



A SNIPPET FROM FRANCHISE-VILLE

THE HUMBLE BEGINNINGS OF A FRANCHISE

Phew! We've made it just in time! Yet I came so close and so I grabbed the opportunity to chat with all of the participants who actively took part in the once-in-a-year-event - FIM 2011 (jointly organised by the KPDNKK, MFA and PNS) held at PWTC as a three days event (22nd, 23rd and 24th July), realising the participants have increased, let alone the crowd that filled the hall was much bigger than FIM 2010!

This time around, the event has seen many past would-be Franchisors transforming into actual Franchisors when each of the anxious Franchise owners take to the stage to receive their Franchise licenses! It was surely a day worth celebrating by all.

The increased number of visitors to FIM this year is a valid denominator of the franchise popularity

level in Malaysia given its rising awareness and profits a Franchise system can bring to all business owner wannabes causing us to take a peek again at what took the Franchise to the centrestage in our business world today.

Day by day, the consumer market has never been less competitive where people are buying and selling products and services either in smaller or larger scale. Smaller enterprises that see the opportunity of widening their market share of their product and/or services using the chain methodology expand their businesses by the numbers in a relatively short amount of time. The franchise concept is tailored for that purpose. The concept was one of its kind in a time of its own as Mr Ray Kroc (the salesman with a flair of marketing, and who created McDonald's successful franchise formula) proved it in the US fast food industry in the 1950s. From extremely modest beginnings, McDonald hit on a winning



By Stanley Yap (left)



formula selling a high quality product cheaply and quickly and it was not until Ray Kroc helped it to penetrate and exploit into wider consumer markets. Now, the ubiquitous food brand is by far the largest food service company in the world today that so many emerging fast food brands are trying to imitate.

Besides the originality of its brand, the key to success of McDonalds was through rapid expansion. The best way to achieve this was through offering franchises. Today, over 70 per cent of their restaurants are still run on this basis. Undeniably, constant demand and supply formed the source of energy that has kept many well known brands going strong including McDonald's.

Since McDonald's, many new brands have mushroomed in the industry, at least in Malaysia. Many have proven to be profitable and sustainable as far as their business and system are concerned. I have similarly noticed many new fast food, Korean food, yogurt and ice cream concepts which surfaced on the platform of FIM 2011.

However, as brand owners, let's not forget one thing: **the very success of any franchise business revolves around building a solid relationship between itself as the Franchisor, and its potential Franchisees.** It is paramount to find that, without hiring people who are dedicated to run its restaurants, it would be impossible to reach this far. Franchisors are determined brand holders and business owners who can use their winning experiences to persuade many entrepreneurs to give up their job to take on the franchise venture, relying on their franchise as their sole source of income and would therefore be highly motivated and dedicated to your business.

UNDERSTANDING YOUR ROLE AS A FRANCHISOR

But how can the Franchisor play its role properly without understanding exactly what he needs to do? The franchise system, or chain mechanism if you like, can only sustain its competitiveness and quality by appreciating the importance of a carefully drafted Agreement which forms the backbone of the Franchisor-Franchisee relationship.

Franchising is defined as the transfer of the right to sell a trademarked product through a system

prescribed by a "Franchisor" who owns the trademark therefore **as Franchisors, you should never see your business as selling products and/or services only. More than just an owner you are also a provider i.e., a trademark assignor, a trade secret proprietor, a trainer, a contractor, a salesman and a matchmaker (i.e., selecting the alternative franchisee to replace the existing one), and more crucially a thinking, insightful and discerning trade owner!** You will never go wrong if you always keep this basic understanding in mind.

There is too much risk involved in not doing anything than doing something. In a franchise system, the Franchisor receives monthly royalty from his Franchisees as one of the many different kinds of payments. The Franchisees do not pay you for non-performance of certain duties or tasks they have entrusted to you. For example, the Franchisor should try to develop the business, attract as many new talents and ideas into your management team in order to enhance existing knowledge within the business and to increase the

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competitiveness among the workers. The increase in mutual understanding of the business nature among your staff will guarantee uniformity of service standards across the board.

To increase client awareness, the Franchisor must always remain trendy and up to date with its products and services offered to the public. A US Health website reports that McDonald's will be rolling out a new, more nutritious Happy Meal end of this year by including fruits and milk into their packages in a bid to promote healthy food for children and also ensuring greater variance in choice selection of the products. The idea is a timely one when it is getting more popular nowadays for parents to buy nutritious fast food for their young ones. It would be great if these are implemented here in Malaysia. As a health conscious Franchisor, McDonald's clever decision to reduce sodium across the menu is proven to be welcomed by many.

Franchise Viewpoint



STOP BEING A LAYMAN: GET SOMEONE TO EXPLAIN THE AGREEMENT!

What happens if a prospective Buyer who is interested in buying your business but does not know if he has chosen the right place to run its business? Or that the Franchisee has run its business using a different format of requirements for specific design, interior layout, furniture and equipment, etc? And what if you have received your Franchise fees for more than a month and the training has not been initiated for your Franchisees? How much should the Franchisee charge the customers for each product sold? What should the Franchisee do when a customer complains? What should the Franchisee do when a light bulb is not working?

Every serious relationship should start with an Agreement

The abovementioned are some of the common questions raised. Simple as they may sound, all of these form an important part of the Agreement.

Every serious relationship should start with an Agreement. As with most contracts, the Franchise Agreement by and large sets out all kinds of relationships generated between the Seller (here as Franchisor) and its Buyer (here as Franchisee) as each party tries to protect themselves by guarding against their rights and interests fiercely.

A professional consultant would ensure the obligation clauses in the contract have been explained to the Franchisor to avoid unnecessary misunderstandings. It is advisable that the Franchisor and Franchisees could compromise on their contractual obligations and minimise conflicts of interests in order to concentrate on the day to

day business dealings as the only existence of the Franchise system is for the benefit of mutual cooperation and the realisation of good corporate governance and work culture would not be possible if there was constant confrontation occurring in the course of business.

A Franchisor definitely needs to see himself as manning a conglomerate or a huge organisation. Similarly, the Franchise System is best viewed as a simple delegation of tasks to its subordinates that which involves immense use of manpower, resources and strategies. The duties owed to and by a Franchisor and Franchisee are outlined unambiguously under the provision of an Obligations Clause in the contract. Having said that, a Franchisor must observe his Franchise Agreement carefully as it regulates the obligations he has to perform for such terms as laid out in the agreement.

It is not all that complicated to comprehend your roles and duties. All you need to do now is to sit back comfortably with a cup of coffee in your hand and start thinking what it takes to do well in Franchise.

"Luck is a dividend of sweat. The more you sweat, the luckier you will become." - Ray Kroc, founder of McDonald's.

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