

PGDM (RM), 2020-22
Franchise Management
RM-405

Trimester – IV, End-Term Examination: September 2021

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: _____

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously.

Section A
(30 marks)

Attempt any three questions. All questions carry equal marks.

1A What are the forms of franchise arrangements (C/ILO1) **10 Marks**

OR

1B What are the advantages and disadvantages of franchising to franchisor and franchisee? (C/ILO1) **10 Marks**

2A What is the meaning of franchising operation? (C/ILO 2) **10 Marks**

OR

2B Explain the legal issues pertaining to franchising. (C/ILO 2) **10 Marks**

3A Why are SOPs important in franchising? What is a standard practice in drafting them? (C/ILO 3) **10 Marks**

OR

3B Which aspects of finance should a franchisor pay attention to for running the show? (C/ILO3) **10 Marks**

4A The vehicle that propels the majority of international expansion in franchising is master franchising. Franchisors grant contractual development rights for their concept to an individual or an organization. For example, an entrepreneur in China buys the master license rights for McDonald's and commits to develop McDonald's restaurants in China. McDonald's commits to train the Chinese entrepreneur – the master franchisee, to become its development agent and representative in China. The Chinese entrepreneur is likely to be responsible for selling McDonald's franchises, and training and supporting franchisees in China. Some International franchisors have taken the master franchising route to enter into the Indian market also.

What are the motives for a franchisor to enter a foreign market through master franchising? (C/ILO4) **10 Marks**

OR

4B Mr. Saravana was running a restaurant (both Veg. and non-veg. food) for the past five years. His restaurant is located in Chennai and he gained the lot of popularity. Now, he wants to open a similar restaurant in the whole of Tamilnadu by means of franchising. Explain the various steps to be taken by him. (C/ILO4) **10 Marks**

Section B
Case Study (20 marks)

Answer both questions.

Read the case and answer the following questions.

Questions:

Starbucks has also been successful in other European countries, including the United Kingdom and Ireland. This success comes despite competition from local rivals such as Ireland's Insomnia Coffee Company and Bewley's and the fact that per capita consumption of roasted coffee in the two countries is the lowest in Europe. In January 2004, Starbucks opened its first outlets in Paris. CEO Howard Schultz acknowledged that the decision to target France was a gutsy move; after all, café culture has long been an entrenched part of the city's heritage and identity. The French prefer dark espresso, and the conventional wisdom is that Americans don't know what good coffee is. As one Frenchman put it, "American coffee, it's only water. We call it jus des chaussette—'sock juice.'" Not surprisingly, Greater China—including the mainland, Hong Kong, and Taiwan—represents another strategic growth market for Starbucks. Starting with one café in Beijing at the China World Trade Center that opened in 1999, Starbucks operates more than Chinese 220 outlets. Another 525 units are licensed locations in prominent retail stores. Starbucks has faced several different types of challenges in this part of the world. First of all, government regulations forced the company to partner with local firms. After the regulations were eased, Starbucks stepped up its rate of expansion, focusing on metropolises such as Beijing and Shanghai.

Another challenge comes from the traditional Chinese teahouse. Indeed, one rival, Real Brewed Tea, aims to be "the Starbucks of tea." A related challenge is the perceptions and preferences of the Chinese, who do not care for coffee. Those who had tasted coffee were only familiar with the instant variety. Faced with one of global marketing's most fundamental questions—adapt offerings for local appeal or attempt to change local tastes—Starbucks hopes to educate the Chinese about coffee. Chinese consumers exhibit different behavior patterns than in Starbucks' other locations. In China, most orders are consumed in the cafés; in the United States, by contrast, most patrons order drinks for carryout. (In the United States, Starbucks is opening hundreds of new outlets with drive-through service.) Also, store traffic in China is heaviest in the afternoon. This behavior is consistent with Starbucks' research findings, which suggest that the number one reason the Chinese go to cafés is to have a place to gather.

Meanwhile, as a result of the global economic downturn, cash strapped consumers were cutting back on nonessential purchases. The notion of a "\$4 latte" seemed out of step with the times, and some perceived Starbucks' premium brand image as a liability. Even before the economy nosedived, Schultz had circulated a memo to senior executives titled "The Commoditization of the Starbucks Experience." In the memo, Schultz warned that over-aggressive market expansion was compromising the company's brand experience.

In part, the memo was a response to unofficial Web sites and blogs, such as starbucksgossip.com, where customer and employee complaints and company information were circulated. To better connect with its customers, Starbucks created a social media Web site known as My Starbucks Idea (MSI; <http://mystarbucksidea.force.com>). Within months of MSI's launch in 2008, nearly 75,000 ideas had been submitted. Forrester Research recognized Starbucks' social media initiative with a Grandswell award in the "Embracing" category. Starbucks also stepped up efforts to communicate with the general public using traditional media. Working with the BBDO advertising agency, Starbucks launched a corporate branding campaign that was timed to coincide with a major revamping of its food offerings. Full page print ads in The New York Times and USA Today were keyed to the tagline "It's Not Just Coffee. It's Starbucks." Sensing a window of opportunity, McDonald's executives proceeded with plans to roll out McCafé, a new branded coffee concept featuring cappuccino and other coffee drinks at prices significantly lower than Starbucks'. At a Starbucks in Paris, for example, a cappuccino is €4.00 (\$6.00); a comparable drink at McCafé is €2.00 or €2.50. McCafés feature sophisticated brewing equipment and special coffee blends. Starbucks currently has about 1,000 outlets in Europe; that total includes company-operated stores in the United Kingdom, France, and Germany as well as licensed locations in the United Kingdom, Spain, Greece, and Switzerland. Starbucks is even considering targeting Italy, a notion that some observers dismiss as unwise. After all, Italy's coffeehouse tradition dates back more than 400 years, and today more than 110,000 coffee

bars are scattered the length and breadth of the peninsula. Sniffed a spokesman for one of Starbucks' European competitors, "The Italian café is a culture that the Americans have repackaged. They concentrate more on their image than the coffee."

1. In the United States, about two-thirds of Starbucks outlets are company owned; the remaining one-third are operated by licensees. Outside the United States, the proportions are reversed: about two-thirds are run by licensees or partnerships in which Starbucks has equity stakes. What is the explanation for the two different market expansion strategies? (CILO 4) **10 marks**

2. In the long run, which company is more likely to win the global "coffee wars," Starbucks or McDonald's? (CILO 2) **10 marks**