# Franchisor and Franchisee Relationships

*The following example highlights some possible franchising practices. As we know, franchising provides much greater chance of business success.*

*Review the following situations - are they ethical or is it a simply a case of 'buyer beware' where the potential franchisee should do their due diligence.*

**Potential Franchising Deals and Arrangements**

1. A large well-known food retailer who continues to sell franchises even though they have already cluttered the market. The franchisor (who has minimal cost upfront) is guaranteed a profit, as they will earn 10% of sales turnover on each outlet, regardless of whether or not it is profitable. The franchisee (who needs to spend $300,000 on setting up the store) is likely to make less money than the franchisor and may even lose money on the venture.
2. A new business that sets out to franchise its outlets almost immediately. They may set up one or two stores themselves and then look for franchisees to supply the capital for new outlets and sign the expensive leases in the large shopping malls. The plan is to grow the brand mainly through the visibility of the stores in major shopping areas (that individual franchisees have paid for).
3. Large, well-branded chains that have a mix of company-owned and franchised outlets. They typically keep the most profitable locations as company-owned and then franchise the poorer performing sites.
4. Franchisors that sell "exclusive geographic areas" for new products, usually for a large upfront fee. It then depends upon the franchise's business ability as to whether the venture is successful.
5. Service organizations that franchise operations that provide special skills, such as business consulting or life coaching. Success in these businesses really depends upon the sales and technical skills of the franchisee, as opposed to a retail/food franchise that virtually anyone can run (as the operations are standardized).
6. Retail chains that offer attractive franchisee fees, but then require their franchise to purchase all the products and/or raw materials from them (with a profit build-in for the franchisor).

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**Student Discussion Questions**

1. Review the above list of potential situations. Do you think that these types of situations are quite common or relatively rare?
2. As asked in the introduction, are these simply cases of 'buyer beware' where the potential franchisee should do proper due diligence?
3. What are the benefits and risks for a franchisor of being involved in these activities and arrangements?
4. Most successful franchise systems tend to keep growing by expanding outlet numbers. What are the downsides of over-saturating the market with their offerings?