

## 1.6D: Growth and Evolution: Activity



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### 1.6 GROWTH AND EVOLUTION: ACTIVITY D

Read the case study information below and answer the questions that follow.

#### SALLY GOES IT ALONE



Sally no longer enjoyed her job as a second chef in a famous hotel. She never liked taking orders from the head chef and always hoped to use her talents preparing food for customers in her own restaurant. The main problem was her lack of business experience. Sally has just been to a business conference and had been interested in the franchising exhibition there. One of the businesses offering to sell franchises was Pizza Delight. This firm sold a new type of pizza recipe to franchisees and provided all ingredients, marketing support and help with staff training. They have opened 100 restaurants in other countries, and are now offering to sell new franchises for a one-off payment of \$100 000. If Sally signed one of these franchising contracts, then she would have to agree to:

- Only buying materials from Pizza Delight
- Fitting out the restaurant in exactly the way the franchisor wanted
- Making an annual payment to Pizza Delight of a percentage of total turnover

In addition, she would have to find and pay for suitable premises and recruit and motivate staff. Pizza Delight claimed that its brand and products were so well known that 'success was guaranteed'. Since the product had already been tested, there should be little consumer resistance, and Pizza Delight would pay for national advertising campaigns.

Sally was promised that no other Pizza Delight would be permitted to open within five kilometres of hers. Sally was convinced that this was the business for her. She had inherited

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money from a relative. However, several things still bothered her – for example, would it give her the independence she so wanted?

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**24 MARKS, 45 MINUTES**

1. Explain what is meant by a 'franchise agreement'. **[4 marks]**
2. Explain three potential drawbacks to Sally of agreeing to the terms of the franchise contract. **[6 marks]**
3. Explain why the risks of failure might be greater if Sally decided to open her own restaurant, under her own name, rather than use the franchise option open to her. **[4 marks]**
4. Advise Sally as to whether she should take out a franchise with Pizza delight. **[10 marks]**