

Welcome to IF Consulting's weekly e-mail newsletter

March 25, 2005

Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

When a franchisee feels a little undervalued

With an investment of more than one million New Zealand dollars, the owner of four Video Ezy stores was understandably perplexed when he was offered as little as one dollar for each of his businesses when his franchise agreement ran out. Warwick Banks, who bought his first Video Ezy franchise store in 1994, warns, "There are stores changing hands now for \$300,000 to \$400,000. Those people buying now are oblivious to the fact that at the end of the agreement the store's worth nothing."

The situation arose as a result of a dispute last year between Banks and franchisor, Video Ezy International. Video Ezy declined to renew Banks' franchise agreement when it expired. Rather than challenge the issues involved in the dispute, Banks decided to sell up, believing that the franchisor would buy the stores back at market value. However, the offer came to no more than \$1 each for three of the stores and \$2090 for the other, plus stock at book value. The businesses had been independently valued at \$1.6 million.

Banks' lawyer, Hans Van Schreven said the franchisor interpreted the contract as meaning no goodwill had to be paid. "The point is that at the end of the day there was no protection. There was no basis on which any goodwill associated with the franchisee had to be paid for by the franchisor."

<http://www.stuff.co.nz/stuff/0,2106,3200973a13,00.html>

IF Comment

No franchise legislation can protect franchisees from the risks associated with running a business. Typically a franchise is perceived as less risky than a totally independent business venture, mainly because the franchisee has the benefit of joining a larger group with a proven business concept. However, it is also true that the franchisee has less control over the running of his/her business, on the development and marketing of the business concept and on negotiating the terms of the agreement. Additionally, precisely because they buy into a proven concept and receive on-going support, franchisees' investments and on-going commitments (royalties, fees and other contributions) are higher than those of an independent businessperson.

For these reasons, a franchise can easily become an unbalanced business relationship giving franchisors significant power and control and leaving franchisees with little protection. Self-imposed Codes of Conduct tend to be ineffective as they are drawn up by franchisors with little attention given to the actual protection of franchisees' rights. For this reason, franchising legislation/regulation is often advocated as the only way of ensuring a more balanced relationship between franchisors and franchisees.



Marketing Channel
Strategy Consultants
Maximizing shareholder value
through creating the best route
to market

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Snippets

The operator of a franchise network of motorcycle parts stores in Bangkok is preparing to terminate its agreement with one of its franchisees for breach of contract. President of KPN Plus Co., Nop Narongdej, said, "This franchisee has breached the contract for acquisition of goods from other suppliers despite repeated warnings."

http://www.bangkokpost.com/Business/05Mar2005_biz68.php

Computer security leader Sophos has recently launched an accreditation programme aimed at strengthening the technical skills of its marketing channel partners. Under the new arrangement, Sophos resellers will have access to two new training courses that will lead to specialist qualifications.

<http://www.channelbusiness.com/>

Computer giant Dell is facing a class action lawsuit accusing the direct distributor of "systematically deceiving" its customers. The suit, filed in San Francisco County Superior Court on Feb. 14, accuses Dell of "bait and switch" practices, false advertising, fraud and deceit in sales and advertising, and breach of contract. The main allegation of the case is that customers looking to buy a computer at the advertised low prices find that it's no longer available at the price and end up with a different computer.

http://news.com.com/2100-1047_3-5587443.html?tag=cnetfd.buzz

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<http://www.i-f.com>