

## Tom, Dick, and Harry Consider a Pretzel Franchise

Wilke D. English

*University of Mary Hardin—Baylor*

Dick and Harry were just finishing lunch in the university cafeteria when Tom arrived on the scene, out-of-breath and quite animated.

“Hey, dudes!” Tom called excitedly. “I have been looking all over for you guys. Listen, I found this really cool way to make ‘big money’ for us!”

“Yeah, right,” said Dick, sarcastically. “Really ‘big money,’ just like on the *Wheel of Fortune*. Do we get a date with Vanna, too?” (Tom was always coming up with bizarre ways to make money . . . last time he was going to buy all of the Texas Lotto tickets for a guaranteed win.

“No, I am serious,” Tom insisted. “I was at the County

Fair this last weekend with Amy and there was this really cool pretzel stand. The guy working the stand was selling pretzels from a little cart as fast as he could make them. I asked him where he got that cart and he said that he was a 'Philly's Famous' franchisee. I tried to talk with him some more, but he was too busy to talk, so he gave me these brochures."

Tom handed the two brochures to Dick and Harry who spread them out on the table. (The brochures are reproduced as Exhibits 4.2.1–4.2.4).

### Wholesale Distributor Brochure

The brochures were somewhat confusing in that they appeared to be offering substantially different approaches to the market. One brochure (Exhibits 4.2.1, 4.2.2) seemed to be offering a business opportunity to be a wholesale distributor for the pretzels and sell them to retailers such as grocery stores and retail food vendors. The other brochure (Exhibits 4.2.3, 4.2.4) was offering a push cart from which the pretzels could be prepared and sold.

"This isn't a franchise," said Dick looking at the first brochure.

"It's not?" asked Tom. "The guy working the stand said he was the franchisee."

"Well I don't know what he said, all I know is that it doesn't look like a franchisee to me," said Dick. "They want you to be a wholesale distributor and get their pretzels placed in grocery stores. I know from lectures in my marketing classes that the battle for shelf space in supermarkets is ferocious and to get something placed into the freezer department is next to impossible."

"Next to impossible unless you want to pay megabuck slotting allowances," Harry chimed in.

"What's a 'slotting allowance'?" asked Tom.

"Slotting allowances are fees that manufacturers and distributors have to pay to the grocery store in order to buy shelf space," explained Harry. "The grocery store executives have realized that their shelves represent a valuable commodity which is in short supply. There are too many products vying for too little shelf space. So the grocers simply 'auction' their shelves to the highest bidder."

"Yeah, and the freezers are the toughest spot to place a product," added Dick. "Freezers are bulky and expensive so adding freezer space is difficult. In addition, that is where many, if not most, of the new food products have been targeted . . . frozen microwaveable pizzas, microwaveable burritos, Lean Cuisine, Healthy Choice, frozen microwaveable pitas . . ."

"I presume you meant microwaveable, not macrowaveable . . .?" chided Harry.

"Yeah, microwaveable . . . I guess I was still thinking about the macroeconomics test I bombed this morning," said Dick sheepishly. "But microwaveable . . . macrowaveable . . . microwaveable . . . it really doesn't matter. We don't have any money to pay slotting allowances. And without paying the slotting allowances I don't see any way that we are going to get our one little product into the grocers' freezer cases."

"That's another good point," added Harry. "Most wholesalers carry a variety of products, they are well-known and trusted by the retailer. The retailers don't know us or our brand of pretzels from the man in the moon."

"Right," agreed Dick. "Not only is there the recognition factor, but by carrying multiple lines, distributors can sometimes reduce the shelf space devoted to their other products to give a new item a try. But pretzels would be our only item . . . I don't see how we could ever be successful as a one-item grocery wholesaler."

### Cart Vendor Brochure

"But what about the cart?" countered Tom. "We could get a cart like the guy I talked to . . . he seemed to be making a lot of money. He was obviously a retailer, not a wholesale distributor. That cart was really cool!"

"Oh, joy!" said Dick sarcastically. "Won't Mom and Dad be proud? Here I graduate from college next semester, and what am I doing? . . . vending pretzels from some stupid push-cart!"

"It's *not* stupid," said Tom in a huff. "It was a nice-looking cart and he was selling lots of pretzels. And if you are selling lots, you are making lots. I don't think that there is anything stupid about making lots of money!"

### A Pallet of Pretzels

"OK, it's not a stupid cart, although I would feel awfully stupid pushing it around. And look at this, they send you a *pallet* of pretzels," said Dick.

"Yeah, I saw that on the other brochure as well," said Harry. "'A pallet of pretzels,' like we move them with a forklift? Do we bake them? Do we freeze them?"

"I get the impression from the distributor brochure that they ship them to you frozen," offered Dick. "Boy is your Mom going to be mad when she finds that you have crammed a *pallet-load* of pretzels in her freezer! Look, here's a 1-800 number let's give them a call."

Later: From the call they learned that the pretzels are baked in Dallas and shipped frozen. If you do not have freezer

## Comparison of Pretzel Franchises

	Cart		Full Kitchen	
	<i>Philly's Famous</i>	<i>Auntie Anne's</i>	<i>Pretzel Time</i>	<i>Pretzel Twister</i>
<i>History</i>				
Established in	1991	1988	1991	1992
1st Franchised in	1993	1989	1992	1993
Franchised Units (8/31/93)	0	130	60	1
Company Units (8/31/93)	0	6	12	1
Total Units (8/31/93)	0	136	72	2
Projected New for 1994	50	150	120	20
Distribution	US = 0	US = 136	US = 72	US = 2
North America	0	16 states	23 states	
Concentration	NA	65PA, 13NJ	13NY, 7TX	
Registered	FL, OR	16 states	23 states	
Store Type	RM, cart	RM, 500SF	RM, 500SF	RM, 600SF
<i>Financial</i>				
Earnings Claim	No	Yes	No	No
Cash Investment	\$14,900	\$50-\$70K	\$80-\$120K	\$86-\$115K
Total Investment	\$23,000	\$130-\$194K*	\$80-\$120K	\$86-\$115K
Fees				
Franchise	\$14,900	\$21,000	\$10,000	\$10,000
Royalty	0%	5%	7%	4%
Advertising	3%	1%	1%	1%
Contract Years	10/10	5/5	20/5	10/5
Area Dev. Agreement	No	No	Yes/5	No
Sub-Franchise Contract	No	No	No	No
Expand in Territory		Yes	Yes	Yes
Passive Ownership	Discouraged	Discouraged	Allowed	Discouraged
Avg # Employees	2FT	3FT, 10PT	3FT, 9PT	2FT, 4PT
<i>Franchisor Training/Support</i>				
Financial Assistance	NA	No	No	
Site Selection Assistance	NA	Yes	Yes	Yes
Lease Negotiation	NA	Yes	Yes	Yes
Co-op Advertising	NA	Yes	Yes	Yes
Training (days)	2HQ	9HQ, 7OS	5HQ, 5OS	5HQ, 5OS
On-Going Support (YES = provided, yes = pay extra)				
a. Central Data Processing				
b. Central Purchasing		YES	YES	
c. Field Oper. Eval	yes	YES	YES	YES
d. Field Training	yes	YES	YES	
e. Initial Store Opening		YES	YES	YES
f. Inventory Control			YES	YES
g. Newsletter	YES	YES	YES	
h. Regional Meetings		YES	YES	
i. Telephone Hotline	YES		YES	
# Employees Franchisor	4	46	9	3

space, the Philly's Famous company will try to help you find space at public storage freezer facilities. You would pay a storage fee to the public storage operator.

"See, no problem," said Tom happily. "As we sell them, we get them from the freezer facility . . . Mom's freezer remains undefiled."

"Well, that's one relief," admitted Dick.

"Then, let's do it!" said Tom enthusiastically. "The fee is \$15,000, so that would be only \$5,000 apiece. Surely we can come up with \$5,000 each. It is really not that much."

"Not so fast," cautioned Harry. "Aside from the fact that \$5,000 just happens to be \$4,900 more dollars than I seem to have in my bank account at the moment, I think that we should check out some other franchises . . . you know, to compare."

"That's right," agreed Dick. "Even if we agree with their brochure which touts pretzels as the greatest thing since canned beer, we need to check out several franchises. Who knows, maybe these guys are really overpriced and some other company will sell you a cart and supplies for \$10,000."

"Or maybe loan you the cart and give you the supplies on consignment so our costs would be almost zero!" volunteered Harry. "But regardless, we need to check out some other companies. It is never smart to just go with the first one you come to."

"Fair enough," said Tom. "Listen, the guy with the cart said that there was going to be a franchise trade show next weekend . . . but I don't know what we would trade them . . ."

"No, a trade show is not a place where you barter and trade," explained Dick. "It is a convention where suppliers in one particular industry, that is, in one particular 'trade,' all come together and show what they have to offer. They usually have a big exhibition hall and dozens of suppliers manning the various booths and showing their wares."

### At the Trade Show

The business opportunities trade show was held at the convention center in a neighboring city. The exhibition hall was huge, almost as big as a football field and it was filled with literally dozens of promoters hawking their wares. There seemed to be franchises for virtually everything, from paper shredding to cemetery tending, from bagels to pretzels.

Tom was dumfounded at the size of the exhibition hall and the incredible variety of business opportunities that were being presented, although he was surprised that neither McDonald's nor Burger King were there. Tom, being the impetuous enthusiast that he is, wanted to talk with every exhibitor. In fact, Tom wanted to sign up for every business opportunity

### EXHIBIT 4.2.1

**"WHEN ORDINARY JUST WON'T DO"**

**ALL NATURAL, FAT FREE,  
NO CHOLESTEROL  
WITH NO PRESERVATIVES  
PHILADELPHIA  
SOFT PRETZELS  
IN GOURMET FLAVORS**

Dear Entrepreneur:

Every now and then a product comes to the marketplace and creates immediate recognition. The vitality and enthusiasm for **PHILLY'S FAMOUS™ SOFT PRETZELS** are based on quality and uniqueness. Our recipes exceed all others and once you sample our **PHILLY'S FAMOUS SOFT PRETZEL** in any of our distinctive flavors or our Original Philly Twist Flavor . . . you, too, will be convinced.

Want to increase your profit line? At this point in time, the market is wide open for a gourmet flavored soft pretzel to be distributed as a frozen product. Our product lines, including pretzel nuggets and retail pre-packaged for take-home sales, provide additional sales impact and will position you, the distributor, with a very marketable sales line. The product has proven itself over time with other brands of lesser quality. Now is the ideal time for a healthy, tasty market contender to anticipate and respond to the consumers' tastes. As part of a huge national snack food industry, the market has relatively few soft pretzel companies competing for snack food consumer dollars, while the demand for the product remains great.

**JUST HEAT 'EM AND EAT 'EM!** Made of the finest, natural ingredients, **PHILLY'S FAMOUS™ SOFT PRETZELS** are highly salable, especially given the consumer demand for flavorful, nutritious and healthy snack foods. We can supply product sample packages and arrange to provide you with additional program information.

Most sincerely,

  
Hank Lotman, President and Founder

**PHILLY'S FAMOUS SOFT PRETZELS**

# GOURMET SOFT PRETZELS • ONION RYE • CAJUN

Philly's Famous™ is ready to set you up in business if you are ready to earn the profits!

## SOFT PRETZEL CART INVESTMENT \$15,000

(small additional rental charge for secured locations)

### To Include

- ★ 1 Cart (includes propane gas tank and hooded grill or electric oven)
- ★ 1 Menu Display ★ 1 Training Manual
- ★ 2 Spray Bottles ★ 2 Salt / Cinnamon Sugar Shakers ★ 1 Philly's Famous Parka Jacket ★ 2 Philly's Famous Sweatshirts ★ 2 Philly's Famous Golf Shirts ★ 2 Philly's Famous Long Sleeve Oxford Shirts ★ 1 Philly's Famous hat
- ★ 1 Philly's Famous Apron ★ 2700 Pretzels (1 Pallet) Retail Value of Over \$3,300.!

## Product Overview

Suggested Average Cost	Per Pretzel	Per Case
Retail Price	1.25	62.50

Franchisee Avg. Cost	.30	15.00
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Distributor's wholesale product cost of 30¢ per soft pretzel is marked up to a consumer retail price of \$1.25. This computes to a mark up of 316% or 95¢ gross profit per soft pretzel or \$47.50 per case gross profit. This amazing profit potential is why cart franchisees will eagerly want to be part of the Philly's Famous™ program.

*Note: Profit figures per pretzel have been prepared to provide a representation of potential profits, however, no warranty is expressed or implied herein by Philly's Famous™ or its representatives.*

## Opportunity Highlights

- ★ Instant Cash Returns
- ★ No Cold calls
- ★ Be Your Own Boss
- ★ Have Lots Of Fun
- ★ Unlimited Locations
- ★ Perfect For Full Or Part Time Income

## Training Manual

### Includes:

- product/company background
- product preparation
- handling large crowds
- storage of product
- how to create contacts
- how to get permits
- how to book events
- target locations
- transporting the cart
- and much, much more...

## Specifications

- ★ 32" X 72" X 37"
- ★ Heavy Duty Fiberglass Sandwich Construction
- ★ Lightweight (approximately 150 lbs.)
- ★ 1 Fibrecore Recessed Molded Sink
- ★ Fresh Water Storage Tank With Hand Pump
- ★ Permanent Lettered Easy Maintenance Gel Coat Finished Panels
- ★ Heavy Duty Casters (2 swivel, 2 stationary)
- ★ Huge Lettered Umbrella
- ★ Push Rail
- ★ Easy To Transport
- ★ Easy Interior Storage Of Product
- ★ Refrigeration/Freezer Storage Available at Additional Charge



DISCOUNT STORES

CLUB STORES

SUPERMARKETS

FESTIVALS

SPORTING EVENTS

FUND RAISERS

CORPORATE PICNICS

FAIRS

CHARITIES

STREET CORNERS

CARNIVALS

# ORIGINAL PHILLY TWIST • CINNAMON RAISIN

with every company. After talking to only three exhibitors in nearly two hours, Dick and Harry pulled Tom aside.

"Look," they said. "We can't spend a lifetime talking to every single exhibitor that is at this show. We said we were interested in pretzels so let's limit our search to pretzel companies only."

"Fair enough," agreed Tom.

### Report on the Pretzel Franchises

There were three other pretzel franchises at the convention in addition to the Philly's Famous cart franchise mentioned earlier. The other three franchises were quite different from the cart franchise (see Exhibits 4.2.5-4.2.8 for corporate brochures). In each of the other three the pretzels would have to be made from scratch. This would include mixing the ingredients to make the dough, rolling the dough, hand-twisting them into the distinctive pretzel shape, and baking. Because an entire kitchen with mixing equipment and ovens would have to be provided, these other franchises were considerably more expensive, ranging from a little under \$100,000 to nearly \$200,000. After seeing some of these prices, that \$15,000 cart did not look so expensive after all.

But the biggest problem to Tom was that every franchise claimed to have *the best* product offering. Consider these quotes from the various brochures:

- "Better than the best you've ever tasted!" Auntie Anne's
- "Our secret ingredients and exclusive recipe creates a taste and flavor unrivaled by others!" The Pretzel Twister
- "The finest pretzel that anyone has ever sampled, challenging all market competitors!" Philly's Famous Soft Pretzel Company
- "These pretzels are second to none!" Pretzel Time

By the time the lads left the frenetic noise of the exhibition hall their heads were absolutely swimming. What they needed was a common format to compare the various offerings. Harry found that common format in *The Source Book of Franchise Opportunities*, an encyclopedic collection of data on nearly 2500 franchising opportunities. Using the data contained in *The Source Book*, Harry was able to develop the table on p. 471.

### Now What?

Both Tom and Dick agreed that Harry had worked very hard to put together the comparison chart, but they were much less certain as to what they could do with it.

### EXHIBIT 4.2.3



## Store Location Guide

Auntie Anne's<sup>®</sup>



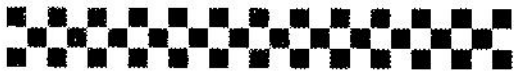
Hand-Rolled  
Soft Pretzels



"Better than the best you've ever tasted"

WINTER 1993 / SPRING 1994

Auntie Anne's, Inc., 1994





Hand-Rolled  
Soft Pretzels



## Initial Investment Range

	LOW		HIGH
FRANCHISE FEE	\$28,000	-	\$28,000
LEASE & UTILITY <sup>1</sup>			
SECURITY DEPOSITS	4,000	-	7,000
LEASEHOLD IMPROVEMENTS, <sup>2</sup>			
FURNITURE & FIXTURES	75,000	-	110,000
EQUIPMENT	17,000	-	20,000
INITIAL INVENTORY	3,300	-	4,000
INSURANCE	400	-	2,500
TRAINING	500	-	2,000
GRAND OPENING			
ADVERTISING	500	-	2,500
SIGNAGE	4,000	-	8,000
OFFICE EQUIPMENT			
& SUPPLIES	500	-	1,000
WORKING CAPITAL	2,000	-	8,000
PROFESSIONAL FEES	2,000	-	3,000
TOTAL INITIAL INVESTMENT	\$137,200	-	\$194,000

<sup>1</sup> Assumes security deposit and first month rent.

<sup>2</sup> Includes architect fees.

*All costs are estimated as of June 1, 1994, and will vary depending upon location, size of store, architectural requirements and store configuration.*





*Pretzel Time Incorporated*

**Contact:** Ellen Saikia  
Public Relations Specialist  
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## **PRETZEL TIME, INC. COMPANY HISTORY**

Pretzel Time, Inc. is a franchisor and operator of hand-rolled soft pretzel outlets located primarily in regional and super-regional malls throughout the United States. The company specializes in the sale of hot, fresh pretzels; specialty toppings; and drinks. At Pretzel Time, pretzel making becomes an art, as demonstrated by the professional pretzel rollers and twisters who entertain customers at the storefronts. The company offers pretzels in a variety of flavors, salted or unsalted, and without butter on request. The product is low-fat (only four grams of fat in one regular pretzel), high in carbohydrates, and above all, simply delicious.

Pretzel Time was founded by Martin Lisiewski and began operation in April 1991 from its home office in Harrisburg, Pennsylvania. The first company-owned store opened in October 1991 at the Trumbull Shopping Park, a super-regional mall in Trumbull, Connecticut. Sales at the Trumbull location increased 117 percent in the third month of operation, and the company recouped its initial investment by the fourth month.

The first franchise location began operation in Great Falls, Montana, in February 1992. Franchise growth has been rapid, with 8 franchises open at the end of 1992, 118 by end 1993, and approximately 185 open in the United States, Canada, and Mexico as of August 1994. Pretzel Time has experienced a phenomenal growth rate of nearly 5000 percent over the past 2 1/2 years.

Pretzel Time is a branded partner with Host-Marriott Corporation, and with the development of a cart and countertop merchandising system, has recently expanded into airports, travel plazas, amusement parks, and university campuses across the nation. The company has developing rights in all 50 states, Canada, Mexico, and Puerto Rico, and is the first hand-rolled soft pretzel franchisor to move into foreign markets. Pretzel Time conservatively estimates at least 210 locations across the United States, Canada, and Mexico by end 1994.

The 15th Annual Franchise 500 January edition of *Entrepreneur Magazine* recognized Pretzel Time as 9th among the top 30 new franchises and 157th among the 500 best franchise opportunities, a testament to the Pretzel Time's concept and a forecast of the company's continued success.

###





**FLYING FRUIT FANTASY  
FRUITSHAKES™**

2706 South Horseshoe Drive Suite 112, Naples, Florida 33942

813.643.2075 813.643.5639 (Fax)

Dear Prospective Franchisee:

Thanks for your interest in becoming a Pretzel Time franchisee. We appreciate your inquiry and hope you'll take a few moments to get to know our company.

Pretzel Time, Inc. presents one of the most reasonable franchise opportunities today. As you begin to research our rapidly expanding company, we think you'll become increasingly excited about the prospect of becoming part of our team. The professionals at Pretzel Time have over 50 combined years of restaurant experience, and have used their expertise to put together a franchising program that offers affordability as well as tremendous growth potential to entrepreneurs.

Pretzel Time's concept provides an opportunity for business people to expand at their own pace, without much concern about the competitors. Consider these categories: seafood, hamburgers, pizza, subs, tacos, doughnuts, and chicken. Doubtlessly, dozens of brand names come to mind when you think about them. Pretzel Time's homemade, hand-rolled fresh pretzels are a hot new concept in a market saturated with hundreds of mediocre options in the same old categories. Consumers love the idea of an alternative to the tired fast foods that have always been available to them.

Pretzel Time franchisees serve a superior product in a clean, attractive environment to people who can't get enough of what we have to offer. Our franchise fee is extremely low compared to other programs in the market. Our decor package, adapts easily to a number of existing structures. The product line is easy to manage and the investment in equipment and smallwares is kept to a minimum. The majority of your cash investment won't be used for non-recoverable fixed assets, so you can acquire multiple units quickly, if you wish. Pretzel Time is now offering a reduced franchise fee of only \$1,000 for each new location to franchisees in full compliance with Pretzel Time standards.

Our leasing program makes it easier than you might imagine to get started. At Pretzel Time, we hold the lease on most locations, and simply sublet to you. Developers like the idea of dealing directly with a major corporation with an established success rate, and we're happy to support you in this way.

We suggest you carefully review the materials in this portfolio, so that you can make a well-informed decision whether to become a Pretzel Time franchisee. We're confident that after you learn more about us, you'll want to join our organization.



**FLYING FRUIT FANTASY  
FRUITSHAKES™**

2706 South Horseshoe Drive Suite 112, Naples, Florida 33942

813.643.2075 813.643.5639 (Fax)

July 11, 1994

Dr. W.D. English  
Marketing Department  
UMHB  
Belton, TX 76513

Dear Dr. English:


Hand twisted soft pretzel stores are opening in malls across the country to rave reviews. Once you have tasted our soft gourmet pretzels in one of their many varieties, you'll know why. Accompanied by our all new Flying Fruit Fantasy Fruitshakes, Pretzel Twister is on the leading edge. **TWO GREAT CONCEPTS, ONE GREAT FRANCHISE!**

Thank you for your recent inquiry. The Pretzel Twister has taken a winning idea and improved upon it. Our secret recipe and unique taste are unsurpassed. We have simplified the baking process with our pioneering use of the conveyor oven, much like the most successful pizza franchisors have. Our streamlined operation means more consistent quality and lower operating costs. We provide our store owners with the best management tools including training on computerized payroll and bookkeeping. The new store design, by the award winning International Design Group is contemporary, bright, and appealing.

If you'd like to know more, please complete the enclosed Evaluation Form. Doing so will not obligate either of us in any way. Once we receive your form, we will send you a **FREE VIDEO** which explains The Pretzel Twister franchise system.

I encourage you to carefully study the differences between our opportunity with others. If you call, I will be more than happy to discuss the main benefits to operating under our system. To anyone interested in owning their own hand twisted soft pretzel bakery I firmly believe that The Pretzel Twister has the most to offer. Of course if you have any questions, please feel free to call me at 813-643-2075. Again I thank you for your interest, and look forward to receiving the Evaluation Form soon.

Sincerely,

  
Keith Johnson  
President

## FREQUENTLY ASKED QUESTIONS ABOUT OUR FRANCHISE PROGRAM

### How do The Pretzel Twister™ pretzels compare to others in taste?

- ◆ Our customers say they are addictive and often ask, "What did you put in these to make them so good?" Our secret ingredients and exclusive recipe creates a taste and flavor unrivaled by others!

### What is the average size of The Pretzel Twister™ bakery and where is the best location?

- ◆ Our stores can range in size from 450 to 900 square feet and are best suited for enclosed shopping malls or very busy areas with heavy foot traffic.

### What is the total investment required to open a store?

- ◆ This will depend on the condition of the space where the store will be built. It will depend on whether the space was previously used as a food service or was previously unoccupied and is completely void of utilities. See the chart below.

	<u>Low</u>	<u>High</u>
Franchise Fee	\$12,500	\$12,500
Equipment, Fixtures, & Leasehold Improvements, Signage, etc...	\$72,000	\$105,000
Initial Supplies & Inventory	\$700	\$1,500
Security Deposits and Working Capital	\$6,300	\$21,500
<b>Total</b>	<b>\$91,500</b>	<b>\$140,500</b>

### What other fees are required?

- ◆ There is a continuing service and royalty fee of 4% of gross sales. Currently 1% must be allocated for local advertising although the total advertising contribution may be increased to 2%. There are no additional royalties or fees associated with the Flying Fruit Fantasy Fruitshakes® products.

### What is the term of my franchise agreement?

- ◆ The term of the agreement is for 10 years with two additional renewals at your option.

### What do I receive for my franchise and service fees?

#### PRE-OPENING ASSISTANCE:

- ◆ Site selection and store design assistance.
- ◆ Complete turnkey packages are available
- ◆ Business start up manual—This invaluable manual covers everything you need to know about forming a business in your state.
- ◆ Complete operations manual and training program, including training in Naples, FL, as well as on-site training in payroll, accounting, daily operations, equipment, maintenance and more.
- ◆ Simplified and proven concepts and use of our exclusive recipes and trademarks.

#### CONTINUING SUPPORT:

- ◆ Access to ongoing research and development in the areas of new products, equipment, packaging. We will work with food service distributors to negotiate the best possible prices. Savings are passed directly to the franchise owners.
- ◆ Ongoing advertising, promotion and publicity material.
- ◆ Periodic visits to your area by our management to consult with you on aspects of your business.
- ◆ Complete dedication of our staff to assist franchisees in realizing their goals.
- ◆ Continuous updates of the operations manual.

"Nice chart, Harry," said Tom, "But what do we do with it? About all I can see is that if we can barely afford the 'stupid' push-cart, we sure can't afford \$150,000 for an RM location. Which reminds me, what does RM stand for anyway?"

"RM stands for Regional Mall," answered Harry.

"Oh, that's cool, I like malls," said Tom. "But if we have to come up with \$150,000 I don't think that is going to be a very viable option. I don't have that kind of money, do you?"

"No, but my Grandad does," said Harry. "Grandad said that he had been thinking about setting me up with a franchise upon my graduation . . . in fact it was Grandad who had the franchise *Source Book*. He had already underlined a dozen or more offerings in the \$100,000 to \$350,000 range. He had not highlighted any pretzel franchises, but the cost seems to be within his range."

"Well, in that case, let me have another look at that chart," said Tom. "You know, all of the offerings are kinda similar, but kinda different."

"I guess you pretty well covered both ends with that statement," retorted Harry.

"But look," continued Tom. "They all want a franchise fee, but the fees are not all the same. I mean, what's a franchise fee, anyway? Is it like a federal license?"

"A franchise fee is a one-time fee that you have to pay to the franchisor for the privilege of doing business in the name of the franchise," explained Harry. "It's like a cover charge at a dance hall . . . you know, where you pay a \$3.00 cover charge for the 'privilege' of paying \$2.50 for a beer. The franchise fee is the admission fee so that they can then charge you for more stuff . . . like the royalties you have to pay and overcharging for the supplies that you have to buy from them."

"You don't sound too pleased with the idea of paying a franchise fee," questioned Tom.

"No, I'm not," said Harry. "Of course buying into a franchise usually gets you more name recognition than you would have if you were an independent. But Philly's Famous with no listed units, and Pretzel Twister with 2 listed units . . . I can't see much name recognition there. Seems to me I could be \$10,000 further down the road if I opened up something on my own. And I'm not sure that I want some franchisor telling me everything to do. But Grandad says that what really counts is the proven business package and support that the franchise system provides. I just don't know . . ."

## Pretzels – Case Questions

1. Consider all the support mechanisms provided in the case for the Pretzel franchise. From a Distribution Channel Management perspective, what are the advantages and disadvantages of subscribing to a franchise versus starting a pretzel business on your own/
2. Considering Nanaimo as your place of business, conduct a Cost/Benefit analysis of the Franchise and determine whether or not the franchise is worthwhile? If so, explain why. If not, describe what would be needed to entice you to acquire the franchise?
3. What distribution channel incentives should a Franchisor provide to mitigate the risks of starting a business? Find at least 3 local (Nanaimo) franchises that you feel are good examples of opportunities that manage many distribution channel service outputs. Describe the distribution channel virtues of these franchises.
4. If you were develop your own Franchise...what elements would you consider important to manage for your franchisees? Why/why not?

Use the above questions as a guideline. Please feel free to present your case in whatever format fits your creativity and information set.