

***Entrepreneurship and Small Business Management, 2e (Mariotti)***

**Chapter 2 Franchising**

1) Franchises are governed by \_\_\_\_\_ laws and regulations.

- A) State and federal
- B) State
- C) Federal
- D) International
- E) Federal and international

Answer: A

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Learning Obj.: LO 4

AACSB: Application of knowledge

2) Many fees are must be paid regardless of \_\_\_\_\_.

- A) Profitability
- B) Cash flow
- C) Sales
- D) Both A and B
- E) A, B, and C

Answer: D

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Learning Obj.: LO 2

AACSB: Analytical thinking

3) Franchise operating guidelines \_\_\_\_\_.

- A) Vary considerably
- B) Are constant
- C) Are always well defined
- D) Never change
- E) All of the above

Answer: A

Page Ref: 39

Learning Obj.: LO 2

AACSB: Analytical thinking

4) All of the following are a new type of franchising opportunity except \_\_\_\_\_.

- A) Internet franchises
- B) Conversion franchises
- C) Co-branding franchises
- D) Piggybacking franchises
- E) Leapfrogging franchises

Answer: E

Page Ref: 43

Learning Obj.: LO 3

AACSB: Analytical thinking

5) Any cost saving resulting from franchisee purchasing power helps to offset other costs, such as franchise \_\_\_\_\_.

- A) Fees
- B) Accounting
- C) Gains
- D) Losses
- E) Overhead

Answer: A

Page Ref: 38

Learning Obj.: LO 2

AACSB: Analytical thinking

6) Which of the following is not an ongoing cost of franchises?

- A) Start-up fees
- B) Royalties
- C) Top-line revenues
- D) Cooperative advertising fees
- E) All of the above are ongoing costs.

Answer: A

Page Ref: 41

Learning Obj.: LO 2

AACSB: Analytical thinking

7) Franchisees may pay a fee that is separate from the royalty fee, often called a \_\_\_\_\_, to contribute to a shared advertising fund.

- A) Cooperative advertising fee
- B) Cooperative franchising fee
- C) Cooperative marketing fee
- D) Cooperative print fee
- E) Cooperative media fee

Answer: A

Page Ref: 38

Learning Obj.: LO 2

AACSB: Analytical thinking

8) The franchisor cannot require the individual franchisee to adhere to a(n) \_\_\_\_\_.

- A) Pricing structure
- B) Advertising agreement
- C) Supplier agreement
- D) Operating structure
- E) Product line

Answer: A

Page Ref: 40

Learning Obj.: LO 2

AACSB: Analytical thinking

9) Which of the following is true regarding the costs of franchises?

- A) They vary significantly.
- B) They are always expensive.
- C) They are unaffordable.
- D) They are outrageous.
- E) They are unreasonable.

Answer: A

Page Ref: 41

Learning Obj.: LO 2

AACSB: Analytical thinking

10) Start-up standards required of franchisees may include which of the following?

- A) Specific types of experience and skills
- B) Net worth requirements
- C) Liquidity requirements
- D) All of the above
- E) None of the above

Answer: D

Page Ref: 42

Learning Obj.: LO 2

AACSB: Analytical thinking

11) Which of the following is not a type of franchising according to the text?

- A) Product and trade-name franchising
- B) Business-format franchising
- C) Inclusive franchising
- D) All of the above are types of franchising.
- E) None of the above is a type of franchising.

Answer: C

Page Ref: 35-36

Learning Obj.: LO 1

AACSB: Analytical thinking

12) The most significant advantage of a franchise is the increased probability of \_\_\_\_\_, given that franchise brands have positive track records and instant recognition in most communities.

- A) Success
- B) Failure
- C) Popularity
- D) Optimism
- E) Regret

Answer: A

Page Ref: 37

Learning Obj.: LO 2

AACSB: Analytical thinking

13) Performing due diligence may include \_\_\_\_\_.

- A) Fully understanding the FDD of the franchise company
- B) Calling on existing franchisees
- C) Visiting the franchise headquarters
- D) Doing Internet research
- E) All of the above

Answer: E

Page Ref: 47

Learning Obj.: LO 5

AACSB: Analytical thinking

14) The FDD includes information such as \_\_\_\_\_.

- A) Fees and costs
- B) Contractual obligations
- C) Territory
- D) Data regarding existing units
- E) All of the above

Answer: E

Page Ref: 44

Learning Obj.: LO 4

AACSB: Application of knowledge

15) Products and services in a franchise may not be altered, added, or dropped without \_\_\_\_\_.

- A) Franchisor agreement
- B) Termination of the franchise
- C) Penalty
- D) Legal action
- E) An act of God

Answer: A

Page Ref: 40

Learning Obj.: LO 2

AACSB: Analytical thinking

16) In relation to franchising advantages, you purchase the use of the company's logo, trademark, and advertising, as well as the physical design, layout, and décor that ensure \_\_\_\_\_.

- A) Recognition
- B) Consistency
- C) Uniformity
- D) Unity
- E) All of the above

Answer: A

Page Ref: 38

Learning Obj.: LO 2

AACSB: Analytical thinking

17) The term "FDD" stands for which of the following?

- A) Franchise Disclosure Document
- B) Franchisee Disclosure Document
- C) Franchisor Disclosure Document
- D) Federal Disclosure Document
- E) None of the above

Answer: A

Page Ref: 44

Learning Obj.: LO 4

AACSB: Analytical thinking

18) All of the following are factors of franchise cost except \_\_\_\_\_.

- A) Type of franchise
- B) Brand recognition
- C) Popularity
- D) Capacity to secure franchisees
- E) Type of product

Answer: E

Page Ref: 41

Learning Obj.: LO 2

AACSB: Analytical thinking

19) Which of the following is true regarding inspections conducted by franchisors?

- A) They may be announced or unannounced.
- B) They are always surprise inspections.
- C) Specific times must be scheduled.
- D) It is unlawful to do such inspections.
- E) Very few franchisors do inspections.

Answer: A

Page Ref: 42

Learning Obj.: LO 2

AACSB: Analytical thinking

20) According to the text, which of the following is not a consideration when selecting a franchise?

- A) Self-reflection
- B) Research
- C) Geography
- D) Gender
- E) Brand

Answer: D

Page Ref: 45

Learning Obj.: LO 5

AACSB: Reflective thinking

21) Subway restaurants can be found \_\_\_\_\_.

- A) In traditional stand-alone units
- B) In convenience stores
- C) In shopping malls
- D) In military bases
- E) All of the above

Answer: E

Page Ref: 35

Learning Obj.: LO 1

AACSB: Application of knowledge

22) Strong franchisors have all of the following except \_\_\_\_\_.

- A) Established multiple franchises
- B) Positive relationships with their franchisees
- C) Years of experience
- D) Many legal disputes
- E) None of the above is an exception.

Answer: D

Page Ref: 40

Learning Obj.: LO 2

AACSB: Analytical thinking

23) In many instances, products or ingredients in a franchise must be purchased from \_\_\_\_\_.

- A) The franchisor
- B) Designated suppliers
- C) Any suppliers
- D) Both A and B
- E) All of the above

Answer: D

Page Ref: 40

Learning Obj.: LO 2

AACSB: Analytical thinking

24) Which of the following aspects would the franchisor control in a business-format franchising situation?

- A) Accounting
- B) Marketing
- C) Operations
- D) Quality assurance
- E) All of the above

Answer: E

Page Ref: 36

Learning Obj.: LO 1

AACSB: Analytical thinking

25) The formula provided by the franchise does which of the following?

- A) Guarantees brand recognition
- B) Eases the issues of start-up development
- C) Ensures ongoing support
- D) Removes the creativity and freedom
- E) All of the above

Answer: E

Page Ref: 37

Learning Obj.: LO 2

AACSB: Reflective thinking

26) Franchisors are \_\_\_\_\_ to provide operating manuals and training to their franchisees, which are a valuable resource for success.

- A) Required
- B) Not required
- C) Encouraged
- D) Unable
- E) None of the above

Answer: A

Page Ref: 39

Learning Obj.: LO 2

AACSB: Analytical thinking

27) Franchisors are focused on creating wealth for \_\_\_\_\_.

- A) Themselves
- B) Friends
- C) Franchisees
- D) The community
- E) Employees

Answer: A

Page Ref: 41

Learning Obj.: LO 2

AACSB: Analytical thinking

28) A franchisor's record of success can \_\_\_\_\_.

- A) Provide a significant advantage for your business start-up
- B) Be a concern for a franchisee
- C) Never provide help for start-up
- D) Be proven
- E) Not be counted on

Answer: A

Page Ref: 40

Learning Obj.: LO 2

AACSB: Analytical thinking

29) All of the following are advantages of franchising except \_\_\_\_\_.

- A) Training
- B) Financing assistance
- C) Purchasing power
- D) Promotional support
- E) Loss of control

Answer: E

Page Ref: 37

Learning Obj.: LO 2

AACSB: Analytical thinking

30) All of the following are selected franchise fees and costs according to the text, except \_\_\_\_\_.

- A) Training
- B) Advertising and promotion
- C) Fixtures
- D) Initial inventory
- E) Local publicity campaigns

Answer: E

Page Ref: 41

Learning Obj.: LO 2

AACSB: Analytical thinking

31) The franchisor is the second party to the franchise agreement and is the owner of the unit or territory rights.

Answer: FALSE

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Learning Obj.: LO 1

AACSB: Analytical thinking

32) Sound franchisors provide a significant quantity and excellent quality of start-up assistance to new franchisees, as well as ongoing education and support for established ones.

Answer: TRUE

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Learning Obj.: LO 2

AACSB: Application of knowledge

33) As a franchisee you will benefit from the purchasing power of the franchisor to get lower costs and improved vendor service.

Answer: TRUE

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Learning Obj.: LO 2

AACSB: Application of knowledge



34) If you are looking to start a business that is creative and is not controlled by others, then franchising is your best option.

Answer: FALSE

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Learning Obj.: LO 2

AACSB: Analytical thinking

35) McDonalds is the only franchise available for ownership internationally.

Answer: FALSE

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Learning Obj.: LO 6

AACSB: Application of knowledge

36) Product and trade-name franchising is the licensing of the product or the production of the product and the use of the trademark, logo, or other identity of the franchise.

Answer: TRUE

Page Ref: 36

Learning Obj.: LO 1

AACSB: Reflective thinking

37) There is no need for legal representation when entering into a franchise agreement.

Answer: FALSE

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Learning Obj.: LO 4

AACSB: Analytical thinking

38) Master franchises do not allow individuals and organizations to buy the right to subfranchise within a delineated geographic territory.

Answer: FALSE

Page Ref: 36

Learning Obj.: LO 1

AACSB: Application of knowledge

39) There are few resources for franchise research.

Answer: FALSE

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Learning Obj.: LO 5

AACSB: Analytical thinking

40) It is uncommon for a franchisor to handle the national and regional media purchasing for a franchisee.

Answer: FALSE

Page Ref: 38

Learning Obj.: LO 2

AACSB: Reflective thinking

41) Franchisees may pay a fee that is separate from the royalty fee, often called a cooperative advertising fee, to contribute to an individual advertising fund.

Answer: FALSE

Page Ref: 38

Learning Obj.: LO 2

AACSB: Analytical thinking

42) A franchise is a business that markets a product or service developed by a franchisor, typically in the manner specified by the franchisor.

Answer: TRUE

Page Ref: 35

Learning Obj.: LO 1

AACSB: Analytical thinking

43) The start-up and ongoing assistance provided by a franchisor guarantees your success.

Answer: FALSE

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Learning Obj.: LO 2

AACSB: Analytical thinking

44) The most significant advantage for a franchisee is the increased probability of success.

Answer: TRUE

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Learning Obj.: LO 2

AACSB: Analytical thinking

45) The costs of franchises vary significantly.

Answer: TRUE

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Learning Obj.: LO 2

AACSB: Analytical thinking

46) Apply the steps of franchise selection to your business idea. Identify the most critical steps for your situation and how these issues would help you determine the best franchise opportunity. Answer: Student responses will vary but the eleven steps indicated — from self-reflection and engagement of core supporters to making it work — are important in evaluating the franchise opportunity.

Page Ref: 45-47

Learning Obj.: LO 5

AACSB: Reflective thinking

47) If you were to become a franchisee, which type of franchise would you choose? Discuss possible concerns and advantages of different franchise types.

Answer: Answers will vary. Aspects of answers should include issues of control, possible advantages of franchisor involvement, expectations of franchisors, and freedom of the franchisee.

Page Ref: 35-36

Learning Obj.: LO 1

AACSB: Analytical thinking

48) What franchising issues would you need legal assistance to address? How would that affect your decision to franchise or not to franchise?

Answer: Franchises are governed by state and federal laws and regulations. The Franchise Disclosure Document (FDD) is the primary source of information regarding the disclosures to be made by franchisors. Since the agreement between a franchisor and a franchisee is a legal agreement, a franchise would need legal assistance. Student responses could vary in terms of whether this would affect their decision to franchise or not.

Page Ref: 43-44

Learning Obj.: LO 4

AACSB: Reflective thinking

49) What are some of the positive aspects of franchises that could assist you with your business idea? What advantages could you utilize in start-up, operations, competitive advantage, and so on?

Answer: The section "Positive Aspects of Franchises" indicates various reasons why one would become a franchisee: start-up assistance, instant recognition, purchasing power, advertising and promotional support, operating guidelines and assistance, and track record of success.

Page Ref: 37-40

Learning Obj.: LO 2

AACSB: Analytical thinking

50) What are some of the key drawbacks of buying a franchise? How could these issues hinder your business?

Answer: The section "Drawbacks of Buying a Franchise" identifies factors such as constraints on creativity and freedom, costs, and standards and termination as the key disadvantages for a potential franchisee. Student responses will differ with regards to whether these drawbacks would hinder or help the franchise.

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Learning Obj.: LO 2

AACSB: Reflective thinking