**Entrepreneurship**

**And**

**Small Business Management**

Homework 6

**Chapter 8: Franchising and the Entrepreneur**

Following are 20 questions: 16 multiple choice questions worth 4 points each and four open questions worth nine points each.

1) A franchise is a system of distribution in which semi-independent business owners pay \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_ to a parent company in return for the right to become identified with its trademark, to sell its product or services, and often to use its business format and system.

A) a percentage of sales; royalties

B) upfront costs; incremental costs

C) royalties; monthly consulting charges

D) fees; royalties

2) Franchises total annual sales represent more than \_\_\_\_\_\_\_\_ and employ nearly \_\_\_\_\_\_\_\_ workers in the Unities Sates in more than 300 industries.

A) $17 billion; 17 million

B) $120 billion; 8.2 million

C) $710 billion; 7.8 million

D) $225 billion; 21 million

3) \_\_\_\_\_\_\_\_ franchising involves providing the franchisee with a complete business system, with an established name, the building layout and design, accounting systems, and other elements while \_\_\_\_\_\_\_\_ franchising allows the franchisee to use the franchisor's trade name without distributing the products exclusively under the franchisor's name.

A) Product distribution; trade name

B) Trade name; pure

C) Pure; trade name

D) Pure; product distribution

4) Benefits of involvement in a franchise experience include \_\_\_\_\_\_\_\_.

A) management training and support

B) brand name appeal and standardization of goods and services

C) national advertising exposure and financial assistance

D) All of the above

5) A significant advantage a franchisee has over an independent business is the participation in the franchisor's \_\_\_\_\_\_\_\_ largely due to the \_\_\_\_\_\_\_\_ the franchise offers.

A) centralized buying power; buying insight

B) centralized buying power; brand protection

C) centralized buying power; economies of scale

D) economies of scale; territorial protection

6) Some franchisors offer \_\_\_\_\_\_\_\_ to give existing franchisees the right to exclusive distribution of brand name goods or services within a particular geographic area.

A) territorial protection

B) exclusive rights

C) guaranteed protection

D) exclusivity

7) A recent study reports that the success rate of franchisees increases when a franchise system \_\_\_\_\_\_\_\_.

A) requires franchisees to have prior industry experience

B) requires franchisees to actively manage their operations

C) has built a strong brand name with training programs to improve knowledge and skills

D) All of the above increase the rate of success.

8) Franchise royalty fees typically range from \_\_\_\_\_\_\_\_ to \_\_\_\_\_\_\_\_ percent with an average of 6.7 percent.

A) 3; 13

B) 1; 21

C) 1; 11

D) 3; 11

9) Which of the following is ***not*** a potential advantage of franchising for the franchisee?

A) Management training and assistance

B) National advertising program

C) Centralized buying power

D) Limited product line

10) The failure rate for franchises is \_\_\_\_\_\_\_\_.

A) higher than the average rate for new businesses

B) no different from the rate for new businesses

C) lower than the average rate for new businesses

D) indeterminable because of the Right to Privacy Act

11) The FTC's philosophy regarding the Uniform Franchise Disclosure Document (UFDD) focuses on \_\_\_\_\_\_\_\_.

A) catching and prosecuting abusers of franchise laws

B) verifying the accuracy of FDD information

C) providing information to prospective franchisees and helping them make wise decisions

D) licensing prospective franchisors

12) A study by the International Franchises Association reports that minorities own more than \_\_\_\_\_\_\_\_ percent of all franchises and women own \_\_\_\_\_\_\_\_ percent of franchises.

A) 2; 8

B) 9; 20

C) 12; 25

D) 31; 26

13) \_\_\_\_\_\_\_\_ is the top international market for U.S. franchisors.

A) Europe

B) Canada

C) Japan

D) China

14) One of the major trends in franchising is the \_\_\_\_\_\_\_\_ of American franchise systems.

A) replication

B) conversion

C) internationalization

D) reduction

15) The principle of putting a franchise's products or services directly in the paths of potential customers with smaller, less expensive outlets is called \_\_\_\_\_\_\_\_.

A) cobranding

B) intercept marketing

C) area development

D) master franchise

60) In a \_\_\_\_\_\_\_\_ franchise, a franchisee has the right to create a semi-independent organization in a particular territory to recruit, sell, and support other franchisees.

A) multiple-unit

B) master

C) conversion

D) cobranding

**Open Questions**

1) Define franchising. Explain the three types of franchising. Which is the fastest-growing segment?

2) Outline the benefits and drawbacks of buying a franchise. Cite and describe four of each.

3) Outline the recommended procedure for buying a franchise.

4) Explain the following franchise concepts and give an example of each: area development, intercept marketing, conversion franchising, master franchising and cobranding.