, in June, 1953; completed Graduate Work Grant from National Science Foundation in Economics from Assumption College, Worchester, Massachusetts, in August, 1964; completed requirements for the Master of Science Degree in Adult Education and Community Services at Central State University, Edmond, Oklahoma, in May, 1984; Doctor of Education, completed **December, 1993, from** Oklahoma State University.

Professional Experience: Social Studies teacher and Athletic Coach, Seton Hall High School, Patchogue, Long Island, New York, September, 1958 to June, 1970; Instructor, Small Business Management Education, Canadian Valley Vo-Tech, El Reno, Oklahoma, 1979 to 1988; Instructor, Self Employment Training at Metro Tech, Oklahoma City, Oklahoma, 1988 to 1993.

OKLAHOMA STATE UNIVERSITY
INSTITUTIONAL REVIEW BOARD
FOR HUMAN SUBJECTS RESEARCH

Date: 05-10-93 **IRB#:** ED-93-092

Proposal Title: RESEARCH STUDY TITLED "WHAT ARE THE TRAINING NEEDS OF AMERICA'S FRANCHISE COMPANIES FOR THE 1990'S ERA

Principal Investigator(s): William Venable/ Francis Kerr

Reviewed and Processed as: Exempt

Approval Status Recommended by Reviewer(s): Approved

APPROVAL STATUS SUBJECT TO REVIEW BY FULL INSTITUTIONAL REVIEW BOARD AT NEXT MEETING.
APPROVAL STATUS PERIOD VALID FOR ONE CALENDAR YEAR AFTER WHICH A CONTINUATION OR RENEWAL REQUEST IS REQUIRED TO BE SUBMITTED FOR BOARD APPROVAL. ANY MODIFICATIONS TO APPROVED PROJECT MUST ALSO BE SUBMITTED FOR APPROVAL.

Comments, Modifications/Conditions for Approval or Reasons for Deferral or Disapproval are as follows:

Signature: ______________________ Date: May 12, 1993
Chair of Institutional Review Board