

*Filozofická fakulta Univerzity Palackého*

*Katedra anglistiky a amerikanistiky*

**Analysis of Opening a Franchise versus an  
Independent Retail Food Business**

(Bakalářská práce)

*2010*

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**Studijní obor:** Angličtina se zaměřením na aplikovanou ekonomii

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*Prohlašuji, že jsem tuto bakalářskou práci vypracovala  
samostatně a uvedla úplný seznam citované a použité literatury.*

*V Olomouci dne .....*

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## **2. Introduction**

The goal of this thesis is to inform the reader about the process, benefits and problems of starting a retail food business within the hospitality industry. Most of us live in a free market economy and there are many different factors which determine how we choose to perform such a business. In this thesis I have written about two different business organisations: a privately owned business and a franchise business while focussing on the retail food industry. Most emphasis will be put on catering establishments like restaurants, cafés and bars. In the beginning I introduce a quite modern term which is “franchising” and a historical background explaining where it all started, how franchise businesses have become part of our everyday life, its development and the present day situation in the Czech Republic. I have described in detail the pros and cons of both types of businesses. I will concentrate on facts shared by each of them, facts which are generally applicable for all retail food and restaurant businesses as such, and define in what ways they are different. Throughout the entire thesis I have tried to evaluate which type of enterprise is more likely to succeed. However, the answer to this question might not be definitive as retail food and restaurant market is a large-scale industry with many variables and a good franchise model for one business might not be applicable for another. As you will read later on, the success of a business is very much dependant on the knowledge and skills of the people who run it. The aim of this work is to compare all aspects of setting up and running a private and franchise retail food business with reference to some existing and well known businesses. I will also focus on the reason why small independent businesses may fail and what they might have to do if they expect to compete with the influx of established franchise businesses in the Czech Republic. I hope to show also that there is a future for independent, unique, small and large retail food businesses and that it is possible for the little people to compete with the big giants.

### 3. Definition of franchising

In order to understand the difference between operating a franchise business and a private business, we need to clarify the definition of franchising.

The word *franchise* is derived from an Anglo - French word *franc* (late 13 century), which means “free”. It acquired several different meanings throughout centuries, but the meaning “*authorisation by a company to sell its products or services*” is from 1959.<sup>1</sup>

**Franchising** is a form of business organization, marketing and distribution in which a company or an individual (the franchisor) grants the right to another person (the franchisee) to use their business model, trade mark and know-how to sell a company’s goods or provide services. Franchising is a package deal based on an on-going relationship between the franchisor and the franchisee controlled by a contract usually valid for a period of several years. **The franchisor** provides the license to the franchisee and he/she contributes to the system with an initial capital investment, experience and know-how. **The franchisee** has the right and duty to use the established business system and know-how and he/she benefits from franchisor’s assistance in organizing, training, merchandising, marketing and managing.

In return, the franchisee is obligated to pay to the franchisor an initial and royalty franchise fee, a marketing fee and a percentage of the subsequent sales revenue. There is significant interdependence between the franchisor and the franchisee. The franchisor gains a rapid expansion of his/her business and new distribution markets by capital investment and motivated effort of the franchisee. The franchisee consequently profits from the global growth of the business, which should lead to the stability of his/her income.

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<sup>1</sup> Online Etymology Dictionary, available at <http://www.etymonline.com/index.php?search=franchising&searchmode=none>

#### **4. History of franchising**

The origin of franchising is associated with the name Albert Singer (1811-1875) who needed to find a distribution model to sell his sewing machines. He did not have enough money to increase production and was not able to provide all the necessary training to each particular customer. His solution was to give a licence to local people to sell the sewing machines under his name in a geographical area and the fees from that licence would provide him capital for the manufacture of more machines. Singer was the first person who used a contract for this distribution method.

This was followed by the era of “product franchises”: soft drink companies (like Coca Cola), certain oil refinery companies and automobile manufacturers began to grant the right to sell and distribute their products.

“Business format franchising” became widespread after World War II, caused by the immense demand generated by people starting a new life after the war and during the baby boom that followed. Franchising seemed to be the ideal business model for the rapid expansion of the hospitality and catering, automotive, real estate, and other service industries.

Franchising as we know it today is connected with the boom of the McDonalds restaurant chain in America. This all started with a milk shake mixer salesman named Ray Kroc who in 1952 recognized the enormous potential of the McDonald brothers’ restaurant. Kroc became their licensing agent and recruited franchisees that brought in profits from all those outlets that had and continued to spread throughout the USA.

The growth of franchising in the United States has been enormous. Not only has it influenced virtually every aspect of American business, but it has spread abroad. Canada, with the second highest number of franchise outlets in the world, has proven lucrative for American franchisors. Europe is not excluded either. European people, especially the younger generation, are the driving force especially for the American fast food chains. We can conclude that retail food franchising is booming right now. In the following pages it is considered, whether this presents a true danger to local or national independent restaurants and retail food businesses.



## 5. Franchising in the Czech Republic

Franchising started to develop in the Czech Republic after 1989 with the political and economic changes in the country. The oldest franchises operating in the Czech Republic are McDonald's, the world's most popular fast food chain, YVES ROCHER, which sell French natural cosmetics and OBI, building suppliers and do-it-yourself stores. These types of businesses were not very popular at the beginning of the 90's as the economic situation was not ideal to operate such businesses. Those individuals who owned their own small business were lacking information about the franchise concept, or did not have the experience or the necessary capital to invest because of the problematic banking situation. An important event was the establishment of the *Czech Association of Franchising* in 1993. Its main role is to support franchising especially by promoting the franchises existing on the Czech market. Today there are between 130 and 150 foreign and domestic franchising concepts in the Czech Republic specializing mainly in restaurant, café and fast food sectors. The accession of the Czech Republic to the European Union in 2004 was another significant factor contributing to the arrival of even more foreign franchise brand names to the Czech market. Even though it was the foreign franchise brand names that introduced the Czech nation to franchising, The Czechs have established their own national franchise concepts and some are expanding abroad too.

The Czech Republic is a member of the *European Franchise Federation*, therefore Czech laws are aligned with European Union standards and the Czech Association of Franchising follows the same Code of Ethics as the European Franchise Federation.

Top franchise concepts present in the Czech Republic:<sup>2</sup>

Franchise system	Website	Sector	Number of establishments
Brnenka	<a href="http://www.brnenka.cz">www.brnenka.cz</a>	Grocer's shop	225
Fornetti	<a href="http://www.fornetti.cz">www.fornetti.cz</a>	Fast-food, bakery	190
Yamaha	<a href="http://www.yamahaskola.cz">www.yamahaskola.cz</a>	Music school	174
Barum	<a href="http://www.barum.cz">www.barum.cz</a>	Car repair, services	126
OXALIS	<a href="http://www.oxalis.cz">www.oxalis.cz</a>	Tea and coffee shops	102
McDonald's	<a href="http://www.mcdonalds.cz">www.mcdonalds.cz</a>	Fast-food	74
RE/MAX	<a href="http://www.remax-czech.cz">www.remax-czech.cz</a>	Real-estate broker	65
Ceskomoravsky beton	<a href="http://www.heidelbergcement.cz/RMC">www.heidelbergcement.cz/RMC</a>	Concrete distribution	62
Vitaland	<a href="http://www.vitaland.cz">www.vitaland.cz</a>	Vitamins and food supplements distribution	51
Svejk Restaurant	<a href="http://www.svejk.cz">www.svejk.cz</a>	Restaurants	47
O2 Telefonica	<a href="http://www.cz.o2.com">www.cz.o2.com</a>	Telecommunications	33
Orea Hotels	<a href="http://www.orea.cz">www.orea.cz</a>	Hotels	32
Staropramen	<a href="http://www.staropramen.cz">www.staropramen.cz</a>	Restaurants	29
Yves Rocher	<a href="http://www.yvesrocher.cz">www.yvesrocher.cz</a>	Cosmetics	29
OBI	<a href="http://www.obi.cz">www.obi.cz</a>	DIY markets	22
Dobra cajovna	<a href="http://www.tea.cz">www.tea.cz</a>	Tearooms	22

Franchising is very often associated with the fast food industry. The fact is that most franchise businesses operate in the hotel, hospitality and retail food sectors. Besides these there are over 120 types of franchises including food, clothing, automobile, leisure, health and sport industries, just to mention few. I decided to concentrate on the retail food industry including restaurants, bars and cafés. “Time is money” may be the modern lifestyle policy that is stopping people from cooking at home as much as they used to. Despite growing competition in the food industry, there is an

<sup>2</sup> Czech Franchise Association, 31 December 2007

increasing trend for eating out and socializing in public places like cafés or bars. There is a huge variety of different businesses selling food and drinks, and therefore we are provided with many examples as a base to determine which type of business organisation, franchise or independent, is more beneficial for the entrepreneur. The pros and cons of franchising will be presented from the franchisee's point of view to bring it to a similar level of comparison as when managing an individual retail food establishment.

## 6. Before you start

Starting a business, whether a private business or a franchise business is a process that requires a lot of preparation and gathering of information and for a business person it is a full time job. When you want to start a private retail food business, whether it is a restaurant, café, a grocery shop or a stand selling food on the street, the first thing you have to decide is whether you want to take over an existing business or start a new one. Taking over is an easier option but is usually connected with a fee. This fee pays for the existing customer base and the amount is usually directly related to it. In this thesis it is assumed that the business would be started from scratch.

The first step would be to choose a legal form. The most common business organization forms are sole proprietorship, partnership and corporation<sup>3</sup>. Sole proprietorship and partnership are essentially very similar; the only difference is in number of owners. The main difference is between the legal form of sole proprietorship and corporation. They differ in relation to the size of the business, income tax rates, potential liability, recordkeeping, formation and termination of the business. A franchisee would have to accept the legal form defined by the franchisor. Franchisors gain more advantages by incorporating all their franchises because it is more efficient and streamlined if all franchisees have the same legal form. Another reason why sole proprietorship is not suitable for a franchisee is that the existence of a business would be affected if the franchisee dies. That would create extra transitional and administrative costs.

I have not studied the businesses from a legal point of view, because in a privately owned business the legal form is entirely the owner's decision and regarding a franchise it cannot usually be influenced by the franchisee. The retail food industry ranges from very small businesses operated by one person to big restaurant chains and therefore there is no single advisable or recommended business format.

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<sup>3</sup> According to international system of legal business forms

## **7. Issues shared by franchise and independent retail food businesses**

### **7.1 Licenses and laws**

Regardless of the business form, franchise or independent, they are both governed by commercial law. There is no specific law defining franchising in most countries and therefore it is treated as any other marketing and distribution business organization. This fact opens the door to large franchise chains, whose only regulation is the tax imposed on their income.

Catering establishments offering food and drinks need a license for selling alcohol. If you sell food on the street from a stall or a van, you would need a license too. Other types of licenses common for retail food businesses are, for example, a license to sell hot food between certain hours, a licence for outside seating on a sidewalk or a live music license. In total, you have to comply with these conditions and regulations no matter what legal status and business format you have.

### **7.2 Site selection – location of the premises**

It is vital to choose a location which provides the greatest possible traffic of people. Most franchisors help their franchisees to choose the location based on massive area research and their previous experience. Usually, a franchisee has to take the initiative to select appropriate premises according to the franchisor's requirements and then it has to be approved. Some franchises select the premises themselves or even own the property. An independent entrepreneur has to conduct the research on his/her own and rely largely on their own judgement.

The best premises location for a retail food establishment is certainly in a busy shopping centre, tourist site or business street in the centre of a town, city or in an area of great concentration of people (e.g. university campus, football stadiums, swimming pools, train stations, airports etc.) The place has to be easily accessible and visible either by foot traffic or by car traffic. The price one has to pay in return for a good location is usually high rent and property values. It is necessary to find a trade-off between the amount of money you have to pay to rent or purchase the property and the traffic of people resulting from convenient situation of the business.

Another important issue to consider is competition. A businessperson has to make sure not to rent a premises next to a unit which sell exactly the same product and has been there for years. Nevertheless, a franchise with a brand name that has been known for years, might overcome this problem.

### **7.3 Rules about the premises**

The premises have to be suitable for your business and should allow you to prepare food safely. They have to be clean and maintained in good condition. The premises must have:

- hand washing facilities and toilets
- changing facilities for the staff
- facilities for cleaning, disinfecting and storing equipment
- facilities for washing food with drinkable water
- facilities for storing and disposing of food waste and other rubbish
- appropriate ventilation, lighting, drainage, etc.

### **7.4 Health and safety**

The most dreadful people for a business person running a restaurant are the health and safety officers, however they are certainly not your enemy as they help to both educate you and protect you from law suits. They perform routine inspections and respond to complaints. Health and safety regulations are imposed upon all retail food establishments and they mainly concern:

- the condition of flooring, obstructions, spillage, suitability of foot ware
- food safety procedures (food hygiene, avoiding cross-contamination, keeping up-to-date records)
- keeping personnel hygiene of staff when coming in contact with food
- suitability of storage space for the amount of stock kept
- electrical safety
- provision of First Aid
- hazardous substances (e.g. cleaning chemicals)
- informing and training all the staff about risk control procedures and safe work practices.

- fire safety rules
- and many others

It is quite common to get an unexpected inspection in a franchise establishment from the same franchise network to check the quality of food, services, hygiene, etc. This is to reassure the franchisor of the uniformity and high standard of all outlets that form the chain and to give a feedback to a franchisee in order to correct any defects.

### **7.5 Insurance**

Good insurance coverage for your business is an essential tool for protection against unexpected damages or liability lawsuits. The most common type of insurance includes:<sup>4</sup>

- Property insurance – in case of fire or other events
- General liability – this is important if a customer gets sick as a result of eating your food or has an accident on your property.
- Specific peril insurance – covers many natural disasters
- Liquor liability – for establishment that hold liquor or alcohol licences to protect you if customers hurt themselves or somebody else after drinking alcohol in you bar/restaurant
- Workers compensation – if your employees hurt themselves at work
- Life insurance – might be required if you intend to get a loan. It is recommended as well if you have a family

### **7.6 Displaying prices, describing and labelling food**

When selling food or drinks in a retail food establishment, the pricelist has to be available to the customers. The prices should include the VAT at the applicable rate. The contents of food and drinks should be described on menus or blackboards or illustrated on pictures without misleading the customer. Usually, retail food businesses do not have to label food, with the exception of pre-packed food (e. g. sandwiches, bottled drinks).

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<sup>4</sup> Mealley,L.: Restaurant Insurance Basics, available at <http://restaurants.about.com/od/businessinsurance/a/Insurance.htm>

### **7.7 Demand for products and services**

It is important to explore the life style, values, environment, eating and spending habits of the potential customers which might differ according to regions or even parts of the city. Find out whether people prefer to go out to have breakfast or dinner, whether they give priority to healthy food or fast food, whether they like chatting over a coffee and a cake or they like having a laugh over a pint of beer or a cocktail. All this matters as if there is little demand for what you intend to sell, you may want to consider selling something more suitable.

### **7.8 Working Hours**

Choosing to run a restaurant or a bar entails long working hours, which are best spent at the workplace. If you follow the rule “my customer – my lord”, you can forget about the ideal 8am to 6pm office working hours. The unit will be closed with the last leaving customer and after having left the place clean and ready for the next day. You may have to mostly forget about free weekends as well if you want to make money and survive in this industry, as people go out to eat and drink mainly when they do not work.

### **7.9 Taxes, Social Security, Health Insurance**

A Businessperson has to pay the same VAT on products whether he owns a franchise or a private business. In the Czech Republic, the basic VAT rate, applied to catering products and services is 20%. The restaurants buy food at a 10% rate and sell it at 20% rate. The Czech parliament discussed in the year 2009 lowering the VAT from 19% (rate in 2009) to 9% on sales for some services including restaurant services in order to support businesses run by manual labour. Unfortunately these changes have not been made, subsequently the VAT in 2010 reached 20% on sales and 10% on purchases.<sup>5</sup>

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<sup>5</sup> Starek, V. „Konec nadějím na snížení sazby DPH v restauracích.“ Asociace hotelů a restaurací České republiky 5 Nov. 2009, available at <http://www.ahrcr.cz/informace-z-oboru/konec-nadejim-na-snizeni-sazby-dph-v-restauracich-3/>



You may want to consider tax rates when deciding the legal entity of the business. At the moment the Czech corporate income tax rate is 19 % of the total profit minus deductions (also known as corporation tax) and the personal income tax rate is 15% of your total profit minus deductions. It is important to be aware of the double taxation of corporations by personal income tax paid by the shareholders and the corporation tax paid by the company.

Another unpleasant expense employers have to deal with is the social security and health insurance for their employees, which in the Czech Republic can be as much as 45 % or even more. This is an important factor to consider as restaurant services are based on manual labour.

#### **7.10 Bookkeeping**

Bookkeeping where catering businesses are concerned usually remains on the shoulders of the person who runs it. Some franchises, however, provide their franchisees with an accounting system and require them to use it. Bookkeeping in a retail food business consists of recording financial transactions of purchases, sales and turnover. The most comfortable and safe option is to use a good accounting software package or to delegate this work to an accountant. It is important to get this right as failure to do so can damage your business and get you into serious trouble.

#### **7.11 Personal interest in catering**

As a manager of a restaurant or café, you have to honestly answer these questions: Do I like working with food and drinks? Do I enjoy dealing with customers? Can I give up free weekends and holidays? Can I handle, lunch and dinner time hassle, customer complaints, high staff turnover, long hours spent at work, etc? The success of your establishment is very much influenced by your skills, experience, ambition and resistance. Excessive reluctance to some parts of this business does not give you a chance to excel in the competitive market of the food industry. Business ownership is a lifestyle, not a job.

## 7.12 **Management and ownership**

By buying into a franchise, franchisees actually become the owners and managers of the franchise. Even though they cannot decide about the key issues and processes of a franchise, they run it under their own name and are responsible for their actions to the franchisor. Ownership of a retail food business is quite often related to its management as well, especially if the owner has only one establishment. Managers tend to control day-to-day operations and some of them take part directly in preparing food or serving the customers.

## **8. Different aspects concerning independent and franchise business**

### **8.1 Business Plan**

The success of a retail food establishment depends considerably on a realistically prepared business plan and this is just as true with a franchise business as with any other. The goal of a business plan is to anticipate future challenges and elaborate strategies. You have to elaborate operational and financial aspects like capital equipment, supplies, balance sheet, income statement, cash flow analysis, sales and expense forecast. It includes an analysis of the competition and describes what marketing activities it will undertake. A good business plan is essential for a third party as well, when it comes to asking banks for loans.

The franchisor provides the franchisee with an established and proven business model, where every single issue has been elaborated on and backed up by rules and regulations which included in the contract. The franchisee has to follow and accomplish the business plan created by the franchisor, sometimes he/she can participate in its formation. Creating a business plan can be time consuming and it requires much expertise. A franchisee does not need to spend time working on something that has already been done and he/she can start the business as soon as possible.

An inadaptible fixed business model might not work for business people with good experience in managing a restaurant. They set their own rules and make changes if necessary. Making a business plan in an independent retail food business will require certain time and skills but when done properly, it can ensure the success of the business.

### **8.2 Independence**

As a franchisee you have very limited independence as you are bound by a franchising agreement. If the business is not doing well, you are not allowed to make changes and introduce new products, change opening hours or lower prices. You can be convinced that your approach is better but franchising is simply not good for

brainstorming ideas. A franchise model represents low flexibility which could slow down the business, as a real problem needs to be treated with a real flexible solution. An independent business person has control over their business; he/she is able to react to economical, political or social changes that could affect their businesses. If the eating habits of the population changes (e.g. move towards healthier diets, organic ingredients, vegetarianism) they can adjust the menu to meet those demands. If the business is not doing well, there is the option of changing decoration, giving the interior a new spring of life or at worst closing it down and trying something else in a different location or with a different concept. However, I would like to mention as well that some successful franchises, e.g. McDonalds, are following the new trends in eating. They have introduced into their menu salads, grilled chicken wraps, etc. however even small changes to the menu can take a long time to put in place compared to an independent business of obvious reasons.

### **8.3 Training and Support**

As a franchisee enters a franchise network, he/she will be provided with an initial and on going training program which includes a description of products and services, a manual with the operational procedures, know how, staff training, information about leasing, permits, building designs, marketing and merchandising. In a training program you should find as well the answer to where to obtain supplies, inventory and equipment and how to do perform the business accounting. The franchisee should profit from on-site operation assistance during the opening days before they adopt all the necessary skills to run the business according to the manual. If a franchisee has any problem or questions regarding the franchise, e.g. accounting, employee issues, or technical problems, there should be specialists available on the phone to give advice or help to solve the problem.

When you start your own independent business you have to rely on your own expertise and knowledge. You are not told what to do and how to do it but you benefit from being free in your decisions as I have written about in 7.2 Independence. Not all franchise training systems have value, and sometimes the franchisee can disagree with the training program he/she has to follow unconditionally.

Franchise chains keep together by being part of special franchise associations. As I have mentioned before, in the Czech Republic, franchising gets its support from The Czech Franchise Association which is a member of European Franchise Federation and the World Franchise Council. It is a non-profit organization founded in 1993 and it brings together franchisors, franchisees and specialists (lawyers, advisors) in franchising all over the country. Its purpose is to inform the professional and general public about franchising, promote it, support it and improve its concepts. At present it has 32 members representing international and domestic franchise systems.

#### **8.4 Premises and inventory**

I have already said that both franchisor and franchisee take part in the demographic analysis of the area, choosing the right premises and negotiating the lease. How the restaurant, café or bar will look like inside is a privileged decision of the franchisor. For a franchisee, this could be one problem less to worry about or, on the contrary, a limitation to his liberty to decorate the place as he or she wants. The price of the inventory is not an issue to negotiate either, as the equipment is usually provided by franchisor and franchisee is not allowed to look for a cheaper alternative.

The person who runs a private business can use their own imagination or hire a professional interior designer to make the unit look original, elegant or cosy. If he/she decides to paint the walls yellow and order cheap furniture, there is no limitation to do so.

#### **8.5 Initial Investment Capital and Fees**

The retail food industry is relatively capital intensive compared to others, e.g. home or office based businesses. First let's make an overview of the expenses which are common for retail food businesses in general. Every franchise has a different system for categorizing the start up expenses. Some require only investment capital and the franchise fee is included in it. Some demand a franchise fee on top of investment capital. In total, in the beginning you have to count on the following types of expenses:

- deposits – even if they are refundable, they can be initially quite costly.
- rental fees, mortgage or real estate fees
- costs of furnishing the interior of the premises and building utilities, kitchen equipment and other necessary equipment, inventory and decoration
- licenses, permits and administrative fees
- interest payments on loans
- insurance
- professional fees – solicitors, accountants
- council rates - community charges for e.g. street lights, sewerage, cleaning of the street, water, etc.
- alarm security system, systems to collect customer takings and keep financial records
- employee's wages
- advertising
- initial stock

Financial resources in the first period of starting the business should be higher before the business produces any revenues for additional financing. It is very important to have financial reserves for unexpected expenses.

The expenses described above are approximately similar when comparing same-size franchise and non franchise business, selling the same kind of products, in a particular area or region. It is the additional fees that make a franchise and non franchise business so different in the scope of numbers.

In exchange for the right to operate under the franchisor's name, a franchisee has to pay franchise fees.

The fee usually depends on the popularity of brand name, the number of benefits you get in return, the range of franchisor's cooperation, subsequent support and some other factors.

Franchise fees usually include:

**Initial franchise fee** – it usually covers:

- the right to use the brand name and business concept,
- help with site selection and lease or purchase negotiation,

- advice regarding the fitting-out of the premises and the acquisition of initial stock,
- assistance with staff recruitment and training,
- manuals
- franchisor’s ongoing assistance and support, etc.

**Royalty fees** – they are usually based on the percentage of monthly or weekly gross revenue, sometimes they are fixed amount. Fee levels vary from 1 to 7% depending on the type of business

**Advertising fees** – they are usually put into a general regional or national fund and used for the whole franchise chain.

If your franchisor decides to extend the contract, you will have to pay a **renewal fee**. The amount is often similar to the initial fee. If it is not included in monthly ongoing fee, after certain period of time you might be charged a **refurbishing fee** to replace the interior design or equipment. A **transfer fee** may be required by the franchisor when you sell the franchise to another person (if it is allowed). All information concerning costs and fees should be disclosed in Franchise Disclosure Document and then incorporated into Franchise Agreement.

The franchise agreement must include a detailed description of what is covered by the fees the franchisee is obligated to pay. The obligation to pay these fees is strictly upheld by the franchisor under the terms of the agreement. An independent business person has a clearer view of what they are paying for and what they get in return. They alone decide about where to allocate financial resources, whether it is to hire a professional chef and “service with a smile” waitresses, rent premises in a main square or to use good quality ingredients.

To give an idea about franchise fees, I have listed some of the most popular international fast food franchises to illustrate the current costs and qualification requirements in US dollars.<sup>6</sup>

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<sup>6</sup> Entrepreneur, available on <http://www.entrepreneur.com/franchises/food/indexfood.html>

**1. Burger King Corp. (hamburgers, fries, breakfast)**

Total investment: \$294,000 - \$2,800,000

Franchise fee: \$50,000

Ongoing royalty fee: 4.5%

Term of agreement: 20 years, renewable

**QUALIFICATIONS**

Net worth requirement: \$1,500,000

Cash liquidity requirement: \$500,000

**2. Subway (sandwiches & salads)**

Total investment: \$84,300 - \$258,300

Franchise fee: \$15,000

Ongoing royalty fee: 8%

Term of agreement: 20 years, renewable

**QUALIFICATIONS**

Net worth requirement: \$30,000 - \$90,000

Cash liquidity requirement: \$80,000 - \$310,000

**3. Pizza Hut (pizza, pasta, wings)**

Total investment: \$316,500 - \$2,974,000

Franchise fee: \$25,000

Ongoing royalty fee: 6%

Term of agreement: Term of agreement not renewable

**QUALIFICATIONS**

Net worth requirement: \$250,000

Cash liquidity requirement: \$150,000

**4. KFC Corp. (chicken)**

Total investment: \$1,379,900 - \$2,422,500

Franchise fee: \$45,000



Ongoing royalty fee: 5%

Term of agreement: 20 years, renewable

#### QUALIFICATIONS

Net worth requirement: \$1,000,000

Cash liquidity requirement: \$500,000

#### **5. Mr. Smoothie (smoothies & juices)**

Total investment: \$87,700 - \$376,400

Franchise fee: \$20,000

Ongoing royalty fee: 6%

Term of agreement: 10 years, renewable

#### QUALIFICATIONS

Net worth requirement: \$250,000

Cash liquidity requirement: \$50,000

The first think you might spot in the information about these franchises is the wide differences between the minimum and maximum total investment costs. There are various reasons for these differences. First there it is the size of the premises and this means that the equipment and decoration and other costs related to size are much more. Another reason may be whether it is a new or existing outlet (e.g. in case of McDonalds), the location of the premises, geographic and building requirements, site accessibility, availability of financing, facilities like a drive-through, parking, and other factors. If it is an existing restaurant, its setup costs can be very much increased by large transfer fees related to the restaurant's cash flow.

#### **8.6 Financing**

To set up a retail food store, you can fund your initial purchase from your own resources (this is more possible for simple small size businesses like selling food or drinks from a stall) or you can seek outside financial support. In most cases you will need both, some start up capital of your own (between 30 – 50%) and a loan to

finance your fixed assets and working capital. Most of franchises will ask you to have certain net worth in cash or bonds. After you find out how much of a total investment you need (in the case of a franchise, from a Franchise Disclosure Document; in the case of a private business, from a business plan), you have to look into possible ways, where and at what price you can borrow the money. Most of the money needed would probably have to come from a bank loan. In order to get a bank loan you will need to present a realistic and well prepared business plan. Bank lenders like to see evidence of a company's prosperous history before considering whether to lend or not. One is more likely to succeed with a large and well known franchisor's name backing you up than without it. Banks are aware of the risks and the failing rate of small individual businesses. If they do give them a loan, the interest rate is usually higher than for a starting franchise business with a history of proven success and a good track record. Franchise businesses in the Czech Republic are supported especially by the Komerční Banka bank. Some franchisors offer to carry a part of the expense burden or allow you to benefit from agreements which they have with companies regarding the leasing of special equipment for the franchise.

### **8.7 Risk of failure**

It is mainly the perceived predictability of success and minimizing of risk that franchise chains offer in exchange of their high fees. Most studies show that franchises have a relatively high chance of survival in the market place and small independent businesses are more likely to go bankrupt in the first couple of years. It is difficult to get outright information about the success and failure rates of franchise businesses as the International Franchise Association defines failure in a different way. For example If the manager-franchisee "loses his shirt", the store does not close down (the business continues without changes) and a new franchisee is contracted to take over the management and the previous manager's failure is not taken into account. The success of the brand name franchise chain and profitability of a particular store can be two different things, especially when we take into account the purchase price of a franchise. There is risk is attached to all business activities. It can be minimized when the franchise system has a long track record proving that it is

able to generate a positive Return on Investment. People who lack big financial resources and are willing to accept more risk can try a new franchise concept with lower fees. However, an independent business person should not be put off by statistics as they are influenced by many variables. Instead one should rather try to predict all potential dangers and try to avoid them in advance.

### **8.8 Suppliers**

Franchising is one way for small business owners to benefit from the economies of scale enjoyed by large corporations. Franchisees do not have to look for suppliers, as franchisors have already established long term relationships for the supply and distribution of fixed assets like equipment, furniture, and food and drinks. Franchisors buy in bulk and therefore can negotiate discounts. Then the franchisee is not allowed to buy from any other suppliers and that includes everything from food and drinks supplies to interior furnishing, work clothes, kitchen appliances and equipment.

A private business person can have several suppliers for different items and can replace them if there is a problem (e.g. delays in delivery, poor quality of products, high prices). Also by purchasing similar products from different suppliers stimulates competition among said suppliers and therefore you may receive a better price. However, an independent business person buys in much smaller quantities usually at a higher cost. On the other hand, they are not restricted to particular equipment or decor, and can reduce the initial investment by being creative in this area.

### **8.9 Employees**

Recruiting, keeping and firing employees is probably one the most difficult tasks in a restaurant business because it is generally known for its high staff turnover rates. Unless your business is a very small unit with only one working at a time, you will need to employ people. It is quite a complicated process and it requires gathering a lot of information about the legalities and tax issues, payroll, dismissal etc.

Some franchises have websites where people can apply for jobs in different towns. This is very beneficial for a franchisee when looking for employees. As well, a franchise system usually has its own complex training program and benefits policies for their employees. You will not have to negotiate conditions with the job applicants as there is usually an established system for this, you could say that the franchise manual is “the bible”.

Finding and training employees in a private retail food business should not be too much of a problem for the employer, if they have advertised the job opportunities in different sources and have set up clear and fair policies. It is important to work on your staff’s competencies constantly and point out mistakes they make. This is another situation where the day to day presence of the boss is very important as they are the ones who have the most to loose as a result of there being bad service provided or bad food served at their establishment.

### **8.10 Customers**

They are the most important constituent of the whole concept of doing business and taking care of them is certainly key. This has given rise to the sayings “the customer is king” and “the customer is always right”. This is especially true in the retail food industry for small independent businesses, who can continue to make a living from regular customers or at least they will support their business in times of crisis.

The reason why franchises take less time to establish a customer base is because the brand already exists on the market and it is recognized by many people. Customers can expect certain standards and quality from any retail food unit of the same franchise network. The same ingredients and processes are used to prepare food; consumers know how it is going to taste, how fast they are going to be served and how much they are going to pay. Franchise fast foods are especially searched out by people travelling in foreign countries that may seem more expensive to them. They rely on “safety” and low price instead of experiencing the taste of national cuisine . Global advertising plays a great part as well in getting the brand into people’s subconscious.

An independent restaurant or café will probably not attract people manipulated by extensive advertisement but there are different types of people. A small business can build up the loyalty of people who resent brand names and uniformity. They want to try something original and authentic or they might want to ask for a meal to be prepared the way they want it - things which are certainly not possible in most franchises. Even a very conservative eater can get bored with the invariable offer of food and drinks in a particular franchise. As an independent restaurant manager you can decide to change the menu, exclude meals that do not sell and include something unique or catch passers-by's attention with special offers. Generally they can be much more creative and act quicker when it comes to making changes to the menu.

### **8.11 Marketing**

Advertising and marketing is one of the most powerful weapons of franchising. For any kind of business, advertising represents a very high cost with no promise of results. The golden rule in marketing is that the more you advertise the more attention you get, either positive or negative.

Franchise companies hire professionals who are constantly doing effective marketing research, analysis and testing to see what product or service is in demand and what type of population they should aim for. The advertising campaigns are very strategic and elaborated. The funds for advertising are concentrated on the franchise company as a whole, so the franchise has the marketing power to use every marketing tool (media, billboards, direct marketing, public relations, etc.). The franchisee has an opportunity to benefit from a global advertising campaign running throughout the country or even the world. That can provide the business with a flow of customers aware of the brand name coming from all different places around the world. The franchisee has to pay contributions to an advertising fund. This is normally based on sales or it is formed from a fix amount plus the percentage of sales. Among the disadvantages of this system for a franchisee are: the limitation to participate in distribution of marketing funds together with the fact that the fee for advertising is not spent directly on the growth of their particular local franchise business but it is used to build up general brand awareness for the franchisor. Many franchisors expect

franchisees to supplement national marketing campaigns with local marketing efforts, at their own expense.

Here is an example of the percentage average of turnover which was spent on advertising in the year 2006 by the leading food franchises in the U.S.A.<sup>7</sup>

INDUSTRY	AVERAGE NATIONAL ADVERTISING	AVERAGE LOCAL ADVERTISING	COOPERATIVE REGIONAL ADVERTISING
<b>Fast food</b>	2.1%	1.7%	1.9%
<b>Retail food</b>	1.9%	2.0%	1.8%

Is it possible to build a brand with a private retail food business? Yes it is, if one sees a brand as a promise. Brand building would be then narrow the gap between the promises which are made and the product or service delivered. A private business may not have as much capital to pour into advertising as a franchise. It may only be able to promote itself on a local level. An independent business cannot compete in the mass media marketing with giant enterprises. Just to illustrate this fact, Subway spends \$290 million per year on television advertisement<sup>8</sup>. It is recommended to dedicate 3-6% of sales revenue to marketing and use it proportionally to sales volume (to use more advertising in busier months). Successful small independent retail food outlets tend to market themselves by word of mouth and customer referrals. Also outdoor design is a proper tool of marketing as its principle function is to attract people passing by to go inside. Once they are inside the next step is to offer those people something special and try to ensure that they come again. In this way they try to build up a regular customer base.

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<sup>7</sup> Goliath. Business knowledge on demand, 1 March 2007, available at [http://goliath.ecnext.com/coms2/gi\\_0199-6442879/Part-III-royalty-and-advertising.html](http://goliath.ecnext.com/coms2/gi_0199-6442879/Part-III-royalty-and-advertising.html)

<sup>8</sup> Restaurant marketing tactics. Quantified marketing group; available at [http://www.quantifiedmarketing.com/learning\\_center/restaurant-marketing.php](http://www.quantifiedmarketing.com/learning_center/restaurant-marketing.php)

## 8.12 Contract, Obligations

In order to become a franchisee one has to enter into a legal agreement with the franchisor, known as the *Franchise Agreement*. The agreement is there as well to ensure that all franchisees within an organization are treated equally. In most countries, including the Czech Republic, there is no specific legislation or regulation for franchising. In that case, the Franchise Agreement becomes the key document determining the rights and duties of the franchisor and the franchisee. However, in the United States of America, the land of franchising, they do have special regulations governing franchise businesses incorporated in Federal Trade Commission. Many states have implemented their own individual franchise rules and additional requirements. Before signing the Franchise Agreement, the franchisee is given a *Franchise Disclosure Document* to read it through with their solicitor, which usually contains comprehensive details about the company's background, any bankruptcies or lawsuits that have occurred within the organization, financial data, operations manual, proprietary statements, franchisors and franchisees obligations and every detail that are to be included in the final Franchise Agreement. These agreements are limited in time and terms usually run for between five to twenty years. After that period the Agreement can be extended. The Franchise Agreement includes conditions regarding the termination of the franchise. The contract can usually be finished by:

- The expiration of Agreement made for a fixed date.
- Mutual consent between franchisor and franchisee
- Breach or Termination of the Franchise Agreement by franchisor or franchisee which will be followed by legal procedures with possibility of financial compensation being paid to the damaged party
- Reselling the franchise business by franchisee to a new franchisee, if it is permitted.
- the declaration of bankruptcy by the franchisee

An independent retail food business operator has the advantage of not being bound by any contract. It does not mean that there are no potential risks for their business but at least they are not contractually dependant on anybody. Fewer documents mean greater simplicity and more time to do "real business". There may be many reasons

why a franchisee might give up managing the franchise: too much stress, disproportion between his financial input and profit earned from the business, family pressures, disagreements with the franchisor or suppliers, etc. Terminating the contract is as complicated as entering it. Depending on the terms of the contract the franchisee may have to compensate the franchisor and most probably have to pay all the expenses created by the transfer of the franchise and all legal fees. Franchisors fear that franchisees, after having acquired the know-how, business methods and trade secrets, could become competitors for the franchise or disclose any confidential information about the company. Clauses which attempt to prevent this are usually included in the agreement too.



## **9. Analysis of fast food restaurant market**

A fast food restaurant, also known as a quick service restaurant is a limited menu establishment which produces packaged food for immediate consumption, on or off the restaurant premises. Fast food customers usually order at a counter and pay before eating. There is no doubt about the rising popularity of fast food restaurants with affordable prices and quick service, known as well for their “value for money” policy. They started in the USA but quickly spread all over the world and they exist even in third world countries. The hasty lifestyle of many people and the unwillingness of the younger generation to learn to cook created the demand for restaurants where the food is prepared in very short time period, often at the expense of nutritional value. It is evident enough just by visiting, for example, a shopping centre at a lunch time. You would rarely see such a queue of people waiting to get into a normal full service restaurant. The customer can see from the board what the food looks like and compare the prices. Running a fast food is more exhausting than running a casual restaurant as the main principle they use is to serve as many customers as possible. Some fast foods call themselves “take away” to remind clients that they can take the food away and eat it outside the premises. This strategy also enables them to sell more food in a shorter time. Most normal dining restaurants have strategy of maximizing their profit mainly from selling drinks (compare the price of a drink and the price of a menu in any restaurant in the Czech Republic) and selling take away food in a box would not be profitable for them. Fast food restaurants represent a significant proportion of all restaurant revenue generated currently in The Czech republic.

Czechs have adapted quickly to the western type of fast food restaurants. The most popular are McDonalds, KFC, Subway, Burger King, Daniel’s Donuts or TGI Fridays.

Here a few lines are dedicated to describing the father of all franchise fast food restaurants.

## **9.1 McDonalds**

McDonalds is the worlds leading fast food service retailer and has more than 300 000 restaurants in 119 countries serving 46 million customers every day.<sup>9</sup>

To become a franchisee of the world's best known fast food chain is not only extremely financially demanding, you have to fulfil some other conditions as well.

### **What are the costs involved in the Czech Republic? <sup>10</sup>**

The purchase price of an existing restaurant varies and it depends on a number of factors including sales volume, profitability, and size of premises, facilities, competition or location.

#### **1. Single investment:**

a) Deposit: 15 000 USD (280 725 CZK)<sup>11</sup>

b) Franchise entrance fee for 20 years: 45 000 USD (842 175 CZK)

c) Equipment and Pre – Opening Costs: minimum 950 900 USD (17 796 093 CZK) – this amount differs according to the size of the restaurant, facilities, area of the country, inventory, kitchen equipment, car park, decoration, children's corner, etc.

Total single investment = minimum 18 919 000 CZK

McDonald's requires a minimum of 40 % of non borrowed personal resources and the rest may be financed from a bank loan.

#### **2. On-going fees:**

- Monthly rent for the premises, based on the sales and profitability (10% - 15%). (McDonald's usually owns the property and acts as a landlord)
- Service fee based on the restaurant's gross sales (4 % of sales)
- Contribution to national marketing spending (4, 5 %)

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<sup>9</sup> McDonalds fee franchise. WSI, available an [http://www.wsicorporate.com/more/article/mcdonalds\\_franchise\\_fee](http://www.wsicorporate.com/more/article/mcdonalds_franchise_fee)

<sup>10</sup> Official McDonald's websites, available at [http://www.mcdonalds.cz/cs/onas/franchising/typy\\_franchisingu.shtml](http://www.mcdonalds.cz/cs/onas/franchising/typy_franchisingu.shtml) and [http://www.aboutmcdonalds.com/mcd/franchising/us\\_franchising/purchasing\\_your\\_franchise/new\\_restaurants.html](http://www.aboutmcdonalds.com/mcd/franchising/us_franchising/purchasing_your_franchise/new_restaurants.html)

<sup>11</sup> According to exchange rate on March 19, 2010

### **What can one expect in return?**

According to the financial reports the McDonalds Corporation for the first quarter of the year 2010 show an average Return on Investment of 18, 9%<sup>12</sup>

### **What does McDonalds expects from a franchisee?**

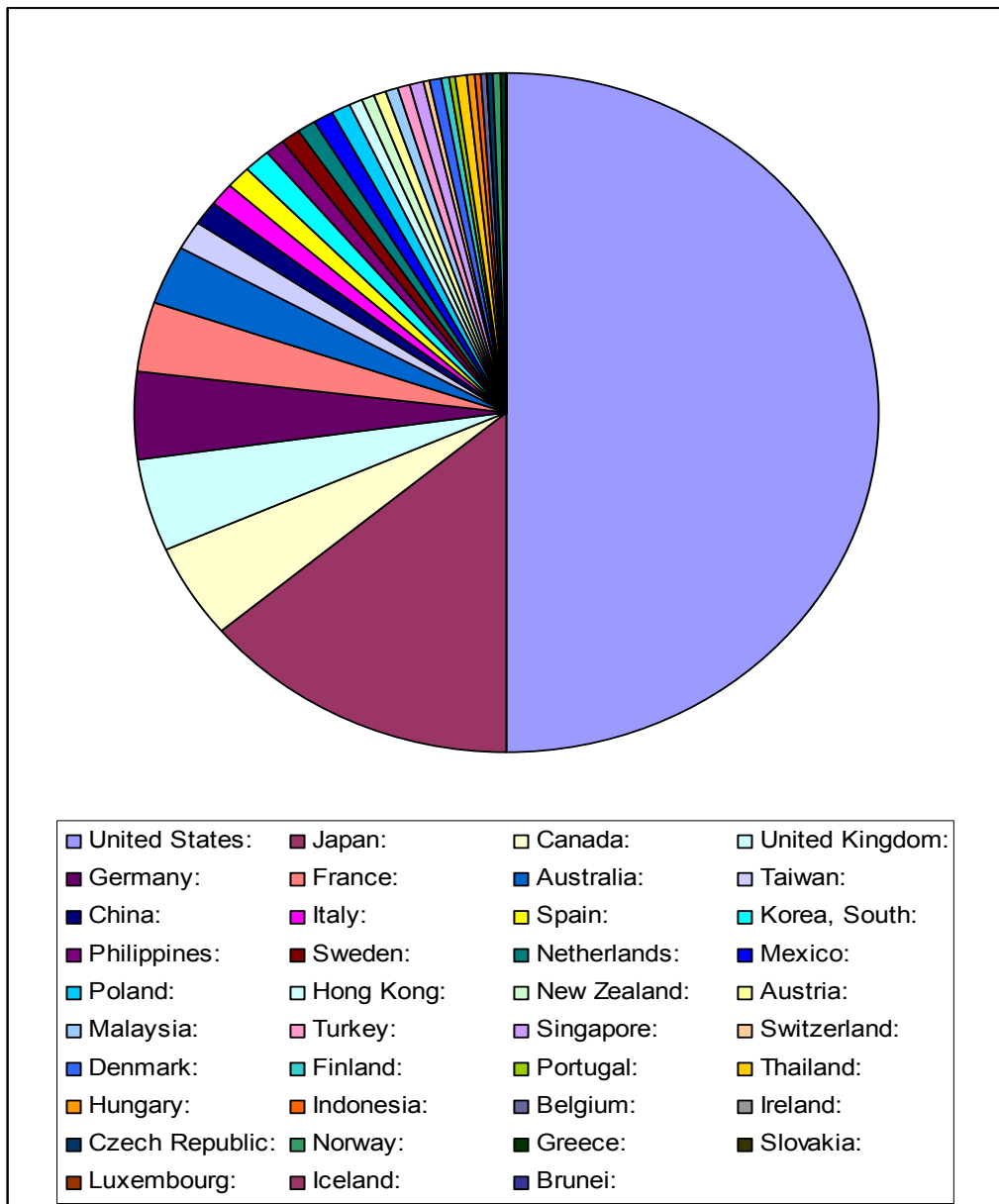
- Experience in running a successful business or career
- Demonstrated significant team leadership ability
- A 20 year commitment
- To have no other business activities
- Hands on running the business
- The supporting of community programmes (sport team, environment)
- Undertaking a 9 month training program before starting the business

The following chart gives information about the proportion of the number of McDonald's restaurants all over the world<sup>13</sup>. As you can see, the United States of America makes half of all restaurants.

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<sup>12</sup>Forex global market, March 2010, available at <http://finapps.forbes.com/finapps/jsp/finance/compinfo/Ratios.jsp?tkr=mcd>

<sup>13</sup> Food Statistics – McDonald's restaurants by country 2003. NationMaster.com available at [http://www.nationmaster.com/red/pie/foo\\_mcd\\_res-food-mcdonalds-restaurants#source](http://www.nationmaster.com/red/pie/foo_mcd_res-food-mcdonalds-restaurants#source)



As you may have made out from the McDonalds investment requirements, the start up costs of fast food franchises are a drawback. There are no cheap and profitable franchises. The fees start at hundreds of thousands crowns and go up to millions.

If you cannot afford to invest that amount of money you can buy into a small unit franchise with lower costs of investment and equally small turnover but a shorter wait for a return on investment. One of the cheapest Czech retail food franchises is a company called **Fornetti**, which sells bakery products. There is no entrance fee and the total investment is between 50 000 and 500 000 Czech crowns, and it

depends on the size of the unit. The return on investment is expected to be within half a year. The advantage of this small unit business are low variable and fixed costs as the unit requires only one employee working there at a time, small storage space for frozen bakery and pastry products and an oven provided at the cost of the company.

Another franchise with a slightly higher investment but still simple to operate is **Daniel's Donuts**, which sell its mini doughnuts from a mobile stall and stationary stall. The investment ranks between 250 000 CZK and 750 000 CZK and the franchisor gets 5% of the monthly turnover and 2% of yearly turnover goes to marketing.

## **9.2 Fast food delivery**

People in the modern world have become not only less likely to cook, but also less likely to go out and eat. This has created a great opportunity for fast food restaurants to offer home delivery as an extra service to their customers. There are franchises that do specialize in this service, for example Domino's Pizza which is very popular for example in the United Kingdom or in Ireland because of the massive television advertising campaigns. Fast food delivery, especially pizza delivery has become very successful in the Czech Republic as well. It is mostly private businesses which compete in this sector; pizza franchises have not really arrived on a major scale onto the Czech market yet.

If you want to decide weather to have a franchise or non-franchise quick service outlet depends on many circumstances. In big cities with advertising billboards and flashing lights, people may be more driven by the brand. Whether you want to open an independent pizzeria, baguettes, hamburgers or pasta fast food establishment; one may be more likely to succeed at a more local level, in smaller towns or suburban areas. It may not be a good idea to try to beat the competition at any price. If there is a Subway in your town, open an Italian fast food. If there are already two McDonalds, do not try to compete with your gourmet home made

burgers. It might work, as consumers' identity and behaviour is different in every town, but it may not be easy.

In my opinion, it is mainly marketing that sells franchise products and services. Many people confuse quality with brand names and they do not stop to think about the disproportion in these three elements: major advertising costs – low prices – quality food (which often suffers at the expense of the other two). So if one decides to compete with big fast food brand names, one would have to have to offer something more. Quality and taste are fair weapons to use. I know a pizzeria in the south of Spain which existed in a same town together with Pizza Hut and still they managed to have more customers and more delivery orders, just because they used very tasty special sauces and ingredients in their recipes and kept very fair prices. Their popularity spread over the little town, because people knew each other and they were able to build up a strong local customer base.

## 10. Analysis of full service dining restaurant market

People go to restaurants usually for more reasons than just to eat. In exchange for a higher price they expect a better quality of service, good quality food which takes more time to prepare and a good atmosphere for socializing. There are not as many international franchise casual restaurants as there are franchise fast foods. The comparative advantage of fast foods is evident from the amount of customers they are able to serve; meanwhile the time people spend in a casual restaurant is usually longer and the capacity of the premises is very often not used to maximum. A franchise full service restaurant needs to be very popular to keep high prices and at the same time have a great turnover. However, there are some Czech franchise concepts in this sector that are doing well, for example the restaurants **Potrefená husa**, **Ambiente**, **Hacienda Mexicana** or **Švejk**.

### 10.1 Potrefená Husa

The restaurant **Potrefená husa** has been on the market since 1999 and over a period of 10 years has managed to open and run successfully, 30 restaurants in the Czech Republic and 3 restaurants in Slovakia and is planning to open more restaurants in the year 2010<sup>14</sup>. Potrefená husa is owned by the Staroprameň group and it works in three concepts: Restaurant, Sport Bar and Beerpoint.

**Potrefená husa Restaurant** is known as a fine-dining restaurant offering mostly Czech cuisine with prices of food considerably higher than a typical Czech restaurant offering similar cuisine. Let's look at the details or secrets behind this franchise concept.

Starting with the service, you can be guaranteed that you will be taken care of from the moment you enter the restaurant. The staff is highly trained, everything is organised and fast. The quality of food has to meet certain standards of taste and visual appearance as well. Another requirement that a franchisee has to fulfil is to run the restaurant directly ("hands on"), as the main cause of failure in many dining restaurants is the absence of the manager or owner and the lack of discipline or

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<sup>14</sup> 30 Potrefených Hus a zmeny. [Franchisinginfo.cz](http://franchisinginfo.cz), 31 August 2009 available at <http://franchisinginfo.cz/clanek/363/30-potrefenych-hus-a-zmeny/>

organizational skills of the employees. The franchisor gets feedback by engaging in a process named “mystery shopping”; this is when somebody is sent to the restaurant as a customer and reports back to the franchisor on such issues as quality of food and service.

The franchisee does not have to pay any entrance fee to buy the franchise and the **total investment** stands at between **9 and 12 million** Czech crowns. The franchisee has to pay around 75 % of total costs of the investment. The franchisee has to provide the premises himself to build the restaurant and the absolute condition is to have experience in catering.<sup>15</sup>

What advice can be taken from the Potrefená Husa chain in order to achieve good results in an independent restaurant? To summarize:

- *Location* – the three different concepts of Potrefená Husa are very specific about the location where the unit should be built. As an example Potrefená Husa Restaurant can be built in cities with over 50 thousands people, at the corner of streets in the centre of the city.<sup>16</sup> Think strategically: A restaurant should be located in a place with a great traffic of people: shopping centre, university campus, train station, etc. Always taking into account good public transport connections or nearby availability of parking.
- *Service and supervision* – dedicate enough attention to the training of your staff, especially the waiting staff and bar attendants as they come into direct contact with the customers. Always be present in the restaurant or delegate somebody you can trust hundred percent at moments you can not be there.
- *Food quality and appearance* – be careful with minimising your expenses on food and drinks. Customers usually can notice the difference between quality ingredients and inferior cheaper ones. Try to save that money by buying in bulk or investigating properly several suppliers and their prices. Employ a professional chef and try to be creative with details and the presentation of food on the plate.

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<sup>15</sup> Franchising INFO.cz, available at <http://franchisinginfo.cz/franchisa/14/potrefena-husa/>

<sup>16</sup> Interview with David Petrik, Branded pubs concept manager, March 2007 available at [http://www.gastroplus.cz/prectete-si/2007/07\\_3\\_jak-si-koupit-know-how.php](http://www.gastroplus.cz/prectete-si/2007/07_3_jak-si-koupit-know-how.php)



- *Dealing with complaints* – keep your customers as friends and not enemies. Try to satisfy your customers even if they are not right. It does not cost much to exchange a dish for something else and it leaves them with a good impression.

The main reason why some Czech restaurants fail to succeed may be because they do not give enough attention to all these details. The food often tastes different every time one enters and it is often necessary to stand on the table not to be ignored. The table cloth may not have been changed, beer can be too warm and the coffee generally leaves a lot to be desired. When you want to make a complaint you are a terrorist and when you ask for the manager, you are told he is on holiday. I know few restaurants that are busy every time you come in and the reason is because they keep on working on perfection even though they are not luxury top class restaurants.

## 11. Consumer Preference Studies<sup>17</sup>

To demonstrate the real impact of franchise and non franchise business models on people, I have included the result of a survey conducted by the independent research house BDRC on behalf of the British Franchise Association in 2007. 1235 United Kingdom residents, aged between 18 and 55, were asked about their preferences for buying goods or services from a franchise and a non-franchise business. According to the results of this survey, the popularity of franchises prevails over non-franchises. Respondents identified the following benefits that they feel franchises have brought to them:

69% felt that they benefit from the local business which is backed by a national brand or organisation

66% said they know exactly what they are getting regarding products and service

64% said they felt the service is more likely provided to an agreeable and consistent standard

60% said that prices are more competitive (possibly due to their ability to buy in bulk)

54% said they feel more valued as a customer

53% said they receive better service because they deal with the owner.

This may give you an idea about how popular franchises are in the United Kingdom. However, it is very misleading to base the general customer preference on one study.

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<sup>17</sup> British Franchise Association (BFA) Survey 2007. More than loft ladder franchise, available at <http://morethanloftladdersfranchise.com/File/franchising.php>

## 12. Summary

Ako spotrebiteľov nás môže zaujímať rada otázok: Prečo sú niektoré reštaurácie v plnom prúde nepretržite sedem dní v týždni? Prečo niektoré zaniknú len krátko po zahájení? Každý podnikateľ by chcel vedieť, čo zaistí úspech jeho podniku a veľa z nich zvažuje práve možnosť zakúpenia frančízy. Niektorí ľudia snívajú o tom, že raz budú vlastníť svoju prvú reštauráciu či kaviareň a myslia si že frančíza im pomôže prekonať bariéry silného konkurenčného trhu a prinesie im vytúžené bohatstvo. Pre koho je frančízing určený? Veľa poskytovateľov frančízy tvrdí, že frančíza je pre ľudí, ktorí majú obchodného ducha, ale boja sa začať podnikat' od základov zo strachu z neúspechu. Je prakticky nemožné jednoznačne určiť, ktorý typ podnikania je viacej náchylný na zlyhanie. V tomto nám môžu poskytnúť informácie štatistiky, ale i tak sa to univerzálne uplatniť nedá. Úspech pohostinského zariadenia závisí na mnohých okolnostiach, ale ten hlavný faktor, ktorý rozhoduje o tom, či podnik prežije a bude prosperovať, je kvalita managementu. Dokonca i frančízant musí byť dobrým manažerom, ináč jeho podnik, bez ohľadu na silu značky, pôjde ku dnu.

Ďalšia skutočnosť, ktorá stojí za zmienku je kvalita produktov a služieb a ich vplyv na zákazníkovo uprednostňovanie jednej reštaurácie voči druhej. Svet je zasiahnutý amerikanizmom a ľudia v Českej republike sa „americkej kuchyni“ prispôbili veľmi rýchlo. Budúcnosť praje americkým reťazcom s rýchlym občerstvením, pretože tie, i navzdory kríze, otvárajú každý rok nové prevádzkarne. Napriek tomu sa takisto prebúdza český priemysel s maloobchodnými frančízami; a tých zopár úspešných spoločností je hnacou silou pre českých podnikateľov, aby svoj podnik premenili na frančízu. I tak ale máme čo robiť, aby sme sa vyrovnali napríklad talianskej alebo francúzskej frančízovej reputácii.

Poplatky sú tým hlavným dôvodom, prečo potencionálni podnikatelia váhajú nad možnosťou stať sa príjemcom frančízy. Preto je dobré si s predstihom preštudovať, akú hodnotu za svoje peniaze dostanú, či kvalita podpory frančízora počas existencie frančízy oprávňuje výšku poplatku. Investovať peniaze do frančízy sa oplatí, pokiaľ frančízantovi zostane zisk i po zaplatení poplatkov, ktoré poskytovateľ frančízy požaduje.

Frančízanti musia takisto splniť požiadavky týkajúce sa čistej hodnoty a likvidity ich majetku. Niektorí poskytovatelia frančízy presne špecifikujú, aká časť investovaného

kapitálu musí byť tvorená vlastnými zdrojmi a aká časť môže byť financovaná bankovým úverom. Keď vezmeme do úvahy problematiku ziskovosti, malé nezávislé podniky by mohli mať i na veľké frančízové reťazce, pretože nemusia platiť frančízové poplatky a o zisk sa s nikým nemusia deliť. Okrem toho, majú voľné ruky v plánovaní a organizácii výdajov podľa okolností, ktoré na trhu s maloobchodným predajom jedla nie sú veľmi stabilné.

Neexistuje jednotné zlaté pravidlo, ktorým by sa mali riadiť všetci manažeri, pretože každé zariadenie môže mať trochu odlišné parametre, ale môžeme si zhrnúť čiastočné odporúčenia, ktoré môžu úspechu veľmi ľahko napomôcť:

- Musíte byť pracovití a vášniví v tom, čo robíte.
- Musíte byť trpezliví, odolní voči stresu a mať pozitívny postoj.
- Musíte predávať niečo, čo by zaplnilo potrebu na trhu. Je treba si byť vedomý rizika pri príliš veľkej jedinečnosti produktu či služby, u konzervatívnych spotrebiteľov sa to nemusí ujať.
- Berte zlyhanie ako proces učenia sa a buďte otvorení novým vedomostiam.
- Musíte byť filantropmi a vychádzať dobre a rôznymi druhmi ľudí.
- Majte sa na pozore pred zmenami, pracujte neustále nad zlepšovaním marketingových aktivít a získavaním nových zákazníkov.
- Buďte dobrým vodcom, ktorý podporuje výkonnosť u ľudí, na ktorých deleguje zodpovednosť.
- Vytvorte si dobrý obchodný plán na základe správnych a aktuálnych informácií a realistických výhľadov do budúcnosti.
- Nepodceňujte investovaný kapitál a náklady na prevádzku a majte realistické očakávania o zisku.
- Nezabudnite, že trvá čas, kým sa podnik rozbehne a preto budete musieť pokryť náklady počas obdobia, keď nebudete vytvárať žiaden zisk.
- Buďte strategickí ohľadne umiestnenia jednotky.
- Vytvorte kvalitné webové stránky, ktoré budú informovať užívateľov o vašom podniku. Zahrňte dostatok informácií o jedálnom lístku, produktoch, špeciálnych ponukách, nutričných hodnotách. Zanechajte kontakt pre spätnú väzbu zákazníkov a ľudí, ktorí by sa chceli stať zákazníkmi.

Prečo teda existuje frančízing, pokiaľ sa všetky tieto postupy môžu uplatniť i bez nutnosti stať sa súčasťou frančízovej siete? Veľmi často sa podniky stávajú

frančízami po nejakom čase fungovania na trhu. Začnú expandovať a vlastníci podniku si uvedomí, že namiesto umelého potlačovania expanzie môže radšej otvoriť ďalšie jednotky na iných miestach, čo by znásobilo predaj a zväčšilo jeho zisk. Môže delegovať iných manažerov, ktorí by mali dohľad nad ďalšími jednotkami, alebo môže zmeniť podnik na frančízu a predať svoj obchodný nápad. Frančízova zmluva by pomohla znížiť pravdepodobnosť, že daná jednotka bude vedená neprijateľným spôsobom. Toto je veľkou výhodou, pokiaľ má podnik niekoľko zariadení v rozličných častiach krajiny (napr. vo veľkých mestách) a vlastníci nemôžu ustavične kontrolovať nezrovnalosti medzi jednotkami. Preto poskytovateľ frančízy vyberá najlepšieho kandidáta z potencionálnych frančízantov, ktorý bude mať osobný záujem na vedení jednotky najlepším možným spôsobom.

Vráťme sa ale k nezávislým podnikom a ich šanci súperiť s frančízovými reťazcami. Legenda o Dávidovi a Goliášovi odráža problém, ako čeliť obrovskému tvorovi, nemožnej situácii. A predsa, Dávid, mladý muž, dokáže poraziť Goliáša, niekoľko metrovú obludu pľundrujúcu Izrael, tým že mu do tváre hádže kamene a omráči ho.<sup>18</sup>

Dvaja dokážu žiť lacnejšie ako jeden a toto pravidlo môžeme uplatniť na veľké obchodné reťazce, ako sme už pojednávali v časti o rozdelení marketingových nákladov, zvyhodnenom centralizovanom nákupe a obrovskej zákaznickej základni. Nezávislá reštaurácia či kaviareň dokáže ponúknuť niečo, čo väčšinou žiadna frančíza ponúknuť nemôže: svoju vlastnú identitu, jedinečnosť, kultúrny význam, súčasť blízkej komunity. Frančízové reštaurácie udržiavajú konzistentnosť, ale často je to na úkor kreativity. I najlojálnejšieho zákazníka môže unaviť kupovať stále dookola ten istý produkt. Ako plynie čas, podmienky okolo trhu s pohostinstvom sa môžu meniť, tak ako sa menia i ľudské potreby a hodnoty.

Aby som to všetko zhrnula, na základe môjho štúdia, oba podniky, nezávislý i frančízový majú šancu uspieť, keďže to závisí hlavne na osobe, ktorá sa na vedení podniku priamo a vlastnými rukami podieľa. Prinajmenšom to platí pre podniky zameriavajúce sa na predaj jedla, ako reštaurácie, kaviarne a bary, kde kľúčovým

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<sup>18</sup> David and Goliath - Bible Story Summary, available at <http://christianity.about.com/od/biblestorysummaries/p/davidandgoliath.htm>

faktorom, ktorý utvára všeobecný dojem u zákazníka je harmónia dobrého jedla, príjemnej obsluhy, čistého prostredia a férových cien.

Vo frančízingu ste v podnikaní sami za seba ale zároveň ste súčasťou skupiny. V súkromnom podniku ste sami svojim vlastným šéfom. Čo je pohodlnejšie? Záleží to na typu vašej osobnosti. Čo má väčšiu šancu uspieť? Záleží to na vašich manažerských schopnostiach. Väčšina štúdií a štatistík ukazuje, že frančízny prežívajú na trhu dlhšie ako nezávislé podniky. Ale nemôžeme ani tvrdiť, že všetky frančízny sú nesmrteľné, hlavne tie, ktoré sú len vo svojich začiatkoch.

### 13. Abstract

Táto bakalárska práca sa zaoberá možnosťami podnikania v rámci trhu s maloobchodným predajom potravín. Zvláštna pozornosť je venovaná hlavne reštauračným zariadeniam, kde je pomerne ľahké začať, ale o to ťažšie udržať sa. Ako potencionálny podnikateľ sa čitateľ zoznámi s dvoma možnosťami ako preniknúť na trh: vybudovať si vlastnú nezávislú reštauráciu či obchod alebo sa stať súčasťou existujúcej a známej značky. Túto druhú možnosť prináša obchodná metóda zvaná frančízing. V rámci tejto práce sa čitateľ dozvie, čo obnáša proces založenia reštaurácie a zároveň budú porovnané spoločné a odlišné aspekty frančízovej a nezávislej obchodnej organizácie. Frančízing sa preslávil hlavne v oblasti rýchleho občerstvenia a darí sa mu i v Českej republike, preto týmto častiam budem venovať značnú pozornosť. Zameriam sa takisto na vlastnosti a schopnosti manažéra úspešnej reštaurácie, ktoré by boli prínosné bez ohľadu na obchodný formát podnikania. Táto práca slúži z časti ako manuál pre bezpečné a efektívne uchytenie sa na trhu zameraného na pohostinstvo a z časti popisuje možnosti pre podnikateľa, ktorý sa môže rozhodnúť byť nezávislý alebo súčasťou frančízového reťazca.

This bachelor thesis deals with different ways of performing business within the retail food market. Special attention is paid to restaurant establishments, where it is relatively easy to start but more difficult to survive. The reader, as the potential business person, is introduced to two possibilities of penetrating into the market: by building up an independent restaurant or shop, or by becoming part of an existing and known brand. The second choice is offered by a business method called franchising. The reader will find out in this thesis, what it takes to set up a restaurant and at the same time, the similarities and differences between a franchise and an independent business organization will be compared. Franchising has become very popular, especially in the fast food industry and it is growing rapidly in the Czech Republic, therefore I have dedicated considerable attention to the domestic situation. I will concentrate on the properties and skills of a successful restaurant manager or owner who should represent the most important contribution regardless of the chosen business format. This work also

serves partially as a manual for a safe and effective adaptation to the hospitality industry, and it partially describes the possibilities for a business person who may decide to be independent or become a part of a franchise chain.



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