

## CHAPTER 2 QUIZ QUESTIONS

1. Which one of the following is NOT an advantage of franchising for the franchisee?
  - A. established product or service
  - B. technical and managerial assistance
  - C. quality control standards
  - D. expansion

EASY

Answer: D. Expansion is a major advantage for the franchisor, not the franchisee.

2. Which of the following is a disadvantage for the franchisor?
  - A. franchisee motivation
  - B. bulk purchasing
  - C. loss of freedom and control as franchise system grows
  - D. use of capital for reasons other than expansion

EASY

Answer: C. A franchisor stands to lose a substantial amount of freedom as the franchise company grows which is why some firms choose to grow only through corporate ownership instead of franchisee ownership.

3. All of the following are disadvantages of franchising for the franchisee, except for:
  - A. service costs imposed by the franchisor
  - B. franchisor failure to meet support expectations of the franchisee
  - C. typically operate as a non-unionize business establishment
  - D. restrictions on freedom of ownership

MODERATE

Answer: C. Typically, operating a non-union business venture is less costly and less restrictive than when a firm is organized under a negotiated union contract.

4. A number of major questions should be addressed by a potential franchisor before choosing to expand through franchising. Which one of the following is not a major question at the onset?
  - A. do I have a prototype store or unit that can be replicated?
  - B. can my product/service meet the test of distance?
  - C. should I have right of first-refusal on site selection?
  - D. what skills will be needed by a franchisee to run my business successfully?

MODERATE

Answer: C. Having the right of first-refusal on site selection can be important for a franchisor to consider, but it is not a question early-on, of major significance to determine if the firm should choose the franchising option.

5. There are several ways to protect a trademark, as indicated below. Which descriptive statement is NOT one of the legal ways of protecting a trademark?
  - A. coined trademark

- B. descriptive trademark
- C. suggestive trademark
- D. trouble-free trademark

#### DIFFICULT

Answer: D. There is no legal classification to identify or describe trademarks as “trouble free.”

6. Reasons a franchise system would have corporate locations, as well as franchisee locations are shown below, except for:

- A. investors believe corporate ownership demonstrates that the franchise concept works.
- B. franchisor avoids potential conflict with franchisees that may rise based upon market and site locations.
- C. by having some corporate locations, the franchisor could take over, if a troubled or failing franchisee's location, if necessary.
- D. by having corporate location, the franchisor remains close to the ultimate customer.

#### MODERATE

Answer: B. By having corporate locations, potential conflicts rise between the parent company and franchisees concerning markets and site locations.

7. Business situations that are appropriate to consider when looking for growth through franchising include all but which one of the following?

- A. firms in market niches that have broad product appeal and known consumer acceptance as long as the trends support long-term market viability and growth.
- B. firms in stable and growing industries, where the industry itself is unburdened by significant regulation.
- C. firms that have complex internal systems to execute, that draw from a limited pool of qualified employees, or require significant amounts for training to assure franchisee competence in delivery of the system's products or services.
- D. firms whose operating margins allow for franchisee fees to be charged and still leave an adequate r.o.i. for both franchisor and franchisee.

#### MODERATE

Answer: C. Complex internal operating systems, requiring a high-quality and limited employee recruitment base, and or requires significant amounts of employee training are not likely candidates for franchising.

8. If a franchise system is struggling, not achieving long-term success. The first step for the franchisor to do is:

- A. revisit and maybe change the franchisee business model
- B. contact and listen to each franchisee as possible, to determine what are the problems to be addressed.
- C. change the corporate business model, reduce corporate costs and reduce contact with franchisees.
- D. study what the competition is doing and change the franchise model to fit the models of its primary competitors.

**MODERATE**

Answer: B. Listen to your franchisees. Without the franchisees, there is no company, nor is there a future.

9. Capital requirements that a potential franchisee must consider prior to becoming part of a franchise system include each of the following except for:

- A. franchising fee
- B. startup expenses and inventory
- C. personal entertainment expenses
- D. working capital

**EASY**

Answer: C. Personal entertainment expenses are not part of the financial requirements for franchisees.

10. A primary consideration for a potential franchisee is that the capital required to become a franchisee will likely be:

- A. much greater than it would be for starting an independent business in the same field.
- B. much less than it would be for starting an independent business in the same field
- C. the amount of capital required is not of great concern to franchisor or franchisee. other factors are more important.
- D. about the same or potential more for starting a franchise business compared to starting an independent business in the same field.

**EASY**

Answer: D. Costs for successful start as a franchisee or as an independent business owner may be approximately the same to succeed. Often however, independent business owners start up business under funded and risk failure at a higher rate than for franchisees.