

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Diploma Thesis

The franchise as a form of business development

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DIPLOMA THESIS ASSIGNMENT

Bc. Elena Rinchinova

European Agrarian Diplomacy

Thesis title

Franchise as a form of business development

Objectives of thesis

The purpose of the thesis is to evaluate franchise as a form of development of small business in the restaurant&hookah market on the example of Smokeberry lounge bar in Prague. In this work, key definitions, advantages, and disadvantages of franchising as a business model and features of franchise agreements will be evaluated.

Methodology

The theoretical part will be based mainly on literary research and sources that should provide all the necessary information about the chosen topic

In the practical part the qualitative research such as case study research and interview will be used. Also, financial analysis, SWOT and competitors overview of the chosen company will be analyzed in the quantitative research

The proposed extent of the thesis

60 – 80 pages

Keywords

business, entrepreneurship, SWOT, franchise, finance

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Declaration

I declare that I have worked on my diploma thesis titled “Franchise as a form of business development” by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break the copyrights of any person.

In Prague on 11.10.2019

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Franšíza jako forma rozvoje podnikání

Abstrakt

Tato práce se zabývá evaluací franšizy jako formu rozvoje menších podniku na trhu „hookah“ a „lounge“ barů. Jako příklad byl využitý Smokeberry lounge bar v Praze. V této práci se zaměřujeme na klíčové definice, výhody a nevýhody franšizingu jako business modelu, podrobným postupem založení franšizy a náležitosti franšizových smluv.

Tato diplomová práce se skládá z dvou částí, teoretické a praktické. Teoretická část se zabývá převážně průzkumem literatury a dalších zdrojů informací k tomuto tématu, které nám pomáhají pochopit franšizing včetně historie, druhů franšiz, platebních způsobů a další. V praktické části se tato práce zaměřuje na kvalitativní výzkumy jako například případová studie na základě pohovoru. Kvalitativní výzkum také obsahuje finanční analýzu, SWOT analýzu a průzkum konkurence vybrané společnosti. Finanční analýza je připravována pro franšizu, která se bude otevírat na začátku roku 2020 v Brně a její součástí je analýza cash-flow, profitabilita a bod zvratu na základě předpokládaných nákladů.

Klíčová slova: obchod, podnikání, SWOT, franšíza, finance

The Franchise as a form of business development

Abstract

The purpose of the thesis is to evaluate franchise as a form of development of small businesses in the lounge bar and hookah market on the example of the Smokeberry lounge bar in Prague. In this work, key definitions, advantages, and disadvantages of franchising as a business model, step by step instruction of creating a franchise and features of franchise agreements are evaluated.

The master thesis consists of two parts: theoretical and practical. The theoretical part is based mainly on literary research and sources that should provide all the necessary information about the chosen topic that helps to understand franchising including history, types of franchises, payment methods and so on and so forth. In the practical part, qualitative research such as case study research based on interview is used. Also, financial analysis, SWOT and competitors' overview of the chosen company are analyzed in the quantitative research. The financial is made for the franchise that will be opened in Brno at the beginning of 2020 and consists of a cash flow statement and break-even analysis based on estimated costs.

Keywords: business, entrepreneurship, SWOT, franchise, finance

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Introduction

Why do some firms franchise and others not? Why is it so that it can be a problem? Why are they units in some regions, although closer to their regional headquarters, franchised rather than company-owned? Why to turn the business into a franchise? What are the advantages and disadvantages? What are the steps of starting a franchise? These questions will be answered in this diploma thesis to understand if a franchise is a good way of business extension on the example of Smokeberry company that already has two existing restaurants in Prague, is in the process of opening new lounge bar in Bratislava SK and in the process of negotiation of selling a franchise in Brno.

For companies, franchising is a way to spread business. For entrepreneurs, franchising is one of the ways to become a business owner. In many markets, franchising is the fastest way to train entrepreneurs in the practical standards that are needed to run a profitable business. Franchising is a combination of big and small businesses. Such a connection was called a union, where, on the one hand, there is the energy and commitment of an individual entrepreneur, and on the other hand, there are resources, commercial power and the vast experience of a large company. If all those are combined, then energy, responsibility, strength, resources, and experience are a winning combination with huge chances of success! Entrepreneurs around the world know to a franchise as a safe way to:

- To help a person to conduct business independently, but not to be alone in it;
- To help companies effectively expand, without incurring the high costs of creating and maintaining a massive administrative complex and not experiencing difficulties in managing a wide network of corporate enterprises;
- To help companies transform their existing network into an efficient, strong business with committed people

In many developed countries, a franchise is getting distinctive attention and support from the legislative and executive power. Since the opening of franchise companies together with the creation of new jobs means the subsequent legalization of entrepreneurial work and increasing tax collection. A franchisor as follows from personal contractual interests monitors the franchisee's financial operations and reliability of its reporting. Obviously, the use of franchising reduces losses, increases the effectiveness of advertising, the introduction

of technical and technological innovations, increases the level of sales and profits of companies, which together contributes to the development of the economy.

2 Goals and Methodology

2.1 Goals

The basis of the work was the works of domestic and foreign researchers in the field of market and world economy, international business, materials of scientific conferences and seminars publications in scientific and periodic research publications

Questions of the diploma thesis:

1. To consider the history of development franchising;
2. To evaluate key definitions, advantages and disadvantages of franchising, as a business development model;
3. To evaluate the franchise as a tool for the development of small business;
4. To assess competitiveness chain of lounge bars “Smokeberry” as a franchise through financial analysis;
5. To describe the steps of creating a franchise from scratch.

2.2 Methodology

To achieve the objectives of the thesis and get the corresponding data to make a conclusion the following methods are used:

- Literary research to provide all the necessary information about franchising and the related definitions to understand the topic and modern features of it;
- Case study research is narrowly focused, provides a high level of detail, and is able to combine both objective and subjective data to achieve an in-depth understanding of a small business. The case study is based on franchise that will be opened in Brno and own estimations are made to evaluate the indicators of profitability of the new entity. Personnel costs, investments costs, fixed and variable costs and forecast of sales are described.
- The interview with the owner of “Smokeberry lounge bar” to find out how the idea of expanding the business through franchise came and was developing and what are the results that help in writing the practical part;

- Financial analysis is provided to prove the sustainability of the business in a modern market such as forecast cash flow statement, break-even analysis and a payback period of the franchise for its buyers;

Straight line depreciation is the default method used to recognize the carrying amount of a fixed asset evenly over its useful life. It is employed when there is no particular pattern to the manner in which an asset is to be utilized over time.

$$\text{Straight line method} = \frac{(\text{Asset cost} - \text{Salvage Value})}{\text{Useful life of the asset}} \quad (1)$$

Where:

Cost of the asset is the purchase price of the asset

Salvage value is the value of the asset at the end of its useful life

Useful life of asset represents the number of periods/years in which the asset is expected to be used by the company. ¹

The net profit margin is equal to how much net income or profit is generated as a percentage of revenue. Net profit margin is the ratio of net profits to revenues for a company or business segment. In this work it is calculated in the form of table.

$$\text{Net Profit Margin} = \text{Net Income} / \text{Gross Sales} \times 100 \quad (2)$$

Where,

$$\text{Net Income} = \text{Gross Revenue} - \text{Operating Expenses} \quad (3)$$

Break-even analysis involves the calculation of the margin of safety for an entity based on the revenues collected and associated costs. Analyzing different price levels relating to various levels of demand a business uses break-even analysis to determine what level of sales are necessary to cover the company's total fixed costs. A demand-side analysis would give a seller significant insight regarding selling capabilities. ²

$$\text{B-E Point (Sales)} = \text{Fixed Costs} + [(\text{Variable Costs} / \text{Est. Revenues}) \times \text{Sales}] \quad (4)$$

¹CORPORATE FINANCE: What is Straight Line Depreciation? [online] Available at <https://corporatefinanceinstitute.com/resources/knowledge/accounting/straight-line-depreciation/>. Accessed at 12 September 2019

²INVESTOPEDIA: Break even analysis. Available online at <https://www.investopedia.com/terms/b/breakevenanalysis.asp>. Accessed at 12 September 2019

- Cash flow is the net amount of cash within a company, project or product. This refers to free money in accounts that is the most liquid asset. It is expressed by the final indicator with a negative or positive sign, which is formed from receipts and payments. In the thesis it is presented in the form of table for the term of 3 years using a direct method.
- SWOT and competitors' overview of the chosen company will be analyzed in quantitative research. SWOT (strengths, weaknesses, opportunities, and threats) analysis is a framework used to evaluate a company's competitive position and to develop strategic planning. SWOT analysis assesses internal and external factors, as well as current and future potential.
- PESTEL analysis of a franchised bar in Brno is made to estimate political, economic, social, technological, environmental and legal factors

3 Theoretical part

3.1 The concept and definitions of franchising

Franchising is a business relationship whereby one party, the franchisor, gives the other party to a franchisee to carry out business activities in a certain area, similar to the franchisor's activity, based on the latter's provision of sell goods or provide services to consumers in accordance with the terms of the franchising agreement. The operator offers or sells to any other person, but not to the franchisor, goods or services that:

- Identified by a trademark, company service, company name, advertisement or other commercial symbol defining a franchisor company; or
- Meet the quality standards directly or indirectly prescribed by the franchisor; or
- Supplies the franchisor or delivers a third party (i.e. the supplier) with whom the operator conducts business and who is directly or indirectly recommended by the franchisor and associated with it³.

A *franchise* is a permit or right granted by the franchisor to the franchisee to establish a company and to trade products and provide services in the market for a certain type of goods and / or services based on the use of a "business complex" under a franchise agreement⁴. Established in 1977, the British Franchise Association (BPA) defines the franchise as a control license issued by one person (franchisor) to another person (franchisee) that:

1. Gives permission or obliges the franchisee to engage in a particular business during the franchise period, using a specific name owned or associated with the franchisor;
2. Gives the franchisor the right to exercise control over the entire period of the franchise over the quality of doing business that is the subject of the franchise;
3. Obliges the franchisor to provide the franchisee with assistance in doing business that is the subject of a franchise (assistance in organizing an enterprise, staff training, sales management, etc.)
4. Obliges the franchisee regularly throughout the franchise period to pay the franchisor a certain amount of money in payment of the franchise or goods, services provided by the franchisor of the franchisee;

³ MENDELSON, Martin. The guide to Franchising. 1995. ISBN 5-85300-075-6

⁴ DOVGAN, Vladimir. Франчайзинг: путь к расширению бизнеса: [Franchising: The path to business expansion], 1994.

5. It is not a normal transaction between a holding company and its subsidiaries, or between an individual and a company controlled by him.

A *franchisor* is a company that issues a license or transfers the right to use its trademark, know-how, and operating systems. For example, a franchisor creates a successful product or service, special style of fast food restaurant. The franchisor investigates and develops business, spends money on business promotion, creates a good reputation and recognizable image (the so-called "brand name"). After that, as the company proved the efficiency of its business concept and successful replicability of this business, it may begin to offer entrepreneurs who want to repeat this success, buy a franchise.⁵

A *franchisee* is a person or company that buys the opportunity for knowledge and assistance in setting up a business from the franchisor and pays a service fee for using the trademark, know-how and franchisor's work system. A franchisee pays the cost of creating a business. Very often, the franchisor provides very favorable discounts on important supplies (materials, consumables). These discounts always allow franchisees to buy products from the franchisor at lower prices. Franchisee makes a down payment for assistance in setting up and opening a business. The franchisee assumes the obligation to pay monthly fees for the right to use the trademark and business system and for the support, training and consulting provided by the franchisor. If everything goes according to plan, then the franchisee leads a successful business, and its profits exceed the costs.⁶

⁵ DOVGAN, Vladimir. Франчайзинг: путь к расширению бизнеса:[Franchising: The path to business expansion, 1994.

⁶ MENDELSON, Martin. The guide to Franchising. 1995. ISBN 5-85300-075-6

Franchise relationships can be profitable for both sides. Franchisee is interested in maximum sales at minimum cost. Franchisee must follow the business rules of the franchise and participate in advertising and marketing campaigns, conducted by the franchisor. The franchisor is focused on leading the competition, which would be very difficult to do for franchisee alone. The franchisor provides the necessary support so that the franchisee can pay full attention to daily operations. In order to achieve this level of interaction and protection from franchisor, franchisee should form special relationship with the franchisor.

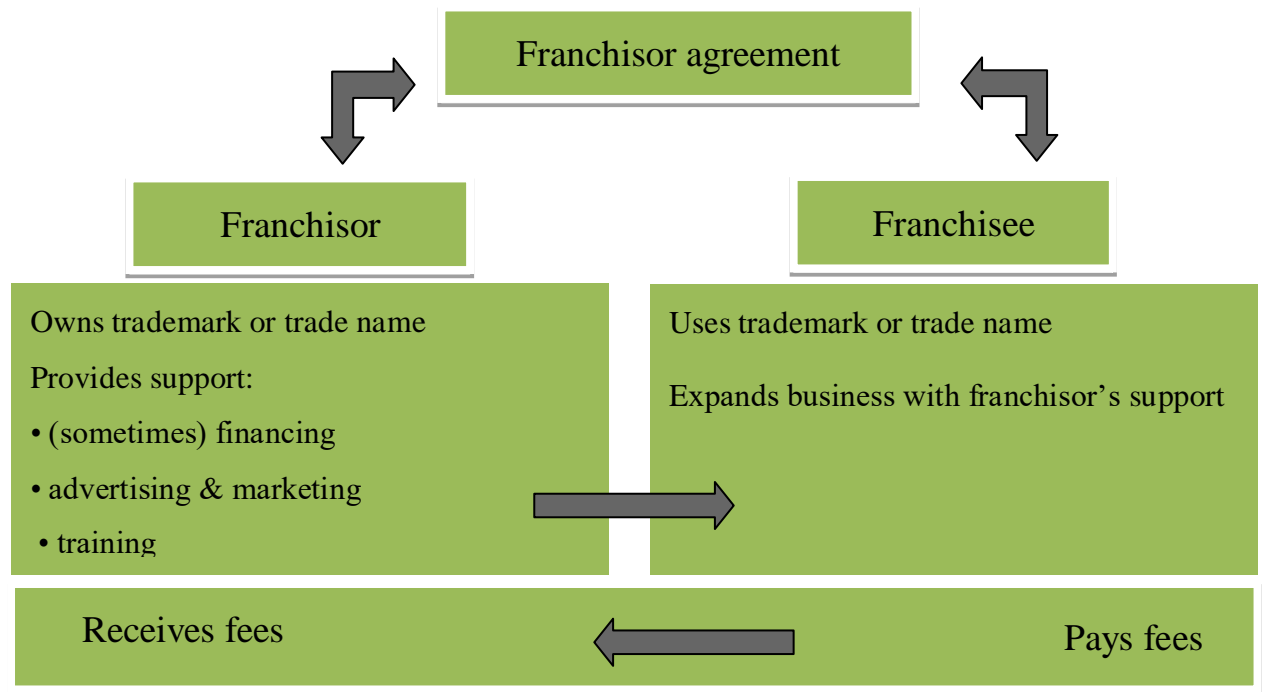


Table 1 Franchisor agreement scheme, own elaboration based on theoretical part

3.2 History of franchising

At the beginning of the 19th century, a system of “connected houses” was introduced in Great Britain, the essence of which was contained in granted by the authorities the right to trade alcoholic beverages only to owners of inns under a certain license. The majority of the owners did not have enough money to bring the inns back to normal and pay for the license. This system was superbly used by brewers: they provided loans to owners of inns or rented out a property to them and received in exchange the market for selling beer and other alcoholic beverages. In the 1940s, most German brewers offered franchises to specific taverns, allowing their owners to exclusively sell beer. This event marked the birth of the concept of franchising, which still exists today. About ten years later in the USA, the idea of franchising was launched by Singer, giving other organizations in a certain territory exclusive rights to sell and service their sewing machines. The firm "Singer" used the

contracts for franchising, which were the prototype of modern franchising agreements. From this time on, companies began to use franchising methods to penetrate other territorial markets, which were previously unavailable due to high costs and risk factors. At the turn of the nineteenth and twentieth centuries, oil refineries and automobile companies began to grant rights to sell their products. At this stage of evolution, franchising was understood as the elementary distribution of rights to sell a manufacturer's products.⁷

One of the first successful franchise systems was applied by General Motors. In 1898, a young company that did not have enough cash to open stores started selling steam engines through a dealer system. This system to this day remains the main way of selling cars. The example of General Motors was followed by Rexall (Rexall), who successfully sold franchises to organize their pharmacies. Effectively, franchising has been and is being used in the industry of bottled soft drinks by companies such as Coca-Cola, Pepsi, and Seven-Up. Thanks to the franchise, such companies were able to produce concentrated syrup centrally and distribute it to local bottling plants owned and operated by franchisees, who eventually became managers of local retail sales. Franchisees had and are entitled to buy branded bottles and use brand names.⁸

In the 1920s, in the United States, the idea of franchising as a form of doing business shifted towards a wholesaler-retailer relationship. The wholesaler (or the franchisor) made it possible for small retail trading organizations to receive additional benefits from numerous discounts, use the trade company brand and at the same time maintain their independence. In the UK, this type of franchise was used by Spar and grocery stores VG grocery stores.⁹

Since 1930, in the USA after the crisis in the economy, oil refineries have moved to the system of managing their filling stations as franchised units. By leasing gas stations to franchises, oil refineries received rent and were able to popularize the company's image, while franchisees could set prices according to local conditions. As a result, the level of sales of engine fuel has significantly increased and, consequently, increased profits.

⁷ IVANOVA, Lyudmila [online]. Франчайзинг как форма развития предпринимательства в России [Franchising as a form of business development in Russia]. Moscow, 2006. Available at <https://www.dissercat.com/content/franchaizing-kak-forma-razvitiya-predprinimatelstva-v-rossii/read>. Accessed 17 August 2019

⁸ FFC (Franchising full cycle). History of franchise [online]. Available at <https://ffc.expert/istoriya-franchajzinga/>. Accessed 20 August 2019.

⁹ History of a franchise from Singer to Apple [online]. Available at <http://businessmens.ru/article/franchise-school/istoriya-franchayzinga-ot-zingera-do-apple>. Accessed 20 August 2019.

In 1948, in the United States, Irwin and Barton Robbins, the founders of the Baskin Robbins ice cream company, faced a serious problem in that eight stores required the personal presence of the owners and their vigilant attention. Soon they realized that the hired manager would never be as relevant as the owner. Baskin and Robbins began selling the rights to trade their ice cream throughout the country. Ray Kroc used the franchise system and achieved tremendous success in the McDonald's Empire, spreading eateries around the world.¹⁰

The first place in franchising among European countries is occupied by the United Kingdom, where the development of franchising as an economic environment began in the 50-60s of the last century. The development of franchising here contributed to the growth of income, the transition of the foundations of the economy from production to the provision of services. These and some other factors allowed to create a service sector, where, along with the importance of price and quality, are the degree of convenience and speed of service provision. The fast food sector has significantly outpaced many other areas of business in the UK in using franchise systems. Especially leaders in this segment are restaurants of national cuisine and themed restaurants.¹¹

In Germany, the growth of franchisors is increasing every year, which indicates a high rate of development of the franchise industry. The highest level of growth was determined in the field of fast food, the entertainment industry, as well as in the provision of services: studios, car dealerships, and car services, tourism and hotel business, and, of course, education. In Germany, representatives of small and medium-sized businesses are one of the main components of the economy and constitute a reserve for existing and new franchise systems.¹² Third place in the number of franchise networks in Europe is France. The value of the franchise market here is 32.5 billion US dollars, which makes France the undisputed leader of the entire European franchise market. The trade sector is assigned most of the networks, then the service sector, hotel and restaurant business. The biggest changes

¹⁰ FFC (Franchising full cycle). History of great franchisors [online]. Available at <https://ffc.expert/ffc-blog/istorii-velikih-franchajzerov-baskin-robbins/>. Accessed 21 August 2019.

¹¹ FFC (Franchising full cycle). History of franchise [online]. Available at <https://ffc.expert/istoriya-franchajzinga/>. Accessed 20 August 2019

¹² Franchising in Germany [online]. Available at: <https://www.franchising.com/region/europe/germany/>. Accessed 20 August 2019

occurred in the field of trade in ready-made clothes and fabrics. Franchising plays one of the main roles in the Italian economy.

The liberalization of the economies of the countries of Central and Southeastern Europe and their desire to become part of an organized commercial system made it possible to develop franchise business. The absolute leaders in the implementation of franchise systems are the Czech Republic and Hungary. This activity is also developing in the markets of Poland, Bulgaria, and Romania.

3.3 Franchising in Czech Republic

According to Czech Invest, the Czech Republic is not behind the world in the field of franchising. Development is coming in the 1990s, after the fall of the communist regime, which did not support the idea of franchising. Franchising was not very popular and used at the beginning, which was caused by the ignorance of entrepreneurs about this possibility of doing business. Small and medium-sized enterprises were used to doing business for themselves and therefore with the concept of a franchise as such, they were not familiar with them and therefore did not trust it. The change occurred in 1993 with the establishment of the Czech Franchising Association, which brought together professionals and franchise owners. It has provided and still provides the necessary information to those interested, the public and creates favorable conditions for development. The largest franchisors in the Czech Republic include Fornetti, a small-scale pastry sales company, and BestDrive, which operates car repair shops. While in the Czech Republic in 1995 there were 54 franchises, in 2002 there were 80 were recorded, so already in 2013, there were over 219 of which more as much as half of the Czech franchise concepts. Although there is a constant increase in the concept, the Czech Republic still has no legislation on franchising. Based on information from questionnaires of the Czech Franchising Association, which is a non-profit organization associating franchising providers and which is focused on supporting the development of existing franchising systems and serves to create more favorable conditions for the development of this business, it was found that more than 70 percent services, while around 30 percent of franchising concepts are related to business.

Furthermore, based on questionnaires of the Czech Franchising Association, it was found that more than 65.1 percent of franchising concepts used in the Czech Republic are domestic, while 34.9 percent are foreign. This information shows that both Czech customers

and Czech entrepreneurs prefer more Czech concepts of the company. Czech companies prefer because of their conviction of higher quality of services and products and also in support of the Czech business, in fact, it is also patriotism.

With the development of franchising, foreign concepts prevailed because of new businesses that were not known here and also focused on the West and Western services and products. With later development, the market and the thinking of customers began to turn more inside the country, and with it the popularity of domestic businesses¹³. In the case of foreign franchising concepts, local customers can also come across due to changes in preferences. In this case, we can mention the example of a French hairdressing company that expanded to England, where it was not successful because English men did not want to cut in front of women and children.

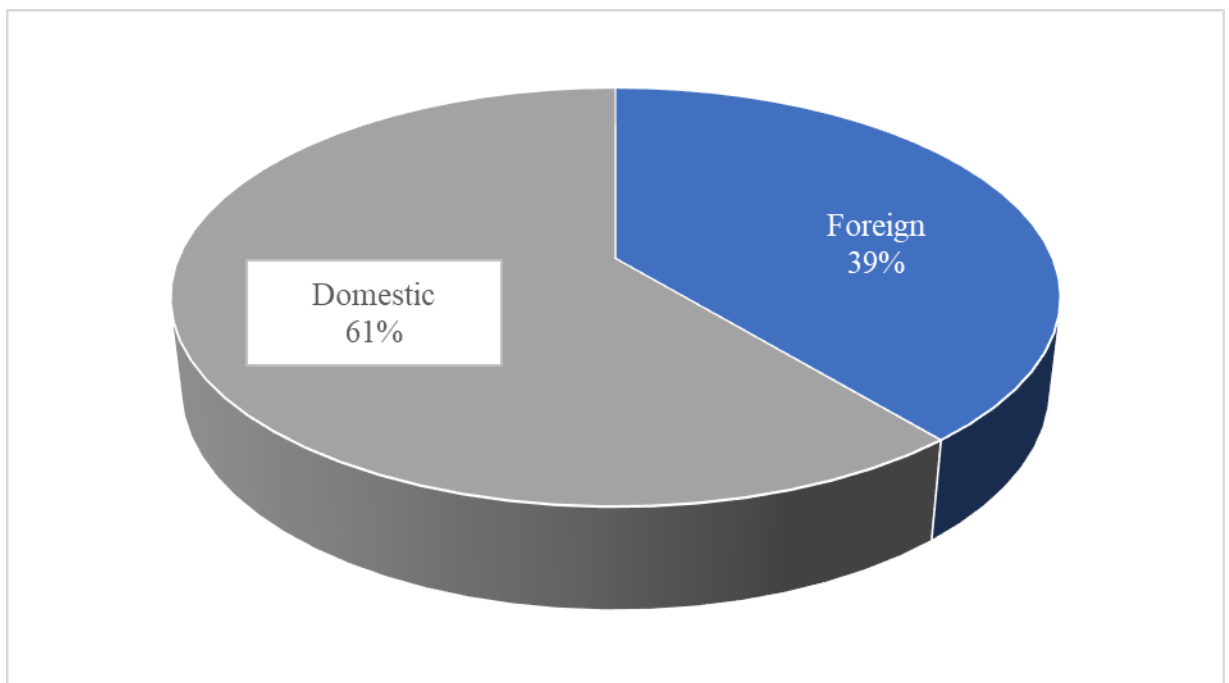


Figure 1 Comparison of number of domestic and foreign franchises based on website Ipodnikatel.cz

With the development of franchising, there is also an increase in franchisors and then mostly franchisees and franchising branches. Most of the concept-indigenous businesses are withdrawing from expansion through their branches and increasingly utilizing expansion through the development of a franchise network. While there were 3,476 franchise

¹³ Franchising.cz [online] Návrat zahraničních značek [Return of foreign brands]. Available at: <http://franchising.cz/clanek/2275/navrat-zahranicnich-znacek/>. Accessed 28 August 2019

establishments in 2010, 6152 were already in 2013. There is also an increase in the franchise sector, with around 2019 in 2010, compared to 4966 in 2013.¹⁴

Name	Sector	Number of branches in CR	Number of branches in foreign market
Teta	Drugstore	540	169
Minit	Gastronomy	170	-
Benu	Pharmacy	<200	-
Bageterie Boulevard	Gastronomy	32	6
Ugova	Gastronomy	<80	2
Sklizeno	Grocery shop	26	-
Evropa	Real estate	40	-
Body express	Fitness	10	2

Table 2 Czech franchises based on own research

3.4 Selling a franchise.

There are several opportunities to get permission to become a franchisee, the most common ways are:

- *Direct franchising*: the franchisor sells the franchise directly to a local entrepreneur (franchisee). This is the best way to ensure a good relationship between the franchisor and the franchisee. In the case of international franchising where the geographical distance between the franchisor and franchisees is large, the lack of such a method may be local support and less local attention. Many small franchisors do not resort to this form of franchising because it takes a lot of time and effort to support such franchisees. Large franchisors use such a system for the purpose of market research and business conditions in a given country, they sell one franchise and follow its development. If everything goes well, then franchisors can start to sell more franchises in this country.¹⁵

¹⁴ Czech franchise association [Česká asociace franchisingu]. Franchising in the Czech Republic [Franchising v České republice]. Prague, 2015. ISBN 978 80 260 6814 3

¹⁵ KOLESNIKOV, Vladimír: Построение франчайзингового бизнеса [Building a franchise business] 2008. ISBN 978-5-91180-816-7

- *Master franchise*: the master franchisee is given the right, by the franchisor, to grant franchises to third parties, usually called "sub-franchisees," to exploit fully the potential business opportunities in the larger geographical area. It may be agreed that some of those sub-franchisees will run more than one franchise unit, in which case the sub-franchise agreement is called a "multi-unit franchise."¹⁶ Thus, the franchisee becomes a franchisor in a given country, selling and offering franchises to other businessmen and collecting from them the service fee (royalties). This often happens when there is an obvious demand for a franchise. In this case, the franchisor is not worried about whether his business will develop successfully or not. Instead, the franchisor is looking for a well-secured a local entrepreneur with an organization that will allow him to the franchisor's system with a successful concept throughout a country. In a master franchise agreement, the franchisor grants another party usually called the "master franchisee," rights (which may be exclusive) for a given geographical area.

3.5 Advantages and disadvantages of the franchise.

In the table below the short overview of the positive and negative aspects of the franchise for both parties. However, to understand the franchise concept better the full list should be described in further pages.

Like any other way of doing business, franchising has its advantages and disadvantages. The phenomenon of the widespread and rapid development of franchising is, firstly, in mutual benefit both for the franchiser and the franchisee, and, secondly, in reducing the taxable base. This business, which brings a good profit. Such a business model should be easily replicable. This means that it is possible to open even more enterprises whose work would be structured according to the same model as the franchisor's business. The business of the franchisor always has a proven consumer market and a valuable reputation. After the business has proven its viability with success, the founders want to develop this business. There are two ways: to develop the business by investing in profits or create a franchise

¹⁶ WIPO. International Bureau. Franchising guide / International Bureau of WIPO. 1994. ISBN 9280505254

system. When creating and developing a franchise system, its founders will consider five positions¹⁷:

	For franchisor	For franchisee
Advantages	<ol style="list-style-type: none"> 1. The rapid expansion of business in new markets with minimization of own financial expenses and labor resources. 2. Reduce the risk, since equity involved in the expansion of the case to the minimum degree. 3. Exemption from the need for operating management. 4. Obtaining additional income through payments from franchisees. 	<ol style="list-style-type: none"> 1. The ability to start your own business. 2. Ready "niche". The franchisee buys ready franchisor-tested business 3. Trademark. The franchisee buys the right to get a relatively well-known trading brand, brand name or style. 4. The presence of a trademark allows using all the power of advertising this trademark. 5. Help. The franchisor transfers to the franchisee business technology 6. Facilitating access to loan resources since the franchisor can act as a guarantor.
Disadvantages	<ol style="list-style-type: none"> 1. The need for painstaking thoughtful work with the franchisee on whom business success depends 2. The inability to complete a relationship with the franchisee, which does not follow the rules of the system. 3. The impact of poorly operating franchised enterprises. 4. The difficulty of maintaining confidentiality commercial secrets. 5. Exit the franchise system successfully working franchisees. 	<ol style="list-style-type: none"> 1. Less economic freedom, restriction on initiatives 2. The impossibility of a quick exit from the business as the contract is usually on a relatively long term. 3. Establishment of the necessary cooperation among all franchisee systems 4. Dependence on a financial stability of the franchisor.

¹⁷ IVANOVA, Lyudmila [online]. Франчайзинг как форма развития предпринимательства в России [Franchising as a form of business development in Russia]. Moscow, 2006. Available at <https://www.dissercat.com/content/franchaizing-kak-forma-razvitiya-predpriniatelstva-v-rossii/read>.

Duties	<ol style="list-style-type: none"> 1. Transfer of business and technical information. 2. Development of uniform documentation. 3. Quality control. 4. Ensuring the continued support of the franchisee. 5. Close and support of exclusive supply contracts. 6. Provision of protected area 	<ol style="list-style-type: none"> 1. Regular payments to the franchisor. 2. Follow manufacturing standards and franchisor programs.
Promising directions for a franchise	<ol style="list-style-type: none"> 1. Nutrition enterprises. 2. Trucking companies. 3. Services for the home. 4. Household service. 5. Business service 6. Entertainment, travel, sports 7. Health protection. 8. Construction services 9. Training centers. 10. Retail. 	

Table 3 Advantages and disadvantages, based on theoretical part

1. A franchise makes extra money for business distribution. If a company is committed to development at a regional, national or international level, then additional investments will be required in the development program. These funds can be created with the help of the franchisee. Franchisees make a lump sum payment by purchasing the full franchise package. By signing several additional franchise agreements with the franchisee, the franchisor will be able to sell them other management services such as special consulting and marketing support. Both transactions (initial franchise sales and sales of special services) provide an additional source of income for the franchisor.
2. Franchisees make additional payments to support the services provided by the franchisor so-called royalties

3. Franchising opens opportunities for the rapid expansion in the new market and strengthening its reputation in the existing market. The increase in the number of paid contributions allows the franchisor to quickly and efficiently develop the market. It is important that franchisees bring the name of the franchise to the new market.
4. Franchising provides consumers with the opportunity to learn more about the product and services. With the opening of new businesses, consumers will learn more about the product and services. This is very important as the new franchise becomes recognizable in the market by providing its services.
5. The success of the franchise system when creating new business concepts. The success of the franchise company depends largely on the verification and profitability of the business concept. The franchisor develops its business concept and proves its profitability using the example of its own stores. The franchisor shares its experience with all franchisees of the system, giving them the opportunity to conduct their business as successfully. Therefore, if a company wants to find out if it is possible to turn their business into a successful franchise, they should just see how successful this transformation has been in another, similar business.

3.6 Benefits for a franchisee:

All materials and support provided by franchisors to individual franchisees are designed to support and enhance the value of the franchise. The list of such advantages could be listed: materials, training and consulting. But, if you look wider, the biggest advantage is the relationship between the franchisor and the franchisee.

- Franchising means that you have your own business, but you are not alone with all the problems and risks. When a franchisee agrees to invest in a franchise business, he remains an independent business owner. A franchisee receives professional support from the franchisor. Such support helps him avoid the mistakes that other entrepreneurs usually make. The franchisor protects the franchisee from making the wrong decisions that could damage or even destroy his business.
- The franchise system provides information that helps the franchisee to find a suitable location for the enterprise, make its design and make sure that the business is functioning correctly. The franchisee does not need to worry about the problems that arise at the initial stage, because he has the experience of his franchisor.
- The franchisee will interact with the franchisor and provide him with feedback on a continuous basis during the operation of the franchise. The franchisee may ask for specific

assistance from the franchisor when he needs it, and the agreement should prescribe the fashion in which such help should be requested by the franchisee and provided by, or on behalf of, the franchisor.¹⁸ However, specific problems may arise. In this case, the franchisee can call the franchisor and ask for help. It is precise because such a relationship exists between the franchisor and the franchisee that the problems of the franchisee can be solved with the help of an experienced franchisor. When an independent entrepreneur begins to develop his own business, he must himself find a way to solve problems and openly look at the likelihood of making costly mistakes.

- Franchising allows you to use the franchisor's reputation and trademark. When executing a franchise agreement, the franchisee is authorized by the franchisor to use the franchisor's trademark. Only franchisees operating in the system of this franchise have the exclusive right to use the franchisor's trademark.¹⁹

3.7 Benefits for a franchisor:

Money of other people may be a key asset and one that effective businessmen look to utilize. When a potential franchisee wants to manage a new franchise location, they will contribute their own money to begin that business. The brand expands, gain royalties and other fees whereas investing little or no money to fund the new endeavor.

Often it is difficult to find supervisors and employees who are legitimately motivated, but that's not typically the case with franchisees. Franchisees are similar to any other business owner in that they spend their own money to get the business started. As such, they clearly have a vested interest in the success of the business. It is therefore highly probable that they will be ambitious and eager to do what it takes to make that franchise location a lucrative one. And when that happens, the royalties climb directly up to you, the franchisor. When leasing the brand out to franchisees, there is not only expanding without spending money but also set up to profit from additional forms of revenue. These include royalties and other fees, as well as monthly contributions to marketing funds and other campaigns which benefit the

¹⁸ WIPO. International Bureau. Franchising guide / International Bureau of WIPO. 1994. ISBN 9280505254

¹⁹ IVANOVA, Lyudmila [online]. Франчайзинг как форма развития предпринимательства в России [Franchising as a form of business development in Russia]. Moscow, 2006. Available at <https://www.dissercat.com/content/franchaizing-kak-forma-razvitiya-predprinimatelstva-v-rossii/read>. Accessed 2 September 2019

franchise as a whole.²⁰ Becoming a franchisor opens the opportunity to take on a bigger customer base. It is an unimaginable thing to be able to develop on the market without altering business practices or losing anything in the way of efficiency or effectiveness.

3.8 Types of franchises

An important component of success is a clear and complete knowledge by the entrepreneur of the essence of franchising, its variety, structure, advantages, and possible risks when using it. Franchising can be defined as a way to deliver products or services to a consumer, a way to grow a business and win a market based on the cooperation of material and financial resources and the efforts of various enterprises. Franchising can also be viewed as an agreement whereby a manufacturer or sole distributor of a product or service protected by a trademark gives exclusive rights to distribute its products or services to independent entrepreneurs (retailers) in a given territory in exchange for receiving payments from them subject to production and service operations technologies.

There are the following main types of franchising:

- Product Franchising
- Manufacturing Franchising
- Business-format Franchising

Product Franchising: this is the earliest type of franchising. Under this, dealers were given the right to distribute goods for a manufacturer. For this right, the dealer pays a fee for the right to sell the trademarked goods of the producer. Product franchising was used, perhaps for the first time, by the Singer Corporation during the 1800s to distribute its sewing machines. This practice subsequently became popular in the petroleum and automobile industries also.

There is a pre-sale and after-sales service for buyers of the products of the franchisor and franchisee (retailer or wholesaler) refuses to sell the goods of competitors. This rule is the essential content of the relationship of partners - the franchisor and the franchisee dealer.

Manufacturing Franchising: this is the most efficient organization of production of a certain type of product. In this case, the company owning the manufacturing technology of a certain

²⁰ Advantages and Disadvantages of Being a Franchisor [online]. Available at <https://blog.franpos.com/advantages-and-disadvantages-of-being-a-franchisor>. Accessed 27 July 2019

product sells raw materials for manufacturing to local or regional producers (for example, a factory for bottling soft drinks). A small company here does not just act under the brand of the franchisor and sells its products and services, but also including the full cycle of economic activities of a large corporation, fulfilling equal requirements of the technological process, quality, personnel training, implementation of the sales plan and operational reporting. This form provides close contact of the franchisor and the franchisee, detailed regulation of the activity and a high degree of responsibility for the small enterprise.

Business-format Franchising: This is a recent type of franchising and is the most popular one at present. This is the type that most people today mean when they use the term franchising. In the United States, this form accounts for nearly three-fourth of all franchised outlets. Business-format franchising is an arrangement under which the franchisor offers a wide range of services to the franchisee, including marketing, advertising, strategic planning, training, production of operations manuals and standards and quality – control guidance. In order to avoid inconsistencies among potential customers, the corporate identity and methodology of their activities should be identical. Creating a franchise trading and manufacturing enterprises is a good method of testing the market before making large financial investments. The franchisor does not actually produce or provide a service for resale but dictates to the franchisee how to conduct a business providing prescribed services to consumers. Examples include franchised hotels, home cleaning services. Even non-profit service organizations can use a form of franchising to expand the reach of their programs into new communities.²¹

²¹ SELDEN, Andrew C. An introduction to franchising. 3rd ed. St. Paul, MN: Minnesota Department of Employment and Economic Development, 2008. ISBN 1888404485.

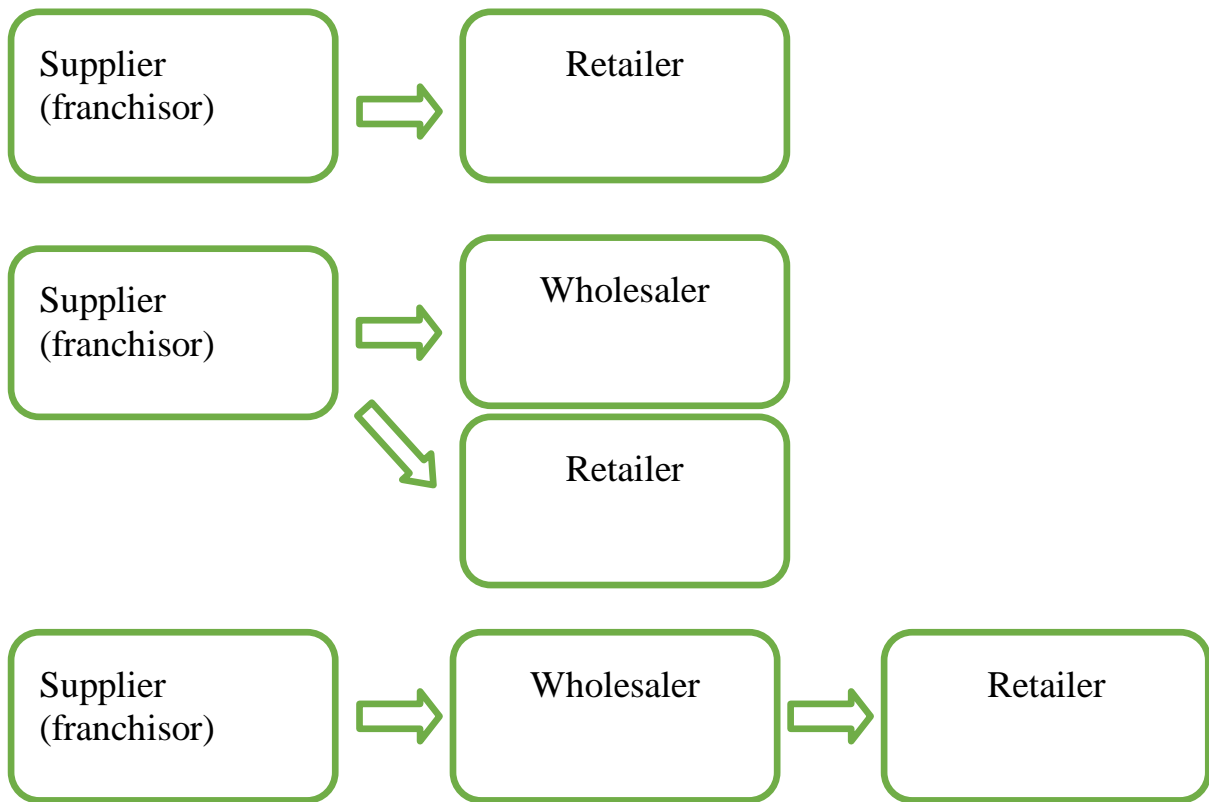


Table 4 Types of franchising, own elaboration

Other types of franchising:

- *Trade-name Franchising* is when franchisee purchases the right to use the franchisor's trade name without actually distributing the specific trademark products exclusively using the name of the franchisor, this is called 'trade-name franchising.
- *Product Distribution Franchising* involves a system in which a franchisor gives license to the franchisee to sell the specific products under the trademark and brand name of the franchisor. This type of franchising is commonly used to market automobiles (such as Chevrolet), soft-drinks (such as Coca-Cola) and appliances. It is worth mentioning that these two types of franchising give franchisees some sort of franchisor's identity.
- *Pure Franchising*: the franchisor sells the complete business format and system of his/her product to the franchisee, it is called 'pure franchising.' In other words, this type of franchising provides the franchisee with a complete business format including a license for a trade name, the product or service to be marketed, the physical plant, methods of operation, a marketing strategy plan, a quality control process, and so on. Such type of franchising is common among fast-food restaurants, hotels, educational institutions.

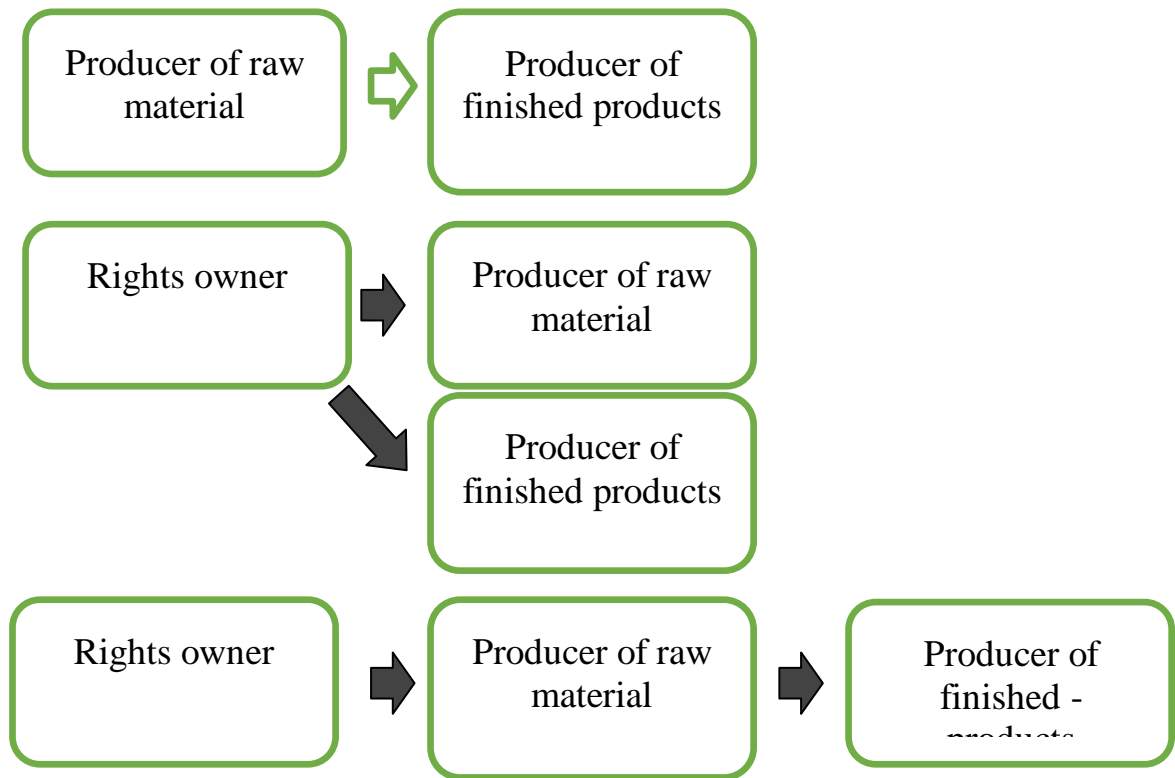


Table 5 Types of franchises, own elaboration

3.9 Franchise Payment Structure

Every franchisee undertakes that hard work and their investment in a franchise will result in profits. Franchisors should try to guarantee that after compensating the system's fee and other required expenses, the remaining income provides for a tolerable return on investment for the franchisee. The franchisor should decide of what a minimum acceptable return for their franchisees is. To do this, unit financial modeling is required. While defining a typical or average unit performance will not ensure that the fee structure will be adequate for all franchisees, it is the primary tool available. Initially, the unit financial models do not include any franchisee system fees. Once the analysis has been completed, investment analysis is performed to determine the businesses' pre-franchise fee rate of return.²²

²² MSA. Pricing of franchises: How to charge for fees [online]. Available at <https://www.msaworldwide.com/blog/pricing-of-franchises/>. Accessed 15 August 2019

There are many potential sources of revenue available to franchisors and many fees, costs, or penalties that a franchisee may agree to pay. In addition, as with the system’s advertising or brand fund, the franchisee may be required to contribute money to a cooperative fund that may not be revenue to the franchisor.²³

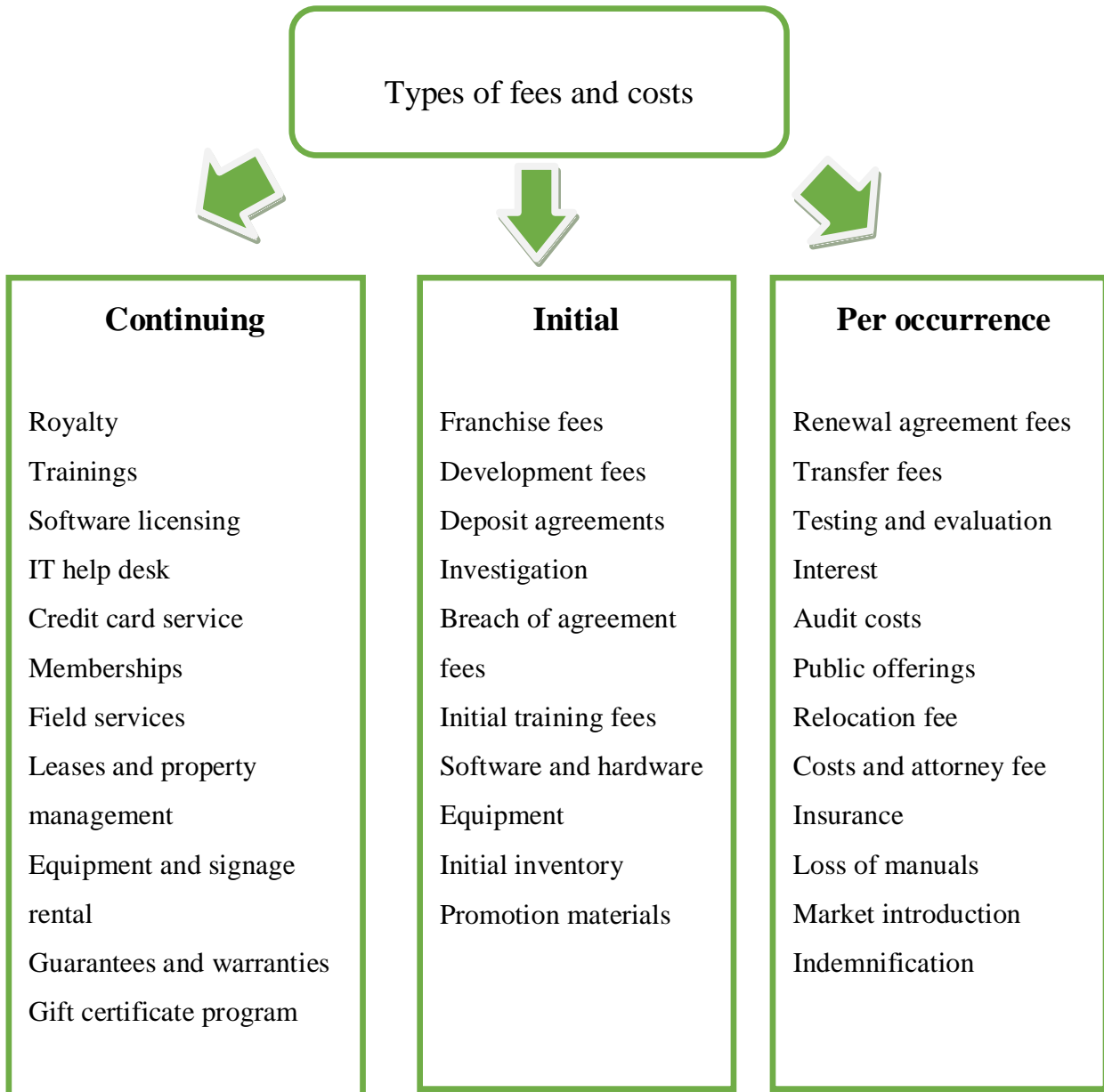


Table 6 Fees and costs in franchising, own elaboration based on MSA website

The franchise payment structure depends on the size of appropriable rent and the business model appropriability conditions. Empirical support indicates that royalty rates increase with

²³ MSA. Pricing of franchises: How to charge for fees [online]. Available at <https://www.msaworldwide.com/blog/pricing-of-franchises/>. Accessed 15 August 2019

the brand value (asset specificity), decrease with the rate of franchising, decrease with outlet size and decrease with the franchise risk.

Royalty rates and franchise fees do not vary much overtime for a franchisor. Franchisors may use their payment structure and investment in corporate units to signal their franchising ability and the franchise's growth potential to prospective franchisees. The franchisor's royalty rate (i.e., the royalties divided by the outlet sales) can be written as follows²⁴:

$$\text{Royalties} / \text{Sales} = \text{Royalties} / \text{PAT} * \text{PAT} / \text{Sales} \quad (5)$$

In the above equation, PAT = Franchisee's profit after taxes. By denoting the operating margin as the profit after taxes divided by the franchisee sales, and by denoting Franchisor Share as the royalties divided by the profit after taxes, the above equation can be rewritten as²⁵

$$\text{Royalty Rate} = \text{Franchisor Share} \times \text{Operating Margin} \quad (6)$$

Additionally, the franchisor's share of the operating margin is contingent on his competitive position and business model success. When the franchisor share is 100%, the outlet is company-owned as 100% of the profit margin is received by the franchisor. In some cases, when the units are franchised, the franchisor's share is less than 100%.

The franchise fee is usually the franchisor's long-term investment and development cost. If franchisor's cost of capital is a high or primary (initial) investment is expensive than royalty fees are lower mostly to encourage entrepreneurs to invest in franchise promising lower royalties in the long run. The cost of the franchise of the same company can also vary, depending on the scale, the prospects of the region, the presence of competition and others. In short, very rarely there are single fixed cost franchises. More often, franchisors calculate franchise fees on a case-by-case basis. The numbers can be very different, from small symbolic amounts, which really small start-up entrepreneurs can really pay, to numbers with a simply indecent number of zeros, which only large successful companies can consider.

Royalties are remuneration in the form of periodic deductions of fixed rates determined by the franchisor on the basis of their own assessment of the value of the right to use the trademark, which the franchisee pays to the franchisor. The size of royalties depends on many factors, the main of which are:

²⁴CHANDRA, Mishra. The Theory of Franchising. At https://www.researchgate.net/publication/318178090_The_Theory_of_Franchising. Accessed May 31, 2019.

²⁵CHANDRA, Mishra. The Theory of Franchising. At https://www.researchgate.net/publication/318178090_The_Theory_of_Franchising. Accessed May 31, 2019.

1. the volume of transferred rights, documents, materials;
2. the scope and nature of the franchisee support provided by the franchiser through the provision of training, counseling, other services or material resources;
3. business profitability (predictive or empirical);
4. generally accepted level of royalty rates adopted for this type of business.

Given the heterogeneity of the conditions in which different business entities operate, the size of royalties can vary and be calculated in accordance with the following methods:

1. A certain percentage of the turnover of the franchisee. According to the results of activity for the period, franchisee pays to the franchisor an amount constituting a certain percentage of the gross turnover. Interest rates range from 0.5% to 15%.
2. A certain percentage of franchisee profits. According to the results of activity for the period of franchisee, as in the previous case, it pays a certain percentage, but not of gross turnover, but of the profit received. Naturally, the interest rate of royalties, in the calculation of which the profit is taken as the basis, will be higher than the royalty rates calculated from the gross turnover.
3. Fixed rate. In contrast to the previous methods, a fixed rate is established based on the forecast data on the size of the commercial activity of the franchisee. The base for calculating the value of royalties, as in the previous methods, is either the predicted gross turnover or the expected profit, which are multiplied by the fixed interest rate.
4. The average rate in accordance with established in the world practice refers to the size of royalties for this type of activity. This method is usually used by major players in the global franchise system. Franchises that are characterized by a long-term return on investment may have a zero-royalty rate or offer a certain “zero” period during which the franchise is exempted from paying royalties.

Advertisement payments: in contrast to royalties, which the franchisor manages at his discretion, advertising payments are targeted and spent on the promotion. The methodology for calculating the advertising fee rate is similar to calculating the value of royalties. Depending on the type of business, the advertising fee rate can be set as a percentage of the financial result of the activity or in the form of a fixed rate.²⁶

²⁶ WIPO. International Bureau. Franchising guide / International Bureau of WIPO. 1994. ISBN 9280505254

4 Practical part

4.1 Advantages and disadvantages for Smokeberry of creating a franchise

The most important difference from other forms of businesses is that franchising is not an employment relationship. The franchisor is not an employer and the franchisee is not an employee of the franchisor. The franchisor is not a superior franchisee, they are in a partnership. Franchising is a trade. Therefore, there are differences in personnel issues. While in a labor-law relationship the supervisor can select all employees, the franchisor does not have such competence. He chooses the franchisees, but he can only request the right to approve the selection of executives to select the franchisee's employees. It cannot intervene more. The control system is also different. In a labor-law relationship, the supervisor can allow regular checks; in franchising, only random checks are recommended. The franchisor cannot have full control even over prices. It has the possibility to issue recommended price levels for the franchisee. It can issue recommendations, but not regulations. From a franchisor's point of view, a labor-law relationship might be preferable, but the franchisee would lose freedom and legal autonomy.²⁷

The franchise system has a lot of positive aspects for all its participants. But this mutually beneficial business has its drawbacks. Before you decide to create a franchise, you need to carefully weigh all the "pros" and "cons."

Advantages for Smokeberry:

1. The rapid development of business in a relatively short period of time
2. Revenues from franchisees;
3. Control of remote branches. Opening a new branch (subsidiary) in regions, remote cities, it is difficult to achieve quality control due to the interest of management personnel and franchisees, it is possible to assert with confidence about a higher quality of control and reporting.

Disadvantages for Smokeberry:

1. Franchise sales are less profitable than direct sales;

²⁷ LOEBL, Zbyněk. Franchising - úspěch bez čekání [Franchising- success without waiting]. Praha, 1994 ISBN 80-716-9050-3.

2. Risk of loss of company know-how. A dishonest franchisee can always use intellectual property against the interests of the company that owns the trademark;
3. The risk of loss of reputation due to breaches by the acquirer of brand policies and established standards.

Benefits for customers, the economy and society:

- Consumers know exactly what they may get in the bar in case if they have ever visited the place before even in a different city or country;
- Creating new jobs. Where there are new businesses, there are new jobs. Franchise systems are generally able to maintain themselves on the market and are therefore relatively stable jobs;
- Supporting the development of small and medium-sized enterprises. It promotes business creation by conditions. A franchise provides them with greater viability, competitiveness and, above all, an easier start up;
- Maintaining SMEs in the market;
- Restructuring the economy;
- The contribution of quality, cooperation, and partnership to the market environment;
- Quality stability.

4.2 Smokeberry lounge bar description

The Smokeberry lounge bar offers a comfortable atmosphere, occasionally relaxing and sometimes active and inspiring, around which those who love hookah smoking, as well as new changes, can come together. The atmosphere is modern with specific characteristics that differ this place from other similar places.

Since all existing hookahs have a similar list of services, the main competitive advantages are:

- Unique marketing tools used to attract customers: exclusive offers and promotions.
- The atmosphere of the hookah: stylish design, comfortable chairs and, ottomans, separate places for photos and selfies;
- A wide selection of different flavors and brands of tobacco;
- Unusual technique and design for shisha making;
- Friendly service. Prompt service, attention to each guest, an individual approach to the client;

- Japanese cuisine and poke bowls;
- Active management of all social networks. Thanks to this, feedback is quickly carried out and the wishes of each client are taken into account;
- Special “VIP” tables with a TV and PlayStation; board games;
- Events like Stand-up performance or live music;
- The presence of a summer terrace.

4.3 The logotype and the brand

Logotype of Smokeberry lounge bar is going to be registered as a trademark till 2020 year. It was changed from the original design to more modern and simpler in 2016 (picture below).



Picture 1 Logotype

The brand color palette includes 3 main colors and they are used in the interior design, brand book, and menus. Further examples are attached in the Appendix. Smokeberry lounge bar has developed SMB wear brand to encourage loyal customers to want to have things with the Smokeberry logo on it. One should note that may time these branded items are giving away to customers by the company to increase awareness and loyalty using different tools such as a contest (online giveaway), gifts for birthdays, participation in online or offline life of the company. (attached in Appendix).

4.4 Products and services

The Smokeberry lounge bar has a variety of products and services that they provide to customers.

- The assortment of organic high-quality tea “White Peony” includes premium teas from Japan, China, Taiwan, India, and South Africa. Tea is the most common drink in shisha bars, especially during weekdays and through own experience and sales in the bars they chose 10 most popular teas that would satisfy different customers like Jasmine Dragon Pearls, Sweet Passion with dried fruits or exclusive Da Hong Pao.
- Trendy poke bowls and Japanese cuisine. A poke bowl is a Hawaiian dish, which is now very popular in America and Europe and contains rice or other cereals, raw fish and seafood. However, to satisfy vegetarian customers and customers that don’t like fish 2 extra poke bowls were created by a chef in Smokeberry lounge bar. As for Japanese cuisine it is mainly consists of sushi and sashimi with cold and hot variations;
- The classical list of cocktails as well as the author’s cocktails. Even classical
- Czech wines “Pavlov” and “Mikulov” brands. Smokeberry has an agreement with these two brands and all the glasses are provided by them;
- Tap beer. Tap beer is represented by Czech brands “Staropramen” and “Pilsner Urquell” and Belgian beer “Hoegaarden”. As Smokeberry has decided, beer selection would vary in different regions/countries depending on availability and consumer preferences;
- Different flavors of tobacco. Soon, Smokeberry will launch its own brand that is already on the stage of licensing and receiving trademark. All the future franchisees will use this brand, nevertheless, other tobacco brands will be presented as well to give customers more options;
- Different designs for shisha.
- Seasonal menu. Of course, many restaurants and bars provide seasonal menus, however, besides seasonal offers of food&beverage, there are also special offers for Hookah menu, for instance, winter offer is shisha on black tea with cinnamon or summer offer is pineapple shisha on milk with coconut and mango tobacco;
- Caterings.

The premises include a stage area where performances can be presented. They are organized by the management in advance to have time to promote events on social media.

4.5 The organizational structure in Smokeberry

A *manager* leads the overall function of the restaurant (each restaurant should have own manager). His or her general duties include hiring, leading, developing and maintaining relationships with customers and other businesses such as suppliers, monitoring budget,

costs, and profits, making supplies. Requirements for the managers are at least two years of work experience, exceptional communication skills, organizational and leadership skills, creative thinking.

Waiters. The number of waiters should depend on the workload and number of tables and seats in the restaurant. But usually, there are 1 bartender and 1 waitress on weekdays and 1 bartender and 2 waiters on Friday, Saturday and Sunday. In total there are 5 people working on the bar.

Shisha Makers. The same rule about workload applies to staff that prepares hookahs. On a daily basis, there should be 2 persons and 3 persons on weekends to ensure fast and professional service.

Cooks. There are only 2 cooks needed to work with sushi cuisine as it is fast to roll, and all the ingredients are prepared at the beginning of the work shift. Main responsibilities are participating in menu planning and seasonal offers, submitting food orders and supplies and food storage.

Every employer must meet all legal requirements of the state where the business is going to operate. The labor code of the Czech Republic regulates legal relations between owners and employees. According to code, employment contracts must be concluded in writing with the following minimum mandatory content: a place of work, starting date of employment and type of the work. Employees have to be informed in writing about their duties and rights, such as holiday entitlement, wage and payment dates, working hours, job description, notice period, information about collective agreements, etc., within one month after concluding an employment contract if such information is not stated in the contract.²⁸

5. Creating a franchise: step-by-step instruction

To begin with, it should be considered whether the business is suitable for creating a franchise. Analyze the company for factors that can lead to the success of franchising. When an entrepreneur (a potential franchisor) decides to franchise, he should know what it takes. It should comprehensively see all the preparation steps and the actual implementation that lead

²⁸ Czech Invest. About the Czech Republic. 2017. [online] Available Czech invest: <https://www.czechinvest.org/en/Doing-business-in-the-Czech-Republic/About-theCzech-Republic>

to the franchise chain. The general procedure begins with an analysis of the business plan. The franchisor can then prepare documentation for the franchise project (contract, operating manual, etc.). The documents are not expected to be in the final stage and will be prepared in the light of experience. Everything is verified in operation. Therefore, a pilot project is established to test whether the documents are sufficient, but mainly the pilot operation will uncover any shortcomings. Once the pilot project has been evaluated, shortcomings can be removed, and the documents finalized. Then the franchise network is implemented. A suitable candidate for franchising is sought and the franchisor can concentrate on managing and expanding the chain.²⁹

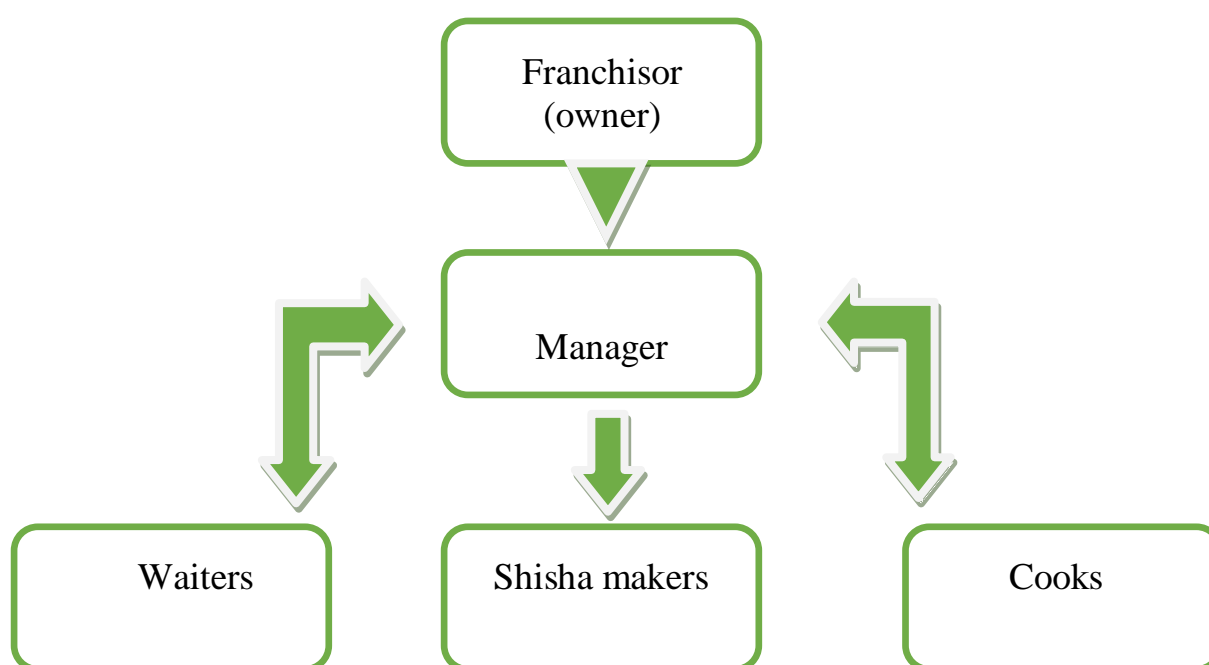


Table 7 Organizational structure, own elaboration

The first step is to describe the business concept and know-how. The business should have a strong vision of why to become a franchise and what the distinctive features are.

Questions to ask before starting a franchise:

- Is your company famous?
- Is your brand / trademark registered?
- Do you have a unique product?
- Do you have a steady business model with sustainable profits?

²⁹ Czech franchise association [Česká asociace franchisingu]. Franchising in the Czech Republic [Franchising v České republice]. Prague, 2015. ISBN 978 80 260 6814 3

- Do you have a working customer acquisition system?
- Do you have all the documentation for working with staff?

The second step is to analyze the market to answer questions such as who the customer is, who are competitors and what are strengths and weaknesses of the business that will be franchised.

The third and the fourth step is to fulfill legal and financial requirements, for instance, to prepare a franchise agreement that includes the rights and obligations of both parties, sanctions, contract duration, termination options, franchise fees and their due dates, franchisor support in the areas marketing, promotion and organization of promotional events, technical and operational support, regular audits, confidentiality and business secrets. Also, a franchisor should provide a financial plan to a franchisee to show the efficiency and profitability of the business. Besides, the registered trademark of the company should be done in advance because it might take months to get permission.

The fifth step is to choose the franchise model, to come up with methods of payments for lump sum and royalties, to set out a way of learning of a franchise buyer and employees to transfer all knowledge and experience.

The last and very important step is how to sell the new franchise especially when it is not a famous brand like McDonalds or Subway. Creating a franchise has many risks for the buyer. The franchisor of the company should be able to present the business in such a way and reveal all the advantages of cooperation so that the potential buyer does not have any questions.

5.1 Concept of the business, building a brand, know-how

The creation of a franchise implies the existence of a concept according to which franchiser-franchisee relations are built. Many confuse it with the content of the franchise agreement. However, the contract is just a set of rules between partners. These are principles of relations between the parties that have been translated from human language into legal. When drafting the contract, you will definitely need the help of franchised consultants, lawyers working with such contracts. It is important to involve several different specialists in the drafting, which will make the agreement applicable in practice. In this case, it is extremely important

to create a working life, and not an ideal model. Sometimes the company creates a list of conditions that the franchisee seems impracticable.

Hookah is a semi-closed type establishment, which is a small smoking room for hookah. Additional services to increase the club's popularity include board games, a cinema, live music and more, which will increase the profitability and interest of guests. The property of a successful franchise is its originality. The approach to the implementation of this product, as well as the conduct of business, must be unique, so that franchisees may be interested in them. The more the franchisor has points of sale, the higher the profit. When creating enterprises at a remote distance, it is important to be sure that products can be manufactured under the brand without participation.

Smokeberry franchise is the first franchise seller in Europe in the hookah industry. If you have ever visited a typical shisha bar in Europe, then you probably know about the quality of hookah, tobacco preparing and level of service (add as many carpets as possible and a mediocre shisha bar is ready). Strangely enough, these establishments are quite popular, because of the lack of proper ones, of course. Nowadays hookah is a popular attribute for relaxing and chilling with friends and partners. The audience is wide - from students to businessmen. European hookah market is emerging - "proper" hookah lounges with tasty design and good products appear in big and tourist cities. Locals progressively are getting engaged in smoking culture and choose hookah bars as a leisure and "chill" spot. Smokeberry is popular in Prague because it is a stylish lounge bar with its high-quality product, ready-made content plan, tasty banners and posts for SMM, well-trained staff and unique of preparing hookah technique. Smokeberry was launched in 2013 as a home delivery shisha for rent, and only then the first lounge bar was opened in October 2015. The concept was to change the basic stereotype that shisha is Arabic and to introduce modern lounge bar with tropical house music, shisha on fruits, stylish bar menu and Japanese sushi and poke bowls that were presented by a chef with 10 years' experience in Japanese cuisine. The location of the lounge bar is in Vinohrady close to 3 tram stops. After 2 years' time to business growth came and owners decided to open the second place with all the other features of the first place.

In the hookah place, a high level of service and product quality must be always maintained. Due to this, the number of regular guests is constantly growing, and seasonality slightly affects the value of the institution. Although this type of business is characterized by a

decrease in demand in the summer months, the terrace attracts even those who are not regular customers of the hookah. One of the lounge bars in Prague has a summer terrace.

How long has the company been on the market?

The idea of franchising is that the franchisor gives the franchisees a business model developed on the basis of their own experience. In order to gain similar experience, at least one pilot undertaking must be operated for at least 12 months to test the idea thoroughly and find out what seasonal fluctuations it is subject to, what competition it has on the market, and whether the products or services offered to depend on fashion trends. Smokeberry has 4 years of experience and tested many different options of the business working in the market.

5.2 Market analysis

Analyzing the market of shisha lounges helps to understand if it worth to invest in the branches in certain areas. Hookah industry grows at a rapid pace worldwide. According to Google Trends the first place for s "shisha bar" query takes Germany, then Switzerland, Austria and the USA. It is highly doubtful that shisha industry will disappear as it is not just "smoking", it is a culture, a reason to meet, reunite and spend quality time.

5.2.1 Target market

According to social media statistics (Instagram, Google, Facebook) provided by Smokeberry the biggest target audience are people from 21 to 28 years old (53%). If we consider the demand for hookahs in general, then the target audience of hookahs is people of any age category, starting from 18 years old, who like to smoke a hookah. However, it is worth noting that people over 35 rarely come for a hookah to a separate institution. As a rule, they order hookah at restaurants where they have dinner. The experience of working hookah clubs clearly shows that you need to focus on young people from 18 to 35 years old. These are students and working people, full of energy, taking an active life position. They prefer to spend evenings in an interesting company, talking and playing intellectual games and they don't like noisy establishments, but they like to smoke hookah.

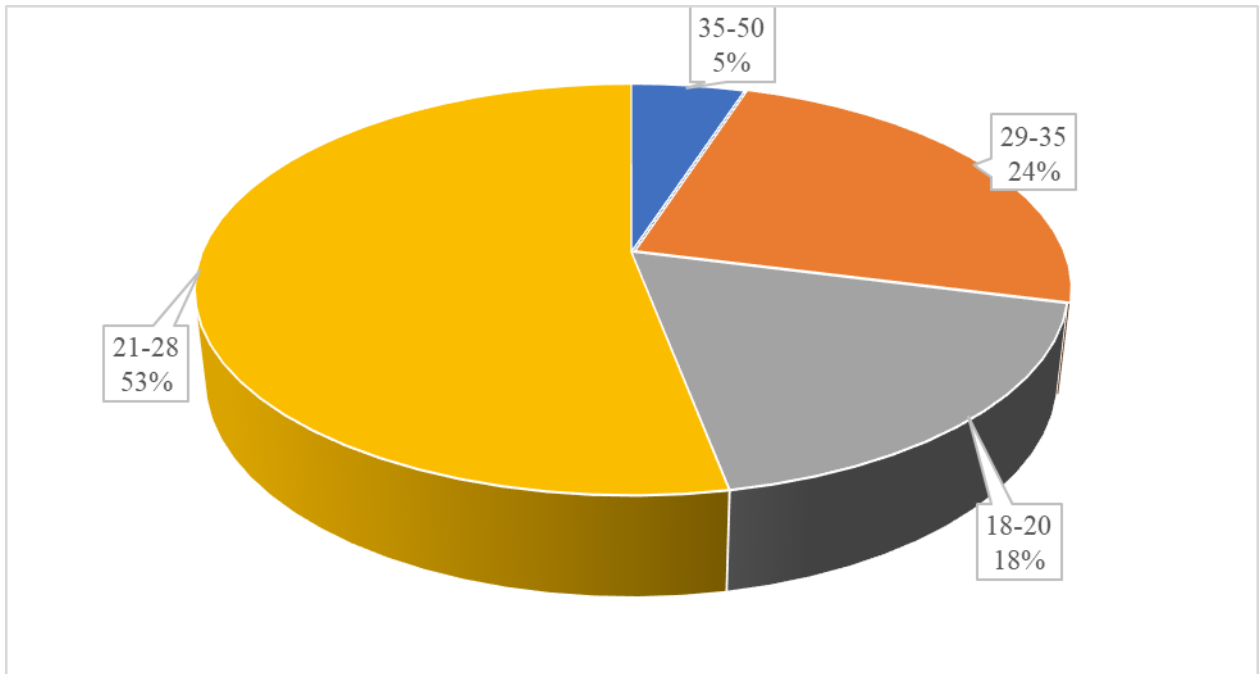


Figure 2 Segmentation by age, based on interview with the owner

Criteria	Description
Gender	Male, female
Income level	Average, above-average
Age	18-35
Occupation	Students, office workers, freelancers...
Drivers to visit Smokeberry	Quality, service, assortment if products. Reviews
What kind of leisure	To spend time with friends (not the business for family activities) Date with a partner Work for freelancers

Figure 3 Summary of market segmentation, based on interview with the owner

Depending on the time of day, the age category of customers varies:

- In the daytime (from opening until 18.00) students (from 18 to 24 years old), as well as freelancers who sometimes come to work, visit the hookah.

- In the evening (from 18.00 to closing) the contingent is changing in the direction of increasing the age category. Working people (from 25 to 35 years old) come in the evening.

On the figure 4 provided by Smokeberry, the attendance of the bar shown during the year in different months. Unfortunately, Smokeberry in Prague 2 has only 3 tables outside during summer period and Smokeberry in Prague 1 has no access to have a summer terrace. Doubtless, the biggest recommendation for a future franchisee to find a premise that would have a possibility to arrange summer terrace or garden and it would increase sales during summer rapidly.

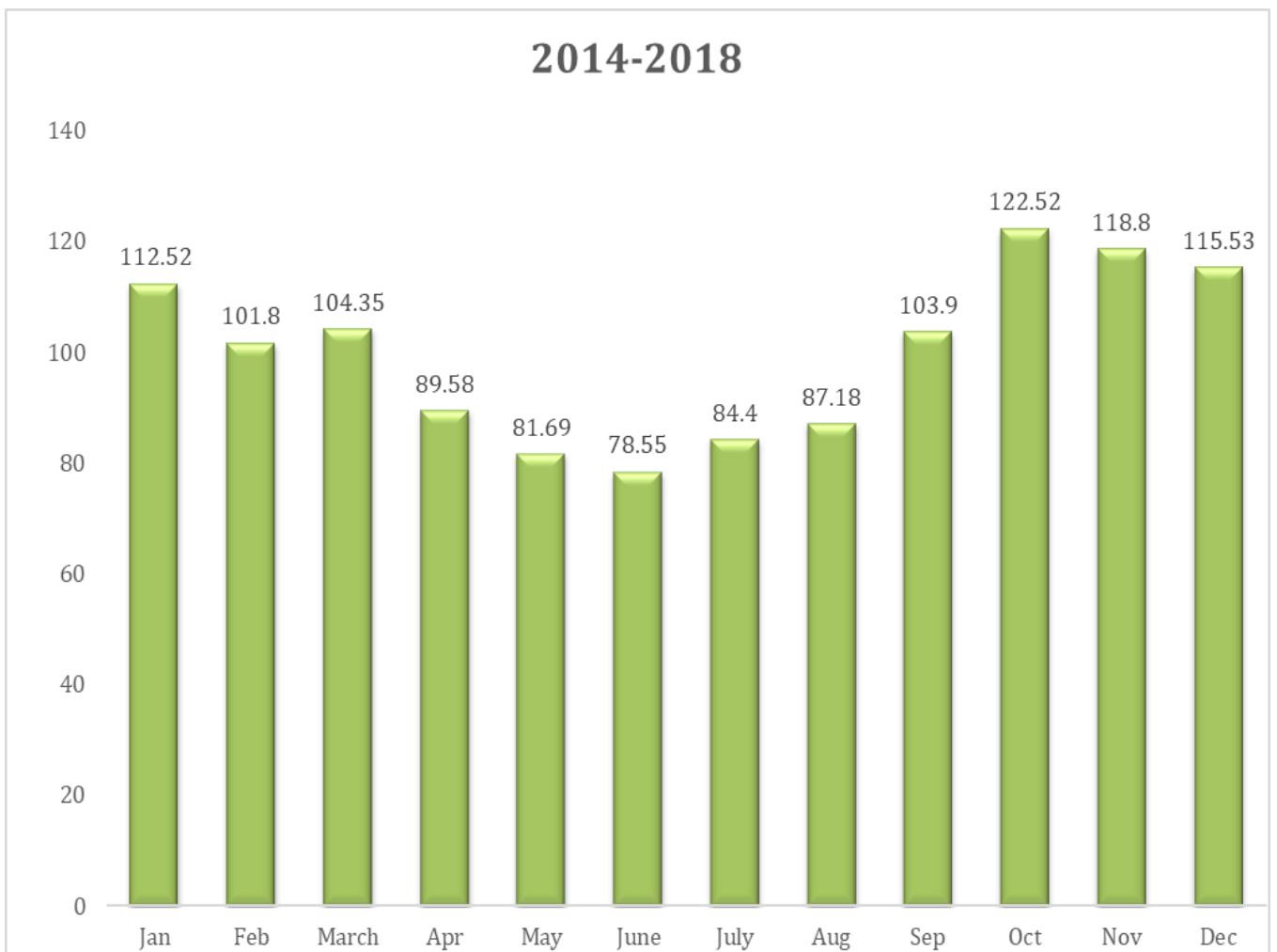


Figure 4 Attendance by the months, based on interview with the owner

5.2.2 SWOT for Smokeberry franchise

This analysis helps organizations, projects or even individuals about systematic thinking and comprehensive diagnosis of factors. The SWOT analysis is used to identify the advantages, disadvantages, threats, and opportunities of franchising. This is shown in the table below.

Strengths. First of all, Smokeberry differs from many other shisha clubs because of a creative way of making a design of shisha using fruit bowls (examples are attached in Appendix). As it is difficult to do and to learn many shisha places do not provide it, however, most of the shisha sales in Smokeberry are these special shishas on fruits. Secondly, there are seasonal offers for drinks, food and even shisha. One of the most attractive arguments in support of the franchise is a lower risk of failure. It is undeniable that many new entrepreneurs do not have enough knowledge to build a successful business from the first try. A franchise provides know-how, working business plan and all the experience and support to a franchisee.

Strengths	Weaknesses
<ul style="list-style-type: none"> ✓ Uniqueness of offer; ✓ Lower risks for failure; ✓ Accessible setup; ✓ Ready business structure 	<ul style="list-style-type: none"> ✓ Unknown brand for foreign markets; ✓ Advertising difficulties; ✓ Dependency on main franchisor; ✓ Not a wide range market
Opportunities	Threats
<ul style="list-style-type: none"> ✓ A possibility of growth by creating own brands; ✓ Provide caterings; ✓ Entrepreneurs have chance to become their own boss 	<ul style="list-style-type: none"> ✓ Growing competition on the market; ✓ Increase in raw materials price; ✓ Different legislation for tobacco products in different countries

Table 8 SWOT analysis, own elaboration

Weaknesses. The other side of the coin is, however, that the Smokeberry lounge bar is known only in Prague and for other markets, it is an unfamiliar brand. Although, first buyers of franchise always have an advantage over new joiners that will appear in the future. Besides, on social media, it is prohibited to advertise tobacco products and shisha is included in that exception, so, if the franchisee wants to advertise his shisha bar it should be advertised without shisha products that can mislead potential clients. As was mentioned in the target audience section, there is a limitation of potential users of this service by age and also there are many non-smokers. Nevertheless, according to Smokeberry statistics, many customers are non-smokers of cigarettes, but they do not mind smoking shisha sometimes as they don't consider shisha as harmful as cigarettes.

Opportunities. There are many possibilities to develop this business in the future and Smokeberry is already working on them, for example, own shisha tobacco brand, production of shisha and coal that will be registered as European, shisha makers school to achieve better skills, for example, to make hookah on fruits or study mixology of tobaccos. Another good thing is providing caterings that are becoming popular for different kind of events.

Threats. It is not a secret competition that is a threat to any kind of business. When Smokeberry has started to exist and to develop there were almost no competitors in Prague. Nevertheless, the amount of shisha bars is growing rapidly in the world, and Prague is not an exception. The most expensive materials for lounge bars are alcohol and shisha ingredients such as tobacco and coal. Customers want to smoke the famous brands that set higher prices, but doubtless, there are much same quality and less well-known tobacco producers on the market. The biggest problem for a shisha lounge bar is the various legislations that different countries have for the tobacco industry that, would cause a tight squeeze in the future.

5.2.3 Comparison of Smokeberry franchise with other implemented franchises

As it was mentioned before, Smokeberry lounge bar is the first hookah franchise in Europe if not to consider CIS countries in Europe. According to the table below (Table 9), launching a shisha place with other franchises will be more costly. All the described franchises exist at least one year on the market and have at least 10 operating bars that were bought as a franchise. As it is seen from the table, 3 out of 5 companies are established in CIS countries inasmuch as shisha has been a popular trend for 15 years there.

5.3 Financial conditions and pricing policy

The franchise concept should generate sufficient financial returns. Acceptable and sufficient rentability and income, but also enough money for franchise fees. The franchisee should feel enough reward for his work. The lack of franchisee's financial resources during the business is the biggest obstacle.³⁰

	Smokeberry	Premium hookah club	Myata	A 40 thieves LLC	Hookah Place
Country of origin	Czech republic	Belarus	Russia	U.S.	Russia
Approximate costs to open	from 20 000 €	from 40 000 €	from 22 000 €	from 60 000 €	from 27 000 €
Lump sum	2 000-3 500 € depending on the city	6 400 €	from 3 000 €	5 000-8 000 €	from 4 000 €
Royalties	150-200\$ depending on the city	250 €	200-300 €	250-500 € depending on the city	from 200 €
Launching time	from 1 month	from 2 months	from 1 month	from 3 months	from 2 months
Countries	Czech republic Slovakia	Belarus Estonia Latvia	Russia Ukraine Belarus Kazachstan	U.S.	Russia U.S. Czech Republic
Franchise term	not mentioned	not mentioned	not mentioned	3 years	not mentioned
Website	https://www.smokeberryfranchise.com/en	http://franshisa.by/#	https://myata24.ru/	https://www.hookahfranchising.com/	https://hookahplace.ru/franchising

Table 9 Competitors of Smokeberry, own research based on Internet

³⁰ MENDELSON, Martin. The guide to Franchising. 1995. ISBN 5-85300-075-6

All franchisees enter into relationships only with a successful entrepreneur. They begin to enjoy the privileges acquired by a previously developed profitable business. Therefore, it is important to achieve real success, and only then think about creating a franchise. Only a strong and reliable business can develop in this way. The longer business is running, the greater and deeper knowledge of sales and costs and financial results. Such information will help to evaluate, for example, when the season is best to start a business.

Before considering a contract and franchise branches, it must be ascertained whether the system is viable as a franchise concept. The business base must be sound to provide a stable core for finance and business. Franchising is not recommended as a solution for a financially ill business because it does not generate immediate profit. On the contrary, it initially involved many financial expenses. Franchising is an investment in the future and development of the company. The franchisor's high capital is no longer needed for expansion because the franchisee provides the initial capital for the new establishment. Still, creating a franchise system is not a cheap matter. The future franchisor should be familiar with the theory of franchising. He benefits from working with a franchise advisor. The consultant will estimate the optimal procedure for the necessary time for implementation, human and financial resources needs, etc.³¹

The franchisee has 3 basic financing options: loan, acquisition of an investor (subscription of shares is common abroad) or contact with the franchisor. In some countries, banks are open to this kind of business and adopted special conditions for franchising. The advantage is that franchising companies are generally more successful. In the Czech Republic, an example of a bank that is working with franchisees is ČSOB.

³¹ CAF. Franchising v České republice. Česká asociace franchisingu, Praha. 2015. ISBN 978 80 260 6814 3

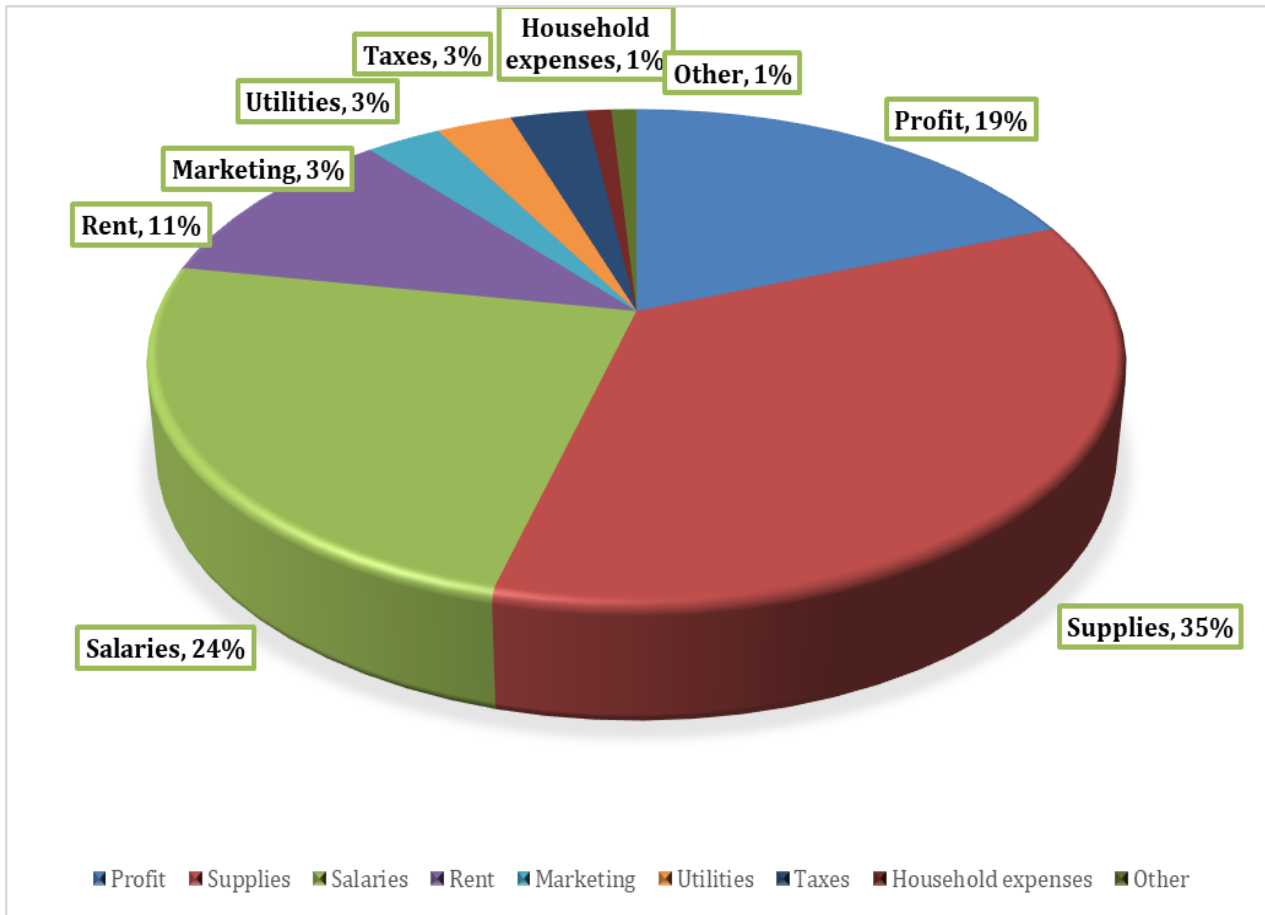


Figure 5 Expenses of a lounge bar in % from revenues, based on own elaboration

The formation of a pricing strategy is one of the most significant aspects of the functioning of the company in a market environment. The pricing strategy is a reasonable choice of several possible price options or a list of prices, one that would contribute to the most effective solution of the problems facing the enterprise in the current and long-term periods. Thus, the enterprise's pricing strategy is its long-term policy, which includes: determining the purpose of the price offer, for instance, survival, maximizing current profit, current income, sales; an estimation of sales at every possible price level; determining the level of costs for various volumes of output, taking into account the proposals of the marketing service; analysis of costs, prices and offers of competitors; the choice of one of the pricing methods; setting the final price taking into account factors that have a psychological effect, the influence of other elements of marketing, pricing policies and the impact of prices on other market entities.

Description	Meaning	Price in CZK
Average bill per table	Per 2 persons	600
Average nonalcoholic beverage price	Included tea, coffee, soft drinks and lemonades	63
Average alcoholic cocktail price		128
Average alcohol price	Wine, beer, spirits Price range 45-95	70
Average food price	Sushi and poke bowls Price range 89-339	189
Average shisha price		310
Average design shisha price	On fruit bowls with more tobacco inside	590

Table 10 Average prices in Smokeberry, based on Smokeberry website

5.4 Legal requirements:

The European Union law mentions the franchise agreement. It is subject to Commission Regulation No 2790/1999 / EC on the application of Article 81 of the Treaty to categories of vertical agreements and concerted practices. Thus, when setting up a franchise, entrepreneurs must contractually define all rights and obligations so that all parties are balanced, and no one is discriminated against. The conclusion of the contract must not restrict competition. Franchise agreement includes:

- determining the type of cooperation of the contractual partners;
- the subject matter of the contract, including the rights to the designation, appearance of establishments and other franchisor identifying features;
- the scope of the contract and the specifications of the products, services or technologies sold;
- the status and rights of the franchisor and franchisee;
- duties of franchisor and franchisee;
- relations within the franchise network, relations with competitors and third parties;
- delivery and payment conditions and bookkeeping;

- training the franchisee and his staff;
- franchise fees;
- legal succession;
- the duration of the franchise contract and the possibility of further extension;
- conditions of termination of contract and reasons for withdrawal;
- consequences of contract termination and mutual settlement;

There is no legal regulation of franchising in the Czech Republic. There is neither a legal definition of franchising nor a franchise agreement. Since the contract is not defined (legally referred to as unnamed), the franchisor must write everything in it. What does not include in the contract is not automatically governed by any law, as is the case with named contracts (oral statement by JUDr. Halka Pohlová, attorney Noerr on 26 May 2016). The franchise contract is a combination of several contracts. It contains elements of the license agreement, know-how contracts, lease contracts, commercial representation contracts, leasing contracts, etc.³² The new Civil Code, effective from 1 January 2014, further defines the entrepreneur as follows: “An entrepreneur is a person registered in the Commercial Register. Under what conditions persons are registered in the Commercial Register, provides for a different law” (Civil Code, No. 89/2012 Coll., Section 421). In the same paragraph, we can also find the specification of the entrepreneur: “It is considered that an entrepreneur is a person who has a trade license or other authorization under another Act” (Civil Code, No. 89/2012 Coll., Section 421, paragraph 2).

The very creation of a franchise contract is the result of a long time and effort. Since there is no universal contract, every company has to create and maximize it according to its settings. Many entrepreneurs underestimate a contract, whether due to time, finance or trust in the franchisee. Such cases often end in court. The franchise agreement can be divided into three groups according to the relationship to the franchise agreement. On the scale of the most deterrent groups, the first is the franchisees who make the contract themselves or download it from the Internet. In the second place is a group of franchisors who have made further progress and have a contract prepared by a lawyer but a lawyer without a franchise focus or without franchise experience. At best, the franchisor will contact experts and lawyers who are specialized in creating franchise contracts.

³² ŘEZNÍČKOVÁ, Martina. Franchising. Prague, 2009. ISBN 978 80 7400 174 1.

From the accounting point of view, the franchisee acts as an independent entrepreneur who is responsible for keeping tax records or accounting, including all related statements. When dealing with accounting and tax issues of franchising, it is necessary to proceed from the conditions specified in the franchising contract, where it is appropriate to define the individual transactions that will occur within this business relationship. These include, in particular, royalties for the rights granted to the trademark, service charges, rent for the premises owned by the franchisor, or payments for goods purchased by the franchisor from the franchisor. The franchisee also usually pays the franchisor a contracted share of turnover. Based on the nature of the fee, the franchisee then chooses the correct expense account. One-off franchise fees, such as know-how or the purchase of a license, may have the character of intangible assets, defined for tax purposes by a useful life longer than one year and an acquisition cost in excess of CZK 60 000. Such one-off charges are usually applied gradually in the form of tax depreciation. Other fees are charged to the tax expense in the relevant taxation period to which they relate in substance and in time.³³ The VAT Act treats franchise fees as consideration for the provision of services or the supply of goods; these transactions are then subject to the applicable VAT rate.

5.5. Choosing a franchise model

For a healthy and good relationship, partners should trust each other and respect each other. They should also fulfill all their responsibilities. Both contractual obligations and informal issues. The franchisor is expected to provide the franchisee with an overall concept including instructions, operating manual and other necessary documents. Furthermore, the franchisee assumes that the franchisor will train and assist him before, during and after the start of operations. Continuous assistance will allow the franchisee the conditions for successful business.³⁴ When all the requirements for starting a franchise are met, and the documents are prepared, it is needed to decide on the conditions for creating a franchise.

Direct franchising means that the franchisor enters into direct contractual relations with each individual operator and provides support and ongoing services. This method is usually limited in scope if the franchisor is located far from the host country. Very often, direct

³³ Franchising jako způsob podnikání [online] Available at <https://portal.pohoda.cz/pro-podnikatele/chci-zacit-podnikat/franchising-%E2%80%93-podminky-a-danovy-a-ucetni-pohled/>. Accessed 5 September 2019

³⁴ LOEBL, Zbyněk, 1994. Franchising - úspěch bez čekání. 1. vydání. Praha: Grada. ISBN 80-716-9050-3

franchising combined with the opening of branches provides tax benefits. Using direct franchising will make the franchisor vulnerable to the extent that he may no longer be aware of the difference between business in his own country and in the host country. A trial program is required³⁵. For those who intend to open a business in the member countries of the European Community, it is necessary to consider how the complete removal of national barriers will affect it. Although the result will be a significant uniformity of physical (for example, in relation to the movement of goods and people), technical (standardization of goods, professional qualifications) and financial (streamlining tax rates) conditions, nonetheless, fundamental differences will remain. They include:

- language barriers;
- local laws that may affect the franchise system, operations in the system and agreements, although special industry laws will be standardized;
- differences in culture and lifestyle;
- national tastes and habits;
- national characteristics.

The size of royalties or lump sum fees:

It is remuneration and arises from the fact that after the concept has been transferred, the other party will pay a certain amount of the fee. All fees must be stated in the contract, both their amount and when and to what account to pay. When longer contracts are also negotiated with the inflation clause due to changes in the value of prices over the years. The first is the entry fee so-called lump sum fee. This is a one-time payment for granting a license. I follow royalties, the amount usually depends on the franchisee 's turnover but Smokeberry decided to set a monthly permanent amount depending on the size of the city. And the most significant ongoing fees include marketing and marketing contributions advertising, which are now not included in the contract as paid ones. The actual amount of fees must be set so as not to discourage future franchisees from arranging a franchise contract but also to be profitable for the franchisor. The fact is that the decision on each item is of paramount importance for business success. It is important to weigh and calculate the possible profit for each of the proposed options.

³⁵ MENDELSON, Martin. The guide to Franchising. 1995. ISBN 5-85300-075-6

Franchise fees are the main source of franchisor revenue and a reward for his efforts to develop a successful franchise system and the continued provision of franchise services. The entry fee is paid by the franchisee to the concept owner and is a fee for providing know-how and rights to use the brand, allowing you to join the system, and covering other franchisor costs.³⁶ Entry fees are different for each franchise system. There are also systems without entry fees, but in this case the franchisee usually pays higher ongoing fees. There is also a rule that the higher the franchise concept, the higher the entry fees. Many advanced and proven franchise systems demand an amount of hundreds of thousands of crowns. These fees are primarily used to cover the franchisor's costs incurred for example in the following activities. Ongoing charges, also called royalties, vary from system to system in terms of amount and method of payment. Most often, a fixed amount is paid monthly along with a certain percentage of turnover. They can also be calculated as a surcharge on the delivery of goods from the franchisor. The total amount of ongoing charges should be in the range of 1 to 15 percent of turnover. It depends on the services the franchisor offers to the franchisee and the rate of profit³⁷.

Below a table of lump sum and royalties are presented, however, the prices are relative and can be negotiated based on different factors such as geographical features, local legislation, territorial coverage and so on.

Smokeberry shisha lounge bar		
Population of the city	Lump sum (EUR)	Royalties per month (EUR)
>500 000	2 000	150
<500 000	3 000	200
Capital	3 500	250

Table 11 Payment structure of Smokeberry franchise, based on interview with the owner

Way of learning:

³⁶ iPodnikatel.cz. Franchise fees for franchising [Franchisové poplatky za franchising]. [online] Available at: <http://ipodnikatel.cz/Franchising/franchisove-poplatky-za-co-ve-franchisingu-zaplatite-a-co-za-to-dostanete.html>. Accessed at 15 September 2019

³⁷ Czech franchise association [Česká asociace franchisingu]. Franchising in the Czech Republic [Franchising v České republice]. Prague, 2015. ISBN 978 80 260 6814 3

The business should be automatized and to have strong system that does not fail. As it is understandable that franchise should work even without initial owners and often on the distance, thus and so, employees have to know how to work and what to do. Smokeberry has few elaborations to improve the education process:

- SMB WIKI is an internal website dedicated to employees made for automated learning and controlling system for each employee. Each Smokeberry unit (hookah, bar, cook, manager) has its profile with separate accounts for every team member. There is information about how to work with different equipment in the restaurant including ventilation, tablets, music systems), scripts of possible work situation and how to react on them, theoretical knowledge for each department, for example, history of shisha or cocktails, so employees can be professional and know everything about products they sell;
- Video learning. There are videos for every cocktail, way of making shisha and burger to have the same quality in every retail place;
- "Momentum" system is Automated payroll calculations that show what is wrong in your bar and where the issue is. It helps to always keep a finger on a bar's pulse. Thanks to weekly reports your communication with a manager will be short, sharp and specific - you will know whether your costs are optimal, how sales are going and so on.

What else Smokeberry lounge bar provides as a franchisor:

The franchisor negotiates with suppliers on the supply of materials and products necessary for the franchisee so that all supplied materials have the franchisor's trademark and agree with suppliers of equipment and spare parts. However, for example, food and beverage supplies should be organized by the franchisee. Examples of supplies that Smokeberry should provide or agree on: shisha and its equipment, tobacco, tea, POS and so on. The franchisor, using the experience of trial operations, prepares a manual for the franchisee, which will be used during training, and will also serve as a guide for the franchisee in his daily work. Such benefits are very important as a means of transferring know-how. They also contain a manual for each individual employee of the operator, a description of the system of work and job descriptions. Contact and support during training between the franchisor and the operator should be maintained. Training is organized in such a way that at the end of the course the operator is able to act independently and fulfill his contractual obligations. The franchisor should pass accounting procedures and record-keeping systems that should pursue two goals. The first is to provide the operator with information that allows him to judge whether everything is going smoothly or not. The second is to provide

information to the franchisor, allowing him to both provide consulting services and form control mechanisms.

Summary of documents that Smokeberry as a franchisor provides to franchisee:

1. Franchisor's business plan including cost, payment mechanism, distribution of control between the buyer and the seller;
2. Franchise implementation scheme;
3. Certificate of registration of a trademark;
4. The franchise agreement;
5. Brand book and guideline include Smokeberry history, vision and mission, logo in color, black and white, monochrome and inverse, with Panton color numbers, business cards, company uniform, promotional product samples, packaging;
6. Website for future franchisee;
7. Set of marketing materials;
8. Personnel training and certification policy (programs, frequency, etc.)
9. Training video and lectures;
10. Requirements for personnel such as list and number of personnel positions, basic qualifications for staff, personnel search procedure, work and vacation schedule for employees, labor rules, recommendations on remuneration and motivation, the responsibilities of the staff, detailed job descriptions for each employee
11. Product and services description such as key features, competitive advantages, assortment of services.

5.6 The sale (realization) of the franchise.

According to the interview with the owner of Smokeberry lounge bar George Novikov, there are several ways to search for franchisees that they are using:

- Distribution of information about the franchise using “word of mouth”. The one who brings a new franchisee will get a percentage from the sale.
- Visiting thematic festivals such as shisha master championship in Germany or Hookah Expo, where you advertise your business as a successful and promising for those who want to buy a franchise;
- Conclusion of a contract with an independent company that provides services for finding investors. Franchising agencies for a fee conduct market research and help to find interested entrepreneurs. Smokeberry is now working with the Russian agency as demand is higher there.

Why is it not so easy to find franchisees? Creating a franchise has a lot of risk for the buyer. Sales specialists of the company should be able to present their business in such a way and reveal all the advantages of cooperation so that the potential buyer has no questions left. One of the methods that Smokeberry is using is that they provide special payment structure to the first franchisees such as excluding royalties for the first 6 operating months of the new franchise. They suggest that when there will be few successful franchisees it will be much simpler to sell and grow faster as there will be trust and trust plays an important role here.

6. Conditions to open a franchise of Smokeberry

6.1 Location and premise

Requirements for a location are desirable but not mandatory and can be negotiable.

1. *Separate entrance.* In order for the hookah to be recognizable, and customers do not have problems finding it, the location should be on the first line with a separate entrance of the building's end or from the courtyard. In addition, there must be an emergency fire exit.
2. *The presence of ventilation.* The absence of such a system will lead to smoke in the space, as a result of which the staff will not be able to work in comfortable conditions, and the customers will not be satisfied with you. In addition, smoke will seep into neighboring rooms, causing discontent from others. Always keep in mind that at the first complaint, inspection authorities will come.
3. *Possibility to make a summer terrace.* It is important to consider the seasonality of demand for hookahs. If you only have a closed room, then the flow of customers in the summer will decrease, since most people prefer to spend time outdoors. However, if you have a summer terrace, then the revenue from May to August will increase significantly.
4. *Sufficient floor area.* On the main hall for guests about 60-70 sq.m. are necessary. Another 15 sq.m. take a kitchen and a room where hookahs are prepared, and 6 sq.m. will need to be left under the office premises - pantry. It is also necessary to equip two bathrooms: separately for guests and for staff. Total, to start a business space of 100 sq.m. is required
5. *Population.* At least 100 000 inhabitants in the city because provided services have limitations because of the age (+18) and personal interest as not everyone likes to smoke.

6.2 Opening hours

Due to the fact that the majority of hookah visitors like to visit those places already in the evening, it is planned that the opening hours will be as follows:

- Monday-Thursday 15:00-01:00;
- Friday-Saturday 15:00-03:00;
- Sunday: 15:00-01:00.

Nevertheless, working hours can be changed by a franchisee if there is a different tendency in the location of a franchise, and a franchisee has statistics that prove expediency of modification.

7 Analysis of the franchisee on the example of Brno

This chapter explains the question of why to open the Smokeberry franchise in Brno? The answer is simple: the population is relatively high, and solvency is almost similar to Prague, however, the number of entities with shisha offers is low and started to develop much later compared to Prague.

The entity will be located in the city center and working hours will be as it was described in chapter 6.2. In total, the premise will be designed for 50 seats with the ability to add 10-12 additional seats. This amount will allow to maximize the use of available space, while not causing discomfort to customers from different companies. The franchisee decided to open the lounge bar without providing kitchen to decrease initial investments, nevertheless, it will be changed in the future. The prices will be kept as it is in Prague.

7.1 Investments

The initial investment in the organization of the hookah club consists of the costs of registration, the cost of repair and purchase of necessary equipment, the acquisition of consumables and operating expenses. A complete list of comparative costs is presented in the table.

The Registration of the firm is the first item of the initial costs plan. According to Murár (2016), the minimum costs for setting up the LLC (SRO) are 3 530 CZK. These costs include:

- CZK 2 000 (writing of the notary registration for the establishment of the SRO)

- CZK 1 000 (writing a notarial record of the registration certificate)
- CZK 300 (registration fee) + CZK 100 from the Criminal Register)
- CZK 30 (signature on the approval of the location of the registered office)
- CZK 100 (extract from the Land Register).

Item	Relative prices and costs
Investments in the repair and conversion of premises (CZK)	
Construction work with materials	190 000
Furniture	125 000
Ventilation system	10 000
Fire extinguishers	3 000
Deposit for the entity	50 000
Investments in equipment	
Shisha (15 pcs.)	37 500
Tableware	32 000
Coal heating tile (3 pcs.)	2 200
TV (3 pcs)	31 000
PlayStation (2 pcs)	9 000
POS system	7 800
Sound system	16 600
Fridge	11 800
Modem for the internet	2 000
Bar equipment	18 000
Board games	4 500
Investments in the materials to open	
Tobacco	62 000
Coal	9 000
Mouthpieces	1 000
Alcohol	30 000
Soft drinks	8 000
Food supplies	7 400
Tea & coffee	2 300
Other investments	
Registration of the firm	5 000
Signboard	15 000
Uniform for employees 1 pc	400
TOTAL	803 100

Table 12 Investments to open a lounge bar, own elaboration

Taking into consideration the possible occurrence of other additional costs, the total cost of registration of the firm in the Czech Republic is assumed to be up to 5 000 CZK. For the new place, 15 pieces of shisha would be sufficient, furthermore, Smokeberry has an agreement with shisha brand “First Hookah” according to what all franchisees can buy shishas cheaper than the wholesale price and the delivery is all around Europe and CIS countries for free. As for the uniform, it is provided by Smokeberry for free in the agreed amount, however, a franchisee will pay if they need more than they stated in the agreement. Regarding furniture and construction, the costs may vary significantly depending on the conditions of the premises where new lounge will be. If a premise already has a good ventilation system and walls, floors conditions it will be sparingly. According to the interview with the owner of Smokeberry, premise for the second Smokeberry bar already had equipped bar, renovated walls and floors, well-functioning air conditioning so they had to invest only in furniture and equipment. The franchised lounge bar will not have a kitchen in the beginning and will serve only desserts and snacks.

To cover investment costs, it is planned to take a loan to open a franchise. After market research, it was decided to choose Raiffeisenbank with interest 3.7% for businesses.³⁸ The loan will be paid in 2 years, 400 000 CZK will be loaned and 400 000 own capital. The calculations are presented in Appendix.

Items	Value
Bank loan	400 000
Own capital	405 000
Total amount	805 000

Table 14 Capital resources, own elaboration

³⁸ ZLATOKORUNA, available at <http://www.zlatakoruna.info/financni-produkty/podnikatelske-uvery>. Accessed at 25 September 2019.

7.2 Depreciation

We purchased an equipment for 171 900 CZK with estimated salvage value of 316 880 CZK and a useful life of 5 years. Annual depreciation is 27 504 CZK. Monthly depreciation is 2 292 CZK. Depreciation for the period is equal 13 752 CZK.

Name	Year	Beginning of year	Depreciation	End of year
Equipment	1	171 900	27 504	144 396
	2	146 396	27 504	116 892
	3	116 892	27 504	89 388
	4	89 388	27 504	61 884
	5	61 884	27 504	34 380
Total depreciation			137 520	

Table 15 Depreciation of equipment

7.3 Personnel cost

According to experience of owners, personnel is giving better results if they have not fully fixed salary but also percentage from sales as they are motivated to provide better service and to offer more products using different sales methods that are presented by manager on the first days of work and calculated as a bonus at the end of month. Here is the graph with salaries for Brno (based on website www.platy.cz), however, that may vary from city to city, or from country to country depending on where the new franchise will be opened.

The new lounge bar needs one manager, 2 waiters and 2 shisha makers, also temporary workers, mostly students who need practice as help will be hired on the basis of the employment agreement (Dohoda o provedení práce). Amount for super gross wages are counted on the basis of 1.34 coefficient from gross salary (the super-gross wage is legally anchored in Section 6.12 of Act No. 586/1992 Coll., on Income Taxes).

In total personnel costs are 213 984 CZK because the business should pay taxes for its employees.

Position	Hours per month	Amount per month (net) CZK	Amount per month (gross)	Amount paid by employer
Manager	140	25 505	34 000	45 560
Waiter 1	140	20 670	27 000	36 180
Waiter 2	140	20 670	27 000	36 180
Shisha maker 1	140	21 912	28 800	38 592
Shisha maker 2	140	21 912	28 800	38 592
Temporary workers (brigada) x 2	130	24 000	-	32 400
Cleaner (outsourced)	32	4 480	4 480	4 480
<u>Total</u>				213 984

Table 13 Salaries, own elaboration

7.4 Fixed and variable costs

Fixed costs are the costs associated with business' product that must be paid regardless of the volume of that product or service sold. No matter how much is sold or isn't sold, you still have to pay the fixed costs. Variable costs are directly related to sales volume. As sales go up, so do variable costs. As sales go down, variable costs go down. Variable costs are costs of labor or materials that change with sales. One way for a company to save money is to reduce its variable costs. Fixed and variable costs are based on the interview and Internet research. Average rent price in Brno for restaurant estates was taken.³⁹

³⁹ The balance small business. A Guide to Fixed and Variable Costs of Doing Business. Available at <https://www.thebalancesmb.com/a-guide-to-fixed-and-variable-costs-of-doing-business-393479>. Accessed at 29 September 2019

Fixed costs	CZK	Variable costs	CZK
Internet	846	Food&Beverage supplies	Per B: 20 CZK
Marketing	15 000	Water	87.71 m3/CZK
Rent	25 000	Electricity	8.53 CZK/kWh
Fixed Salaries	213 984	Variable salaries	12% from profit before taxes
Loan payments	17 317	Tobacco	Per shisha: 25 CZK
Royalties	4 000		

Table 17 Fixed and variable costs, own elaboration

Sales will be predominantly through tobacco revenues, which also has a relatively low cost of sales. Secondary revenue streams are food and drinks. Sharp growth is expected over the first three years of operation as the community aspect of hookah is developed and customer directed programming begins to take place.

Determination	1st year	2nd year	3rd year
Weekends			
Number of days	116	116	116
Number of customers per day	85	90	92
Number of customers per year	9 860	10 400	10 672
Week days			
Number of days	249	249	249
Number of customers per day	50	60	65
Number of customers per year	12 450	14 940	16 185

Table 18 Number of customers, own elaboration

On average, hookah customers spend two hours smoking a hookah. Given this fact and different loading on weekdays and weekends, the hookah loading rates can range from 60 to 100 visitors per day. Below the table that was calculated to do a test values and show estimated profit of the new Smokeberry taking into consideration values that were indicated

previously in this thesis. This table shows that to have profit at least 20%, average revenues should be 494,000 CZK to cover expenses of the entity.

Sales calculated excluding VAT on food-related services equal to 15 % from total revenue (Czech reduces VAT on restaurants, 2016). Cost of goods sold is costs of raw materials used in the production. According to Czech law, the corporate income tax is equal to 19%. Occupancy is very important for business. The bar has a total of 50 seats and extra 10 ottomans, according to the owners and provided figure 4, the bar will face seasonal fluctuations. On the contrary, in the months when the university begins increased attendance can be expected due to the fact that people start to spend more time indoor. The average bill is calculated on the basis of information provided by Smokeberry (kitchen revenue is excluded from average bill) In the third column number of shishas sold per month and it is calculated as one shisha per 2 persons, however, many customers prefer to have personal hookahs. The monthly revenue as follow in the table in Appendix.

Indicator	Value
Profit	90 000
Average bill for 2	519
Number of seats	60
Occupancy rate	1.6
Hall footage	105.6
Turnover	3
Salary fund	213 984
Rent	25 000
Supplies	108 173.91
Marketing	15 000
Other expenses	31 086.96
Number of bills per day	26.77
Revenue	493 780
Profitability	20.18%
A test value (average bill)	Profit
A test value (turnover)	Profit

Table 19 Profitability of the franchise bar in Brno, own elaboration

7.5 Sales forecast

Cash flow has been calculated to see the inflow and outflow of cash in the lounge bar. The direct method of its composition was used. As can be seen from the table below, it is expected the growth of total sales. Also, there is a big expense in a first period due to investment in the business. Even if income statement shows negative net profit (loss) in the first two periods, cash flow is positive throughout all 3 years.

Cash flow statement	2020		2021		2022	
	1 st	2 nd	3 rd	4 th	5 th	6 th
Investing activities						
Total Capital	803 100	-125 070	-30 815	42 043 4	136 429 8	519 336
Equipment	137 520	0	0	0	0	0
Repairs (initial)	378 000	0	0	0	0	0
Operating activities						
Cash received from customer	2 485 340	3 201 900	3 372 200	3 415 880	3 610 980	3 577 230
Supplies	710 200	649 038	699 204	713 610	724608	731 382
Rent	125 000	150 000	150 000	150 000	150 000	150 000
Marketing	75 000	90 000	90 000	90 000	90 000	90 000
Personnel cost	1 283 904	1 283 904	1 283 904	1 283 904	1 283 904	1 283 904
Expenditures	155 380	198 402	210 456	216 456	221 256	1 925 856
Taxes	521 921	672 399	708 162	717 335	758 305	751 218
Financing activities						
Loan + interest	86 585	103 902	103 902	103 902	0	0
CF	-125 070	-30 815	42 043	136 429	519 336	835 794

Table 21 Cash flow for 3 years, own estimation

An income statement is one of the most important financial statements used for reporting a company's financial performance over a specific accounting period. Income statement also known as the profit and loss statement or the statement of revenue and expense, the income statement primarily focuses on company's revenues and expenses during a particular period. The income statement focuses on the four key items - revenue, expenses, gains and losses.

Income Statement	2020		2021		2022	
	1 st	2 nd	3 rd	4 th	5 th	6 th
Total Sales	2 485 340	3 201 900	3 372 200	3 415 880	3 610 980	3 577 230
Material Cost	710 200	649 038	699 204	713 610	724 608	731 382
Cost of Goods Sold	710 200	649 038	699 204	713 610	724 608	731 382
Gross Margin	1 775 140	2 552 862	2 672 996	2 702 270	2 886 372	2 845 848
Rent	125 000	150 000	150 000	150 000	150 000	150 000
Utilities	60 500	84 600	84 900	84 540	85 320	88 200
Promotion	75 000	90 000	90 000	90 000	90 000	90 000
Personnel expenses	1 283 904	1 283 904	1 283 904	1 283 904	1 283 904	1 283 904
Depreciation Expenses	27 504	27 504	27 504	27 504	27 504	27 504
Royalties	20 000	24 000	24 000	24 000	24 000	24 000
Other expenses	10 000	10 000	10 000	10 000	10 000	10 000
Total Operating Expenses	1 601 908	1 670 008	1 670 308	1 669 948	1 670 728	1 673 608
EBIT	173 232	882 854	1 002 688	1 032 322	1 215 644	1 172 240
Interest expenses	86 585	103 902	103 902	103 902	0	0
EBT	86 647	778 952	898 786	928 420	1 215 644	1 172 240
Total EBT for 1 year	865 599		1 827 206		2 387 884	
TAX	1 194 320		1 425 496		1 509 523	
EAT	-328 721		401 710		878 361	

Table 22 Income statement

It does not cover receipts or the cash payments/disbursements. It starts with the details of sales, and then works down to compute the net income. The following income statement is depending upon the local regulatory requirements, the diversified scope of the business and the associated operating activities.

7.6 Break-Even Analysis:

A firm's sales at break-even point can be computed by using this formula:

$$B-E \text{ Point (Sales)} = \text{Fixed Costs} + [(\text{Variable Costs}/\text{Est. Revenues}) \times \text{Sales}] \quad (3)$$

Fixed costs for the 1st year = fixed costs per month*12 = 3 129 960 CZK

Variable costs for 1st year = COGS + Variable salaries = 1 867 248 CZK

Estimated Revenue for the 1st year = 5 925 360 CZK

Sales in B-E point = 3 129 960 + [(1 867 248 / 5 925 360) * Sales in B-E point]

=> Sales in B-E point is equal to 9 936 380 CZK per year

7.7 PESTLE

- Political aspects: Electronic registration of sales has been a frequently discussed topic in recent years, and it has been mandatory for the field of accommodation, food and beverage service activities since 2016. Though, this is not very beneficial for small businesses.
- Economical aspects: The economic factors affecting the company undoubtedly include the inflation rate. Another important factor affecting the Czech market is GDP and its development over time.
- Social aspects: Hookah and hookah smoking have only arrived in the Czech Republic in recent years. Classical hookahs were offered mainly by classical tea rooms, which offered only rest, relaxing music, but in no way offered alcoholic cocktails and the possibility of active entertainment with modern music. This has changed significantly in the recent past, especially in large cities. The young population enjoyed hookah smoking with modern music, alcoholic cocktails and a pleasant setting where they can sit with friends and enjoy their free time.
- Technological aspects: Given the nature of hookah business, technology is not a critical factor. Of course, nowadays, Smokeberry is not possible without various technological equipment. In the area of services, the emphasis is mainly on their quality and speed.

Another commonplace today is wireless internet access. From the marketing point of view, it will be at least appropriate to maintain website for better promotion and social media. However, the development of these technologies is not crucial for the planned activity. Various technological developments and advances will have only a marginal impact on the business and will not be particularly sensitive to these potential technological changes.

- Legal aspects: As of May 2017, according to Act No. 65/2017 Coll., On health protection against the harmful effects of addictive substances, tobacco products must not be smoked inside the premises of the catering services establishment, i.e. in all restaurants, bars, wine bars, cafes, tea rooms, clubs, pubs, discos. and other similar devices. However, the ban does not apply to hookahs and electronic cigarettes. Due to the sale of spirits in the shisha bar, it is necessary to obtain a trade license for a licensed trade for the sale of fermented alcohol, consumer alcohol and spirits
- Environmental aspects: The tobacco industry has a very high environmental impact, especially in the negative sense of the word. The cultivation of tobacco itself and the fermentation of its leaves cause destruction of the environment. Tobacco production results in felling of forests, pollution of the soil system and water resources. Because of these threats, political leaders are trying to reduce the consumption of tobacco products as much as possible, and therefore a relatively high excise duty is imposed on them, which increases the selling price of the products and therefore increases the company's expenditure

7.8 Competition in Brno

This kind of research was performed primarily by studying the web pages of Smokeberry competitors and collecting reviews of the real customers. Therefore, the primary source of information for competitive analysis is reviews of real people left on the TripAdvisor and Google website. According to the table, there are strong competitors, however, considering the enough population of the city the demand is still high and there is space for new joiners in the market.

According to owners, Smokeberry lounge bar will have different pricing in different regions, according to competitors and solvency of consumers, revenues and expenses. It is clear from observations of competitors in Brno that Smokeberry prices in Prague are suitable to apply in Brno. In addition, market segmentation is absolutely similar to the one described in chapter 5.2.

Competitor	Advantages	Disadvantages	Price range (\$-\$\$\$\$)
Queen luxury hookah club	Luxurious environment, various services and products	High prices, mandatory to become a member of a club	\$\$\$
Shisha Original	Newly opened, modern and expensive hookahs	No available prices on the internet, there is a minimum mandatory invoice amount	\$\$\$
CHC lounge	Chain of lounges in Czech Republic, design and atmosphere	No available prices on the internet, private club	\$\$
Utopia cajovna	Cheap prices, great selection of tea	Uncomfortable when full, poor customer service	\$

Table 22 Competitors in Brno, own research based on Internet

7.9 Marketing plan

As the entity is made for young generation, advertisement will be mostly online. Direct advertising includes Google ads, Instagram ads and Seznam.cz. 8 000 CZK a month will be devoted to this type of advertising in the first year. One should be noted that there should be no hookah on the advertisement in order not to break the law about tobacco production. Seznam.cz is a Czech website that is widely used in a domestic market: monthly payments help to be in the first positions in the search, bigger logo on the map and also statistics of visiting website. Search engine optimization will be maintained by a franchisor as it is agreed. Events on Facebook such as stand up, live music and games help to get attention and to gain loyal customers. Smokeberry is known in the Czech Republic on Stream.cz and YouTube together they would help to promote a new entity. One of the fastest and most precious method is to invite bloggers and influencers that are popular in social media, many of them agree to negotiate on the conditions of barter and Smokeberry provides them table with drinks and hookah for free in exchange of photos, videos and reviews on their social media. However, we the entity should have a budget for bloggers. Nevertheless, one method of offline advertisement should be used: posters in universities to attract students.

Item	Payment	CZK
Seznam.cz	Monthly	1 500
Google ads	Monthly	2 500
Instagram	Monthly	4 000
Posters (50 pcs)	One time	$7.5 * 50 = 375$
Bloggers, influencers	Monthly	7 000
Web page maintenance	Yearly	1 000

Table 23 Advertisement costs

Summary

This thesis summarizes franchising from both theoretical and practical point of view. It summarizes the topic of franchising. The aim is to define and explain the steps for the preparation and implementation of the franchise project. Furthermore, make recommendations and changes for more effective operation of Smokeberry lounge bar, which will be applicable on a more general level. This means that they may also benefit other businesses considering a franchise project.

There are numerous reasons why franchising is widespread and why it is constantly expanding. Primarily, they represent lower costs on both partners. Therefore, it is an easier start for people who do not have much assurance and experience in the market. The market is constantly evolving, with new businesses growing daily. Competition is steadily growing, and it is therefore very difficult to promote a new brand on the market. Under the auspices of the franchisor, the franchisee is more competitive. Other benefits for the franchisee include the rapid acquisition of a successful business format and know-how, the benefits of the scale and image of a large business associated with a well-known brand on the market. The main advantages for the franchisor are relatively inexpensive and fast expansion, thus meeting the main goal of expanding the business. Furthermore, it is a reduction in the cost of running facilities and the absence of ownership of branches.

Before becoming a franchisor, attention to the preparation of the franchise project should be paid. After setting up the business, building the brand and acquiring know-how, it's time to assess whether the business is suitable for franchising. It is necessary to prepare basic documents in particular the contract and the operating manual for the franchisee. It is also necessary to set the financial conditions and pricing policy, i.e. determine the amount of franchise fees, marketing fees and recommended product price levels. Choosing the right franchisee, signing the franchise agreement, training the franchisee and securing the premises and equipment of the branch are crucial. The above steps are generally leading to the operation of the franchise unit. Each franchise concept is different and therefore the procedures may be different. They should not differ significantly in their content, but rather in the time required.

As it was evaluated in chapter 7, estimated investments for a franchisee in Brno will be equal to 803 100 CZK, however, lounge bar will be opened without kitchen, so only

hookah, drinks and snacks will be suggested. Base on own elaboration, the table of profitability and rentability was created: it was calculated that with fixed costs will be equal to 276 147 CZK and variable costs to 155 607 CZK, due to that profitability of the entity should be 20.18% with average revenues 557 000 CZK per month. Estimated revenues are based on population of Brno, number of people visiting other lounge bars per month and average bill for two people. As the franchisee is opening lounge bar without kitchen, Smokeberry has reduced fixed royalties to 4 000 CZK per month, however it might be changed, if franchisee will include kitchen in the future.

As noted earlier, a serious risk factor for opening a hookah is not compliance with applicable law. The opening of places with the same list of services clearly leads to a decrease in demand. However, the preventive measure in this case is the organization of a closed society and the creation of a unique atmosphere. If guests are comfortable and interested, they will not want to leave to competitors. Therefore, regularly conduct staff training for competent interaction with the client. As for internal risks, these include frequent personnel changes. As a rule, hookah workers are young guys who have a little money but have enough health to withstand a huge amount of smoke every day. Therefore, on the one hand, competitors can easily attract a good hookah man by offering a higher salary. On the other hand, young people perceive work as a hookah man as a part-time job while studying at the university. Therefore, they easily leave as soon as they come across a more attractive option. Of course, there are other risks. Such as the occurrence of unforeseen circumstances in the form of a breakdown of equipment, a power outage, etc. However, in general, this type of business is conducive to successful operation. The main thing is to adhere to the chosen business strategy and carefully monitor changes in the market

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Appendix

Appendix 1: Loan, 2 years, monthly payment, 3.7 %

Period (month)	Debt at the beginning of period (CZK)	Annuity (CZK)	Interest payment (CZK)	Principal (CZK)	Debt at the end of period (CZK)
1	400 000	17 317	1 233	16 083	383 917
2	383 917	17 317	1 184	16 133	367 784
3	367 784	17 317	1 134	16 183	351 601
4	351 601	17 317	1 084	16 233	335 369
5	335 369	17 317	1 034	16 283	319 086
6	319 086	17 317	984	16 333	302 753
7	302 753	17 317	933	16 383	286 370
8	286 370	17 317	883	16 434	269 937
9	269 937	17 317	832	16 484	253 452
10	253 452	17 317	781	16 535	236 917
11	236 917	17 317	730	16 586	220 331
12	220 331	17 317	679	16 637	203 694
13	203 694	17 317	628	16 689	187 005
14	187 005	17 317	577	16 740	170 265
15	170 265	17 317	525	16 792	153 474
16	153 474	17 317	473	16 843	136 630
17	136 630	17 317	421	16 895	119 735
18	119 735	17 317	369	16 947	102 788
19	102 788	17 317	317	17 000	85 788
20	85 788	17 317	265	17 052	68 736
21	68 736	17 317	212	17 105	51 631
22	51 631	17 317	159	17 157	34 474
23	34 474	17 317	106	17 210	17 263
24	17 263	17 317	53	17 263	0

Source: Author's own creation.

Appendix 2: Sales forecast

2020				
Realistic plan (month)	Number of customers	Number of shishas sold	Average bill (CZK)	Monthly revenues (CZK)
1	1 520	760	260	395 200
2	1 480	740	260	384 800
3	1 750	875	260	455 000
4	1 700	850	260	442 000
5	1 610	805	260	418 600
6	1 499	749	260	389 740
7	1 526	763	260	396 760
8	1 790	895	260	465 400
9	1 990	995	260	517 400
10	2 209	1 100	260	574 340
11	2 300	1 150	260	598 000
12	2 500	1 250	260	650 000
2021				
Realistic plan (month)	Number of customers	Number of shishas sold	Average bill (CZK)	Monthly revenues (CZK)
1	2 420	1 210	260	629 200
2	2 340	1 170	260	608 400
3	2 280	1 140	260	592 800
4	2 170	1 085	260	564 200
5	1 960	980	260	509 600
6	1 800	900	260	468 000
7	1 810	905	260	470 600
8	1 830	915	260	475 800
9	2 200	1 100	260	572 000
10	2 390	1 195	260	621 400
11	2 408	1 204	260	626 080
12	2 500	1 250	260	650 000

2022				
Realistic plan (month)	Number of customers	Number of shishas sold	Average Bill (CZK)	Monthly revenues (CZK)
1	2 520	1 260	270	680 400
2	2 465	1 232 5	270	665 550
3	2 339	1 169 5	270	631 530
4	2 170	1 085	270	585 900
5	1 990	995	270	537 300
6	1 890	945	270	510 300
7	1 825	912 5	270	492 750
8	1 926	963	270	520 020
9	2 200	1 100	270	594 000
10	2 390	1 195	270	645 300
11	2 408	1 204	270	650 160
12	2 500	1 250	270	675 000

Appendix 3: Brand book samples



Appendix 4: Shisha design



Appendix 5: SMB wear and brand colors

