Can A U.S. Merchandising Franchise Work In Colombia?

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"CAN A U.S. MERCHANDISING FRANCHISE WORK IN COLOMBIA?"

By

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For

Arthur E. Snyder

MPS 505

Presented in fulfillment for the MPS degree requirements
ACKNOWLEDGEMENTS

Special thanks to my parents for filling my life with love. Also, thanks mom and dad for giving me the greatest opportunity of all: getting my Master’s Degree in the United States.
ABSTRACT

Objectives. This research examines the question "Can a United States merchandising franchise work appropriately in Colombia?". This becomes an interesting study due to the fact that given the new internationalization of the Colombian economy, diverse opportunities for foreign investment have emerged.

Methods. A literature review on merchandising and the franchising business is done (1993-1995). Then, four franchisees in South America are interviewed about main issues on the franchising business. Finally, 60 decision-makers involved in the retail business in Colombia are also interviewed to determine if there is a consumer market for the merchandising industry.

Results. 96.7% of the marketing executives would consider investing in a merchandising plan for their branch network. Out of the 60 interviewees, 51 perceive the use of merchandising in the retail channel as an upstarting trend in Colombia.

Recommendations. Recommendations are made considering both, the literature review and the interviews. The franchisee should develop a marketing plan for Colombia in which seminars and lectures in reference to merchandising are included. Colombia could be a first step into entering the Latin American market as a whole.
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CHAPTER I - STATEMENT OF THE PROBLEM
"CAN A U.S. MERCHANDISING FRANCHISE WORK IN COLOMBIA?"

A. GENERAL BACKGROUND OF THE PROBLEM: FOREIGN INVESTMENT IN COLOMBIA

"CAN A U.S. MERCHANDISING FRANCHISE WORK IN COLOMBIA?"

For most of the 80's and beginning of the 90's, Colombia was not seen as a possible overseas investment because of protectionist and nationalistic policies, large foreign debt and general instability. In 1990, the elected President of Colombia, Cesar Gaviria T., originated the implementation of an economic liberalization oriented toward the private sector. In this way, the private enterprise is encouraged to continue to play an important role in the development of the country. In order to provide an infrastructure for productive enterprises, relatively large public investments have been made in recent years in such projects as hydroelectric plants, petroleum exploration and exploitation, gas and oil pipelines, and coal mining and export facilities. This created a political, economic and legal framework for the transformation of Colombia into an open and internationally competitive country.

Now, South America is emerging from the backwater of world trade into the world's second fastest growing market. Boeing's 1994 World Air Cargo Forecast puts North America-Latin America air cargo market growth rate at around 8% per year, tied with North-America-Asia for second place. Boeing expects the economy of Latin America overall to grow at an average of 4.3% over the next 5 years, with the strongest areas being Colombia, Chile, Peru and
Venezuela. Also, there are two major attractions for foreign investment in Colombia:

1. a substantial, very low-cost supply of labor
2. a wealth of natural resources.

Another factor that influence the interest in foreign investment in Colombia is that this country is a member of the Andean Pact. The liberalization of tariff and regulatory barriers between the Members of this Pact is having a favorable impact on decisions by foreign companies - especially US and Canadian companies - to look at opportunities in this area. US investment into the pact as a whole reached $6.2 billion in 1993. Venezuela, by far the biggest economy, attracted nearly 40%. Colombia, the second largest economy attracted slightly more.

B. SPECIFIC BACKGROUND OF THE PROBLEM: NEED FOR MERCHANDISING SERVICE IN RETAIL STORES

"CAN A U.S. MERCHANDISING FRANCHISE WORK IN COLOMBIA?"

In Colombia many companies are just starting to implement concepts related with marketing. This is because national companies were protected by the government policies and the Colombian customer didn’t have many options in the market. With the new economic conditions, national companies must compete internally to gain the customer’s approval in order to survive. Most of the distribution of the Colombian products is made through retail stores. To be

able to get the customer's attention in the store, it is a common practice in countries like the U.S. to use a system known as merchandising.

In the last two years, retail stores like Wal-Mart, JCPenney and K-Mart have been focusing their attention in South America. Most of the U.S. retailers that are seeing Colombia as a likely expansion target use merchandising continuously. And, the fact is that there is no company in Colombia that has the know-how required for merchandising. Now Colombian businesses will have to compete internationally even within the limits of its own territory. In spite of this, national companies are starting to feel the need of accessing to various marketing tools as a necessary strategy for success.

C. DEFINITION OF TERMS

1. Franchise: a right or privilege granted to an individual or group.

2. Franchising: a form of licensing by which the owner (franchisor) of a product, service or method obtains distribution through affiliated dealers.

3. Liberalization: elimination of trade tariffs and barriers

4. Merchandising: marketing efforts done through the use of displays, promotions, signage and others.

5. Integrated Marketing Communications: a concept of marketing communications planning that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communications disciplines and combines these disciplines to provide clarity,
consistency, and maximum communications' impact through seamless integration of discrete messages.

6. Retailing Service: plan developed for a retail type of channel in which the proposed layout, physical environment, communications and merchandising transform a branch network into a sales/service culture.


8. UFOC: Uniform Franchise Offering Circular

9. Multiple-unit franchise operator: franchisee that owns more than one franchise in a system.

10. Single-unit franchise operator: franchisee that owns one franchise in a system.

11. Break even: point in which all your initial investment has been payed-off by the profits generated in the business.
CHAPTER II - LITERATURE REVIEW
A. GENERAL REVIEW OF THE LITERATURE

1. HOW DOES THE FRANCHISE SYSTEM OPERATE?

The franchise network is known as "the ultrastructure". These networks exist in various forms. Under some forms, the potential franchise buyer can purchase the franchise directly from the franchisor or through a broker. The least complex of this forms is called the satellite system in which there are no brokers, just the franchisor and franchisee. The satellite system offers an advantage for the franchisee. It has to do with protected territory. In other words, the franchisor can make possible that no other franchise of the same type can be sold in those predefined boundaries.

The term multiple-unit franchising embraces various forms of ownership. It may involve a sole franchisee that owns more than one unit or it could also refer to other type of arrangements that involve, for example, subfranchisors or master licensees. Multiple unit operators, franchisees that own more than one unit, are preferred by franchisors than single-unit operators because of the magnitude of the underlying investment.

By law, all franchisors must disclose information to all prospective franchisees. This is done through a document known as UFOC. Still, the accuracy of the information will not be checked by the FTC nor other regulatory body.
Franchise agreements can vary one from the other but, essentially, they all contain the same elements. This contract defines the relationship between the franchisor and the franchisee. The disclosure document must be compared to this contract before signing. Then, it is adequate to say that two main documents govern the relationship between the franchisee and the franchisor: the disclosure document and the franchise agreement.

2. WHAT CONSIDERATIONS ARE IMPORTANT WHEN ENTERING THE FRANCHISING BUSINESS?

When selecting a company, the franchisee must make sure that it is a well-established one. Also, it can be beneficial that the factor uniqueness is present. Another point to consider has to do with the amount of risk associated with the franchise. Prospective companies should be scrutinized. A franchisee must not base the decision on emotional or subjective feelings.

When investigating a company, the franchisee should take advantage of the Uniform Franchise Offering Circular (UFOC) or disclosure document required by law. It is a valuable resource. A dangerous sign can be the unwillingness to disclose sales and earnings.

A franchisee can be a victim of his system’s failure. Franchisees must not rely completely on the parent company for updating marketing research or doing strategic planning. The franchisee should participate in the business

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activity and develop marketing strategies. This can be done appropriately if the franchisor's and franchisee's goals coincide.

B. SPECIFIC REVIEW OF THE LITERATURE

1. WHAT DOES A MERCHANDISING BUSINESS DO?

   It is referred, basically, to the merchandising industry as one in which businesses engage in activities related with communications, promotions, signage or other for a store or a branch network. The business doesn't have to be involved in all of the activities that concern merchandising; just one of them. As an example, "Merchandising Display Co." manufactures only signs and displays without doing any market research or designing a whole merchandising strategy, they just produce the signs that the client asks for. Also, it doesn't mean that a merchandising business has to be focused in the production of merchandising material. A company can be more like an assistant to other companies that have retail channels or a branch network. For example, "Merchandising Concepts" is a business that works as a marketing consultant; meaning by this, that they outline a specific merchandising plan that has to be executed by the interested company.

   Still, there are other businesses that offer a broader spectrum. These companies not only design the required merchandising but also manufacture and implement it as a part of a whole integrated marketing communication plan.
It is normally said that these businesses provide a "retailing service". It is the case, for example, of the company known as "RPA: Retail Planning Associates".

2. IMPORTANCE OF MERCHANDISING IN BUSINESS TODAY

It has been determined that the merchandising industry is currently in a growth stage. From 1981 to 1992, merchandising grew from a $5.1 billion to a $15.2 billion business. It is not considered an afterthought anymore; merchandising is one of the developmental stages of marketing. Today, it has evolved into a much more complex concept known as service retailing (e.g. a plan that is developed for a retail type of channel in which the proposed layout, physical environment, communications, and merchandising transform a branch network into a sales/service culture).

Merchandising is being used successfully in diverse type of retailing: supermarkets, bank branches, restaurants and others. So, a fact that is of important consideration is that merchandising has almost no limits in reference to the nature of the business. Banks and clubs are starting to notice that it is a key marketing tool to achieve success.

At a time when U.S. retailers' prospects for growth at home seem largely saturated, international expansion does offer some of the best opportunities for fueling corporate sales and operating profits. Perhaps the most important factor affecting the success of international retailing efforts is the ability to adapt
merchandising and operating strategies to cultural differences. So, again, merchandising is a critical element.

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"CAN A U.S. MERCHANDISING FRANCHISE WORK IN COLOMBIA?"

A. RESEARCH DESIGN

1. TIME LINE

<table>
<thead>
<tr>
<th>DATE</th>
<th>ASSIGNMENT</th>
<th>CRITICAL DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>APRIL 6</td>
<td>Topic Due</td>
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<tr>
<td>APRIL 7 - 21</td>
<td>Statement of the Problem &amp; Literature Review</td>
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</tr>
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<td>APRIL 20</td>
<td>First Draft Due</td>
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<tr>
<td>APRIL 24 - MAY 5</td>
<td>Design of Two Questionnaire: Franchisees and Decision-makers</td>
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</tr>
<tr>
<td>MAY 5 - 15</td>
<td>Data Collection Methodology</td>
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<tr>
<td>MAY 11</td>
<td>Second Draft Due</td>
<td></td>
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<tr>
<td>MAY 18</td>
<td>Oral Presentation</td>
<td>X</td>
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<tr>
<td>MAY 20 - JUNE 20</td>
<td>Findings: Interviews</td>
<td>X</td>
</tr>
<tr>
<td>SEPT - NOV</td>
<td>Conclusions &amp; Recommendations</td>
<td></td>
</tr>
</tbody>
</table>

2. INSTRUMENT

There are two questionnaires used for the collection of the data can be seen at the end of the report. The first one which is targeted to four franchisees that have U.S. merchandising franchises in Venezuela and Peru is composed of four sections:

A. Finance
B. Management
C. Relationship Franchisor-Franchisee
D. Characteristics of the Parent Company/ Franchise

The second questionnaire is directed to 60 high profile executives which are the decision-makers in most of the retail companies in Colombia. For both
questionnaires, all the item questions are multiple choice so the respondent can answer quickly and easily. A sample of these two questionnaires can be found at the end of the report.

B. SAMPLING TECHNIQUE

There is no sampling technique since:

- The total number of franchisees that are involved in this type of business in South America is four. All four are interviewed.
- The total number of the most influential decision-makers in the retail business in Colombia is 60. Through these 60 people, a person involved in the merchandising industry can get almost all of the accounts.
- Basically, the researcher is making a census because all of the people in the population are interviewed.

C. DATA COLLECTION METHODOLOGY

The collection of the data was done considering the following procedure:

1. Each of the franchisees and executives that were going to be interviewed were contacted by phone first and a date for sending a fax with the questionnaire was established.
2. The fax was sent in the day agreed upon.
3. At the next day, the researcher called the franchisee or executive and a date to fax back the answers was determined.
4. A thank you letter was sent as soon as the answers were faxed back.

D. ANALYSIS AND INTERPRETATION OF THE DATA

For the purpose of analyzing data, the study was divided into two parts:

    Part A: Franchisees
    Part B: Consumer Market (Executives)

Both analysis are concerned with different issues. Part A focuses its attention on the specific characteristics that the merchandising industry has within the franchise business. On the other hand, Part B tries to answer the question “Is there a consumer market in Colombia for this type of business?”.
CHAPTER IV - RESULTS
A. FRANCHISEES

The franchisees that work within the merchandising industry in South America are the following:

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>U.S. PARENT COMPANY</th>
<th>TYPE OF SERVICE PROVIDED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>The Morris Group</td>
<td>Low-scale research, standard plan, design and production of the merchandising material</td>
</tr>
<tr>
<td>Venezuela</td>
<td>Retail Planning Associates</td>
<td>High scale research, development of unique plan and strategies, design and production of the merchandising material</td>
</tr>
<tr>
<td>Peru</td>
<td>Sir Speedy Sign-A-Rama</td>
<td>Production of the merchandising material</td>
</tr>
<tr>
<td>Argentina</td>
<td>The Walker Group</td>
<td>High scale research, development of unique plan and strategies, design and production of the merchandising material</td>
</tr>
</tbody>
</table>

As it can be observed, 50% of the sample is established in Venezuela. The four franchisees interviewed are from four completely different U.S. companies. Sir Speedy Sign-A-Rama produces displays and signs but doesn't provide a retail store with a merchandising plan. Thus, the retail store or business must develop its own strategies. On the other hand, the other three franchises (RPA, The Walker Group and The Morris Group) come up with a developmental plan first; it is their most important service. Production of the material is also considered but as a second step. The Morris Group adapts a
standard type of plan according to the business. RPA and The Walker Group are much more creative; each merchandising plan is different and it requires a lot of previous study and research.

These four people agreed upon the following issues:

- The actual costs are close to those stated in the Offering Circular
- The two areas in management that are most critical for a franchise to be successful are:
  1. Marketing
  2. Relationship with the parent company
- The relationship with the franchisor is a respectful one.
- The least support received from the parent company is in the area of personnel.
- The training given is sufficient and a critical matter for a franchise's success.

Three out of four feel that it takes at least 5 years to break even in this business. The same 75% were provided with initial advertising and promotion, training and protection of territory after paying the initial investment. Also, according to this 75%, training is ongoing and it is the area in which they get more support from the parent company.

**B. CONSUMER MARKET (EXECUTIVES)**

Only 83.3% of the 60 executives have used merchandising in their branch network. Out of this 83.3%, 60% has implemented merchandising with the help
of an external architectural firm. But, most importantly, 45 out of 50 executives are not satisfied with the company's current merchandising.

96.7% of the interviewed population would consider investing in a merchandising plan for their branch network. The size of the market is reduced in a percentage equivalent to 3.3% since this portion of the potential market develops its own merchandising and doesn't involve an outside firm for it.

Out of the 60 marketing executives, 51 of them perceive the use of merchandising in the retail channel as an upstarting trend in Colombia. 43.3% of the population also feels that a merchandising plan must include: market research, design of merchandising material, implementation of the plan in at least 3 pilots, training of the company's employees and a follow-up.

Concerning the four U.S. firms mentioned in the questionnaire, 60% of the interviewees have never heard of any of these. Out of the remaining 40%, 30% identifies "Sir Speedy Sign-A-Rama" and 16.7% of them knew about this corporation through an ad.
CHAPTER V - CONCLUSIONS & RECOMMENDATIONS
"CAN A U.S. MERCHANDISING FRANCHISE WORK IN COLOMBIA?"

A. LITERATURE REVIEW

Several recommendations based upon the literature review are considered:

1. When selecting a franchise, the franchisee must determine the potential differentiation of the product, the risk associated with the franchise, and how well-established is the prospective company.

2. The franchisee must always verify with other franchisees the information provided in the contract and the disclosure document. Also, the franchisee must fully investigate the prospective companies.

3. It is important to seek legal advice or some kind of consultancy services before signing a contract.

4. Updating market research and doing strategic planning is crucial for the success of the franchise; especially, if the franchise is in a different country from the United States.

5. The franchise agreement must be fully studied before signing it.

B. INTERVIEWS: FRANCHISEES

1. It becomes obvious that this business is one that moves slowly at the beginning and requires quite a significant time to break even. Still, it does have a profit according to expected.

2. Training is crucial and thus, all of the people that are going to be involved in the franchise one way or another should be included in the training program.
Since training is ongoing, it would be wise of the franchisee to set aside a fund from the beginning for training trips and expenses.

3. Given the fact that marketing plays such a major role for success, a marketing plan must be developed considering all of the staff and personnel working in the franchise. It is crucial to get everybody involved to have a marketing plan running appropriately.

4. The legal consultancy services should be ongoing since most parent companies don't provide the required support in this area.

C. INTERVIEWS: EXECUTIVES

1. There is a market for the merchandising industry in Colombia. Still, it is not a significantly big market. In spite of this, Colombia should be a first step to go into other South American and Central American countries since citizens of these countries speak Spanish also and have similar cultures and customs.

2. Considering the type of merchandising plan that the market requires, Colombia is not a very small market since the development of such a complex plan for one company requires at least 6-9 months of hard work.

3. The franchisee should include seminars and lectures on this subject as part of a marketing strategy due to the fact that 16.7% of the interviewed population hasn't used merchandising material in their branch network. This is also important given the fact that this marketing trend is relatively new in the Colombian market.
4. Sir Speedy Sign-A-Rama seems to be the most popularly known within the target market. Still, the merchandising plan suggested by 43.3% of the executives is not the type of service that could be provided by this U.S. firm. To satisfy the needs of the market, any of the other three firms (The Morris Group, RPA and The walker Group) suits the required profile. The fact that most executives don't know any of these firms is not discouraging since Colombia open its market just a couple of years ago and before that the focus of all the companies and its executives remained within the country.

5. Even though it is a U.S. franchise it must be considered that the material should be designed according to Colombia's culture, values and beliefs. Therefore, a profound market research before each project is highly recommended.

6. Merchandising is a service considered to be in its introduction stage in Colombia. This means that the entry barriers for this industry within the Colombian market are almost nonexistent.
**SIGNIFICANT RESULTS**

Have You Used Merchandising Material?

<table>
<thead>
<tr>
<th>Answer</th>
<th>Yes</th>
<th>No</th>
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<tr>
<td></td>
<td>50</td>
<td>10</td>
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<table>
<thead>
<tr>
<th>What Firm Does Your Merchandising?</th>
<th>Total</th>
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<tbody>
<tr>
<td>Colombian advertising agency</td>
<td>18</td>
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<tr>
<td>Foreign merchandising firm</td>
<td>0</td>
</tr>
<tr>
<td>Architectural firm</td>
<td>30</td>
</tr>
<tr>
<td>We develop our own merchandising</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
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</table>

**What Firm Does Your Merchandising?**

<table>
<thead>
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<th>Type of Firm</th>
<th>Number of Respondents</th>
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<tbody>
<tr>
<td>Total</td>
<td>50</td>
</tr>
<tr>
<td>Architectural firm</td>
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</tr>
<tr>
<td>Colombian advertising agency</td>
<td>18</td>
</tr>
<tr>
<td>Foreign merchandising firm</td>
<td>0</td>
</tr>
</tbody>
</table>
**SIGNIFICANT RESULTS**

Are You Satisfied with Your Current Merchandising?

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<tr>
<th>Answer</th>
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<td>No</td>
<td>45</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
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Would You Consider Investing in a Merchandising Plan?

<table>
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<tr>
<th>Answer</th>
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<tr>
<td>Yes</td>
<td>57</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
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</table>
SAMPLE OF QUESTIONNAIRES
QUESTIONNAIRE #1
“Can a U.S. Merchandising Franchise work in Colombia?”
(Summer 1995)

Directions: This questionnaire is completely anonymous. The results from the study will be shared with you. Thank you for your cooperation. Mark with an “X” the best answer.

SECTION A. FINANCE
1. How long did it take you to break even?
   ___a. Less than a year
   ___b. One year
   ___c. 1-3 years
   ___d. 3-5 years
   ___e. More than 5 years

2. Are your actual costs the same or close to that stated in the Offering Circular?
   ___a. The same
   ___b. Close
   ___c. Significantly more

3. Has the business made the profit you expected?
   ___a. Yes
   ___b. No, more
   ___c. No, less

4. What items were provided by the company after paying the initial investment?
   (Mark ALL the items that apply).
   ___a. Initial advertising and promotion
   ___b. Remodelation/Construction
   ___c. Negotiation of the lease
   ___d. Equipment
   ___e. Signs
   ___f. Training
   ___g. Protection of Territory
   ___h. Other, what?
SECTION B. MANAGEMENT

5. What areas in management do you find to be different in a franchise than in any other type of business?
   ___a. Selection and Recruitment of Personnel
   ___b. Accounting/Bookkeeping
   ___c. Marketing
   ___d. All of the above
   ___e. None
   ___f. Other, what?

6. What area in management do you consider the most critical for a successful franchise?
   ___a. Personnel
   ___b. Finance
   ___c. Marketing
   ___d. Legal Issues
   ___e. Relationship with parent company
   ___f. Contacts
   ___g. Other, what?

7. How much experience in business do you feel a franchisee must have?
   ___a. Less than 1 year
   ___b. 1-3 years
   ___c. 3-5 years
   ___d. 5-10 years
   ___e. More than 10 years
   ___f. None

SECTION C. RELATIONSHIP FRANCHISOR-FRANCHISEE

8. Have you had any problems with your franchisor?
   ___a. Yes, frequently
   ___b. Yes, more than once
   ___c. Yes, once
   ___d. No, not once
9. How is your relationship with your franchisor?
   ___ a. Respectful
   ___ b. Similar to that of employer and employee
   ___ c. Friends
   ___ d. Not very good, distant

10. In what areas do you have the most support from the parent company? (You can select more than one).
   ___ a. Marketing
   ___ b. Training
   ___ c. Recruitment of personnel
   ___ d. Legal issues
   ___ e. Other, what?

11. In what areas do you have the least support from your parent company or none at all?
   ___ a. Marketing
   ___ b. Training
   ___ c. Recruitment of personnel
   ___ d. Legal issues
   ___ e. Other, what?

12. Is the training given sufficient?
   ___ a. Yes
   ___ b. No

13. Is the training a critical matter for a franchise's success?
   ___ a. Yes
   ___ b. No

SECTION D. CHARACTERISTICS OF THE PARENT COMPANY/FRANCHISE

14. Briefly describe the service provided to clients.

__________________________________________________________
__________________________________________________________
__________________________________________________________
15. Rate the depth of the research that your company does for each client from 1 to 6.

___1 No research at all
___2 Very Low
___3 Low
___4 Average
___5 High
___6 Very High
QUESTIONNAIRE #2
“Can a U.S. Merchandising Franchise work in Colombia?”
(Fall 1995)

Directions: This questionnaire is completely anonymous. The results from the study will be shared with you. Thank you for your cooperation. Mark with an “X” the best answer.

1. Have you used merchandising material in your branch network?
   _a. Yes (Go to 2)
   _b. No (Go to 4)

2. If so, what kind of firm have you been using for doing your merchandising material?
   _a. A Colombian advertising agency
   _b. A foreign merchandising firm
   _c. An architectural firm
   _d. None. We develop our own merchandising.
   _e. Other, what?

3. Are you satisfied with your current merchandising?
   _a. Yes
   _b. No
   _c. Currently we are not doing any merchandising

4. How would you classify the use of merchandising in the retail channel?
   _a. An upstarting trend
   _b. A growing trend
   _c. An almost extinct trend

5. Have you heard about any of these firms? (Select all that apply)
   _a. The Morris Group (Go to 6)
   _b. Retail Planning Associates (RPA) (Go to 6)
   _c. The Walker Group (Go to 6)
   _d. Sir Speedy Sign-A-Rama (Go to 6)
   _e. No, never heard of any of these (Go to 7)
6. How did you hear about the firm(s) selected in question 5?
   _a. Saw an ad
   _b. Asked for an estimate
   _c. Worked with us in a project
   _d. Invited to one of their seminars or presentations
   _e. Other, what?

7. Would you consider investing in a merchandising plan for your branch network?
   _a. Yes
   _b. No

8. What should a merchandising plan include? (Select all that apply)
   _a. Market research
   _b. Design of merchandising material
   _c. Incorporation of the advertising agency’s plan
   _d. Implementation of merchandising plan in at least 3 pilots
   _e. Implementation of merchandising plan in entire branch network
   _f. Training of employees in the use of the material
   _g. Recommendations on marketing plan
   _h. Development of a logotype and central message
   _i. Follow-up after implementation
   _j. Other, what?
Interviews with 60 Marketing Executives.

Through the use of questionnaires, it was possible to answer the question "Can a U.S. Merchandising Franchise work in Colombia?". In other words, the main research problem was solved.

Interviews with four South American Franchisees.

These interviews gave a wider scope of understanding on the franchising business and its critical areas.


The article made reference to the recent interest of the U.S. towards the South American countries as targets for foreign investments.

Company Profiles

- Associated Merchandising Corp., (Dec. 1993)
- Walker Group / CNI, (Dec. 1992)

The various profiles aid in answering many doubts concerning the merchandising industry and its scope.

This book familiarizes the reader with all of the terms used in franchising. Also, it provides a global understanding about the issues behind the business.


Carl McDaniel and Roger Gates set up clearly the guidelines to follow when doing a marketing research. Also, they explain how to design a questionnaire according to the researcher's objectives.


This article identifies the need of merchandising for the retail channel. It also makes reference to the global expansion of most retailers.
OTHER REFERENCES

There were other sources of less importance used and these are the following:


Abstract: One way restaurant operators can wring out more revenues from the same number of seats is through take-out. Careful planning, clever merchandising, and smart design aesthetic are necessary to create the most effective take-out display. Visibility is the key to take-out design, but the display must also generate excitement. One of the best ways to do that is point-of-sale activity. Attractive displays of special market items cause customers to stop and browse. Keeping the food display looking fresh is a challenge for any take-out operation. The look of even the most appetizing food can be spoiled by spillage and sloppiness. The take-out display and the presentation of the food must be carefully selected to meld with the overall design of the operation.
Company name: Associated Merchandising Corp.
1440 Broadway
New York, New York 10018
United States
Tel: [Redacted]

Variant name: Assoc Merchandising _Predicasts Name
Associated Merchandising _Predicasts Name

Business: Services: Management consulting firm specializing in the merchandising and retail industries.

SIC codes: 8742_Management Consulting Services

Annual sales: $100.0 M Operating revenue, Source: Verification Letter

Employees: 900, Source: Verification Letter

Les/Employee: $111,111

Year Founded: 1916

Fiscal Year: Dec 31, 1993

Features: Importer, Private company, Headquarters location

SMSA code: 5600 New York, NY

Officers: Zachary Solomon - Chief Executive Officer and President
Richard Kuzmich - Chief Operating Officer and Senior Vice President
William Klein - Vice President, Management Information Systems
Bill L. Lucas - Senior Vice President, Human Resources

AN: 00008502
Company name: Kason Merchandising Fixtures Inc.
P.O. Box 1075
Binghamton, New York 13902-1075
United States
Tel: [Redacted]

Variant name: Kason Industries Inc. Name Change

Business: Manufacturing: Custom store fixtures.
SIC codes: 2542 Office & Store Fixtures Except Wood
Annual sales: $2.0 M Sales, Source: Estimate
Employees: 35, Source: Telephone
Sales/Employee: $57,143
Year Founded: 1926
Fiscal Year: Jun 30, 1994
Features: Exporter, Importer, Private company, Headquarters location

Officers: David Katz - President
Aaron Jacobs - Vice President, Finance
David Katz - President

AN: 00056201
Company name: Merchandising Concepts Inc.
8885 Venice, #205
Los Angeles, California 90034
United States
Tel: [phone number]

Variant name: Merchandising Concepts _Predicasts Name

Business: Services: Marketing consultant.
SIC codes: 8742_Management Consulting Services
Annual sales: $.1 M Operating revenue, Source: Estimate
Employees: 1, Source: Telephone
Sales/Employee: $100,000
Year Founded: 1978
Fiscal Year: May 31, 1994
Features: Private company, Headquarters location
SMSA code: 4480_Los Angeles-Long Beach, CA

Officers: Fred Reinstein - President
Alex Wang - Controller

AN: 00247762
Company name: Merchandising Display Co.
140 Sylvan Ave., #1
Englewood Cliffs, New Jersey 07632-2508
United States
Tel: [Redacted]

Business: Manufacturing: Signs and displays.
SIC codes: 3993 Signs And Advertising Displays
Annual sales: $.2 M Sales, Source: Estimate
Employees: 5, Source: Telephone
Wages/Employee: $40,000
Fiscal Year: Dec 31, 1993
Features: Private company, Headquarters location
SMSA code: 5600_New York, NY
Officers: Arthur Linz - President and Treasurer
V.A. Pizzolato - President and Treasurer

AN: 00067528
Company name: Retail Planning Associates L.P.
645 S. Grant Ave.
Columbus, Ohio 43206
United States
Tel: [Redacted]
Fax: [Redacted]
Variant name: Retail Planning Assoc Predicasts Name

Business: Management consulting firm specializing in retail market consulting, store planning, design, merchandising and implementation.
SIC codes: 8742 Management Consulting Services
Annual sales: $16.0 M Operating revenue, Source: Estimate
Employees: 102, Source: Telephone
Sales/Employee: $156,863
Fiscal Year: Dec 31, 1994
Features: Private company, Headquarters location
SMSA code: 1840_Columbus, OH

Officers: Ken Galloway - President
Brad Ballantine - Chief Financial Officer
John Bradford - Director of Marketing

AN: 00222783
Company name: WalkerGroup/CNI
320 W. 13th St.
New York, New York 10014
United States
Tel: [redacted]
Fax: [redacted]

Business: Services: Architectural and interior design of industrial structures.
SIC codes: 8712 Architectural Services
7389 Business Services, Not Elsewhere Classified
Annual sales: $10.0 M Operating revenue, Source: Telephone
Employees: 100, Source: Telephone
Sales/Employee: $100,000
Year Founded: 1960
Fiscal Year: Dec 31, 1992
Features: Private company, Headquarters location

SMSA code: 5600_New York, NY

Officers: Mark Pucci - Chief Executive Officer and President
Mary Ann Goduco - Vice President, Chief Financial Officer
Andrew Atkin - Vice President, Marketing and Sales
Anthony LoGrande - Vice President, Human Resources

AN: 00218055
Abstract: At a time when US retailers' prospects for growth at home seem largely saturated, international expansion does offer some of the best opportunities for fueling corporate sales and operating profits. But success is far from guaranteed. Perhaps the most important factor affecting the success of international retailing efforts is the ability to adapt merchandising and operating strategies to cultural differences. In addition to cultural differences, regulatory issues and real estate specifications can also test international retail expansion. To head off unpleasant surprises, planners need to undertake an unprecedented amount of research. For example, the Mexican government ordered Wal-Mart's new Supercenter in Mexico City to close for 72 hours, after a surprise visit to the store turned up thousands of products that were improperly labeled or lacked instructions in Spanish.
Abstract: Supermarkets must create aggressive marketing and merchandising strategies to link grocery and nonfoods products in the consumer's mind, according to a report from the American Greetings Research Council. The study, developed through the involvement of 9 supermarket nonfoods executives and executives at American Greetings, shows that supermarkets have fallen behind their competitors in the battle for GM/HBC sales. The report suggests that retailers develop a better understanding of how consumers shop their stores. Supermarkets are not taking advantage of their store traffic. A number of strategies to highlight nonfoods sections and build the relationship between food and GM/HBC products are recommended, including event marketing and preferred shopper programs.
Abstract: Retail seafood sales are being driven by a combination of aggressive promotions, creative merchandising and a wider selection of value-added items. At Mayfair Supermarkets, one of the most successful promotions has been the Seafood Festival held under tents in the store's parking lots, according to Rich Catanzaro, director of seafood merchandising. This unique promotion enables customers to sample a wide variety of items. At Giant Food Inc. in Landover, Maryland, the cornerstone of successful seafood sales is promotion of a consistently high quality product line and weekly specials featuring refrigerated and frozen items. Salmon sales have been particularly dynamic due to consistent supply and strong pricing.
For most of a decade, the 5 member nations of the Andean Pact - Venezuela, Colombia, Ecuador, Peru, and Bolivia - virtually slipped off the global radarscope as possible overseas investment communities because of protectionist and nationalistic policies, sky-high foreign debts, and several varieties of domestic violence and terrorism. However, prodded by the success of free-trade regimes introduced by neighbors and the emergence of competing free-trade pacts, the 5 nations decided to follow suit. Booming trade is now attracting capital investment. US investment into the pact as a whole reached $6.2 billion in 1993. Venezuela, by far the biggest economy, attracted nearly 40%. It probably will not do that well in 1994. Colombia, the 2nd-largest economy attracted slightly more. Bolivia, the smallest, enticed a mere $196 million, although that is a nice increase from the previous year’s $122 million.
The life cycle of a franchise and its changing financial needs

Despite the diversity of businesses, the life cycle of a franchise is fairly predictable. The life cycle phases include: 1. the start-up phase, when there is the greatest financial risk, 2. a growth phase, when the franchise is established, and 3. a mature phase, when ambitions turn to multiple ownership, franchise renewal is approaching, and selling is an option. To be fully prepared at each stage, the franchisee needs to consider the appropriate products and services before reaching that stage.
SKS EXIST EVEN FOR FRANCHISEES

DAVID J. WALLACE

Franchise operations are often thought to be failure-proof because they operate under the umbrella of an experienced parent company. In fact, any business can fail, or simply limp along.

Here are some common franchise pitfalls:

INTRACT LANGUAGE THAT FAVORS FRANCHISERS. To ensure uniformity, it's not surprising that franchise agreements are written with terms that may benefit the company. The agreement may include clauses that affect the cost of running the business: mandating cooperative advertising, limiting suppliers of inventory, setting retail prices and other standards.

FRANCHISE SYSTEM PAST ITS PRIME. Franchisees rely on the parent company to market and advertising work, research and development and strategic business planning that keeps individual units strong, says Lewis Rudnick, a partner at Chicago law firm Rudnick & Wolfe.

A franchisee can be a victim of his system's failure. Franchisees' single biggest risk is that the franchiser will not be a competitive company in its industry, and that's why the franchises of successful companies are more valuable than those of start-up companies," Mr. Rudnick says.

Franchises in mature industries such as food service, lodging and auto services, marketshare gains are likely to be small. Explosive growth typically occurs in new niches or brand-new markets.

LACK OF FLEXIBILITY. To specialize, franchisers limit the products or services they offer, says Michael Higgins, marketing director for Duraclean International Inc. in Deerfield. But, over time, those core products may come less attractive.

Some companies diversify while others refocus on price and efficiency. After years, Duraclean branched out to office cleaning and other specialties from its original focus on carpet and drapery cleaning.

You may have to branch out into other aspects to create an environment where you can not only compete in the short run but in the long run as well," he says. "The market really told us to expand and what that does is give us ways evolve and maybe outrun a mature industry."
ZNEGADE FRANCHISEES. Despite the restrictions of a franchise contract, individual owners sometimes decide to do their own thing.

Sometimes it works, but when the changes are too radical, a renegade franchisee can end up hurting the image and reputation of the other franchisees in their market.

'Franchisees often think they know best and say, 'I'm going to tinker with the stem.' It's a difficult temptation,' said Greg Matusky, author of "Blueprint for Franchising Your Business."

ORLY DEVELOPED FRANCHISE PROGRAMS. Some firms try to expand too soon, selling franchises in new territories before establishing a track record of performance standards, operating structure or trouble-shooting methods.

Before signing a contract, talk with franchisees who already work with the company you're considering.

CROACHMENT/LIMITED TERRITORIES. An exclusive territory can be a blessing or curse, says H. Sam McGrier with the U.S. Small Business Administration in Chicago. It may keep out rivals, but it may, for example, prevent an inner-city operator from also buying a more lucrative site in another neighborhood.

Other companies may erode a franchisee's sales by selling their products rough other channels, such as supermarkets.

HAPPY ENDING. Some contracts specify that a franchise can be sold but the purchaser must be approved by the parent company. That can disqualify some applicants and hold a franchisee hostage to the contract.

ADRITATION CONSTRAINTS. Many contracts spell out how and where any disputes between a unit owner and the system are resolved. Often, arbitration in the state where the company has its headquarters adds to the cost of filing complaints, says Carl Ahrens Price, an attorney in Cherry Hill, N.J. Unlike suits, an arbitrator's decision doesn't set precedent for other cases, so such franchisee may have to bring an individual complaint.

3 USUAL SUSPECTS. These are the perennial reasons why franchisees fail: undercapitalization, changing traffic patterns or consumer tastes, poor cash management practices.
Since the first Price Club opened in 1976, the wholesale club industry has matured at a startling rate, and some now say it has passed its peak as comparable store sales decline. As a result, wholesale clubs are refocusing their attention on the business customer in order to recapture what was once the foundation of their business. Another area of expansion for the clubs is to add smaller units in smaller markets, and many wholesale clubs are now entering secondary markets. Additionally, many companies are pursuing international expansion. New opportunities are also being explored in the area of direct retailing, with the introduction of improved delivery service and electronic marketing by some clubs. A future opportunity for wholesale clubs lies in their valuable membership data, which is an incredible base of purchase data that can be used for a variety of marketing possibilities such as direct mail, cross-selling and tailored merchandising. The wholesale clubs Sam's Club, Price/Costco, BJ's, Warehouse Club and Max Clubs are profiled.
After decades of highly unstable governments and even less stable economies beset with rampant inflation and crushing debts, South America is emerging from the backwater of world trade into the world's 2nd-fastest-growing market. The growth in air cargo between the US and South America is triggering a corresponding growth in carrier competition, resulting in overcapacity that is cutting yields to the lowest point ever. Boeing's 1994 World Air Cargo Forecast puts the North America-Latin America air cargo market growth rate at around 8% per year, tied with North America-Asia for 2nd place. Boeing expects the economy of Latin America overall to grow at an average of 4.3% over the next 5 years, with the strongest areas being Colombia, Chile, Peru and Venezuela. Although cargo service into South America is increasing and capacity is exceeding demand, it is frustrating to shippers and forwarders, because of still arcane national policies combined with uneven and erratic distribution patterns.
LORING THE UNEASY FRANCHISEE-FRANCHISER TREATY

ED AVIS

It's not always a smooth journey.

fact, the franchisee-franchiser relationship can become stormy and destructive if both sides don't follow the rules.

hen you get involved with a franchise, you get into it with the understanding that the goals of the franchiser and franchisee are synonymous. But you find out is that they are different," says Jim Hooley, owner of three 3-Way Sandwiches & Salads franchises west of Chicago.

o main documents govern the relationship between the franchisee and the franchiser: the disclosure documents--the prospectus or offering circular the franchiser provides to potential franchisees--and the franchise agreement, which lays out the rules of the relationship.

The first thing I find when a new client comes in is that there have been problems with the disclosure process," says Marc N. Blumenthal, an attorney in Park Ridge who often represents franchisees.

et times, the offering circular doesn't contain enough information, or contains erroneous information, Mr. Blumenthal says.

r instance, franchisers will say an operations manual is available when it really isn't.

ine times out of 10, with a new franchise, there won't be an operations manual," he says.

other occasional problem with the offering circular is that the franchiser doesn't list all past litigation involving the business, as required by the Illinois Franchise Disclosure Act.

m Smith, national contracts manager for the Chicago-based American Franchisee Assn. (AFA), says one franchiser was forced to return a franchisee's investment when it was discovered that crucial litigation was sent from the circular.

. Smith says some of the problems with disclosure may clear up when more franchisers start using the newly revised version of the Uniform Franchise Disclosure Act.
Ifering Circular (UFOC), a disclosure form that franchisers can use when offering franchises in more than one state with different disclosure requirements.

The UFOC is accepted in Illinois, says Tina Saunderson, chief of the franchise division of the Illinois attorney general's office. "We are accepting them now, and are getting many," Ms. Saunderson says.

Among other provisions, the UFOC requires franchisers to use "plain English" in the offering circular, and stipulates that much of the information be presented in an easy-to-understand tabular format.

The UFOC also requires franchisers to supply a table of contents for the operations manual if they claim to have one available.

Any problems also arise from the franchise agreement.

"You cannot begin to appreciate the repercussions of this document," says Mr. Poley, the Subway franchisee.

The 2-year-old AFA, which has 6,400 members, has compiled a list of the 12 first provisions often found in franchise agreements.

For instance, a common problem is non-reciprocal non-competition covenants, which stipulate that if the franchisee leaves the franchise, he cannot open a similar business within a certain area for a certain amount of time.

Yet, at the same time, such agreements allow franchisers to place a new unit anywhere they want," Ms. Smith says.

Another common problem with franchise agreements is that they can change significantly between the time a franchise opens and the time the agreement is renewed or the franchisee opens another outlet.

The problem is that you work to develop a business, and then, after five or 10 years, you must enter into a brand-new agreement," says attorney Mr. Lumenthal.

The new agreements often present "a radically different deal," Ms. Smith says. When you start a franchise, you really don't know what you're going to get when you renew."

Common agreement changes are an increase in the royalty fee or a requirement to refurbish the outlet to bring it up to the franchiser's current design.

Another common agreement problem is a stipulation that the franchisee buy
rtain products from the franchiser, Mr. Blumenthal says, even if the product can be found at a lower cost elsewhere.

Mr. Blumenthal says franchisers sometimes get volume discounts from suppliers, but don't pass the discount on to franchisees.

transmitted: 95-03-05 13:19:18 EST (aaaahwdz)
The only way to succeed in selecting the correct franchise is through due diligence. Prospective companies should be investigated with the same scrutiny applied to any major financial deal. A recommendation of subjective feeling should not be the sole motivation for signing on with a franchise. Several steps that should be taken prior to contacting a franchisor are: 1. Create a customized franchisor profile. 2. Collect data with caution. 3. Read the offering circular; then reread it. 4. Visit a site. 5. Examine the competition. 6. Approach the selected franchisor.
Abstract: The Uniform Franchise Offering Circular, a disclosure document required by law, is a starting point when investigating a franchise. Lewis G. Rudnick of Rudnick & Wolfe, a law firm specializing in franchising, says potential franchisees are foolish if they do not take advantage of this valuable resource. Some danger signs when investigating franchises include: 1. too-good-to-be-true promises of training, guidance, and marketing support, 2. poor quality products or services, 3. prior failures of a franchise, 4. guarantees of success at no risk, 5. lease agreements that cost the franchisee equity, 6. tough termination terms, 7. when selling franchises is the franchisor’s prime focus, 8. bad franchise relations, 9. unwillingness to disclose sales and earnings figures, and 10. a franchise agreement that does not measure up to the Franchisee Bill of Rights, a code of ethical business conduct developed by the American Association of Franchisees and Dealers.
Some trends that are actively shaping work and business lives include: 1. Mass merchandising is replacing local retailing. 2. Service retailing will replace merchandise retailing. 3. Downsizing will continue unabated through all business sectors. 4. Part-time and temporary work will replace full-time work. 5. Technical training will replace college education. 6. Low price will be more valuable than high quality. 7. The society configuration will change. 8. The mind-set will move toward disposable. 9. Self-absorption will replace company loyalty. 10. Leisure time will continue to decrease. 11. One-person business will increase.
Properly managed, a brand increases the latitude that customers grant a bank that enters new markets or launches new products. If mismanaged, customers may diversify into other brands—or worse, divest. The following trends are driving the need for more formal bank brand-management practices: 1. deregulation, 2. consolidation, 3. decentralization, 4. diversification, and 5. fragmentation. When developing a brand strategy, the strategy must be unique to the organization and reflect an understanding of its core competencies. Factors to be considered in its formulation include: 1. positioning, 2. product-line logic, 3. channels of distribution, and 4. geographic markets. Banks often forget the degree of control they have over the merchandising and positioning of their products, particularly through their branded branches and their branded ATMs, or through their branded statements or bank-by-phone networks. More retail banks would do well to leverage this advantage.
Held back by years of crushing debt, runaway inflation, and corrupt political leadership, Brazil, Argentina, Chile, and other reform-driven nations of South America are now ready to pounce on the free-trade bandwagon. Within South America, trade is already booming. In January 1995, four southern neighbors - Argentina, Brazil, Paraguay, and Uruguay - will form their own free-trade zone under the Mercosur agreement. The joint action follows the lead of the recent Andean Pact, which already has dropped trade barriers in the north among Venezuela, Colombia, Ecuador, Peru, and Bolivia. In addition, the recently concluded Uruguay round of the GATT places South America in the thick of the global trade mix as never before. The impacts of free trade on the South American construction industry and on construction costs are discussed.
Wal-Mart is now leading the way for US retailers in South America. In 1994, the company is opening 35 to 40 more supercenters, Sam’s Clubs, supermarkets, discount stores and Clubs Aurrera in Mexico in addition to 23 units it already opened there at the beginning of 1994. In Puerto Rico, 5 discount stores and 2 Sam’s Clubs have been opened. Expansion into South America will begin in late 1995, with the opening of one supercenter and 3 Sam’s Clubs in Sao Paulo, Brazil, and then 2 supercenters in Buenos Aires, Argentina. Analysts predict that US retail expansion into Chile, now one of the continent’s most economically stable and prosperous countries, is only a matter of time. Colombia and Venezuela are also considered likely expansion targets for US retailers. Once Castro falls from power, Cuba also becomes a potential expansion market for US retailers. Other US retailers expanding into the South American market include JCPenney, Kmart and PriceCostco.
Business enterprise value: The debate continues

Kenney, Mark T

Appraisal Journal [APJ] ISSN: 0003-7087
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Abstract: The theoretical foundations for the business enterprise value argument are examined. Recent empirical evidence suggests that, on purely economic grounds, the business functions of creating agglomeration economies and maintaining merchandise-type attraction generate high sales and rents in shopping malls. Legally, however, the transferability of these business activities as a separate entity is limited. The question of whether merchandise-type attraction is a business or real estate function is also addressed. In general, appraising malls for assessment purposes is further complicated by differences in the estates to be appraised. Valuation of the leased fee estate replicates reality, while estimating fee simple value without considering the sophisticated legalities that create agglomeration economies ignores the realities of shopping mall development.
According to the Franchise Marketing and Sales Survey, developed by DePaul University, beginning franchisors average 9 franchise contracts in their first year of franchising. However, like any average, that number is made up of those who did better and those who did worse. Franchisees want to see a well-established business. Another factor influencing franchise sales is uniqueness. Most importantly, today’s successful franchisor needs to offer its franchisees an attractive return on investment. Beyond the economic appeal of a business, the level of return offered by a franchise opportunity should be relative to the amount of risk associated with that franchise.
The recently implemented economic liberalization created the political, economic and legal framework for the transformation of the Colombian economy into an open and internationally competitive one. The energy sector was the object of reforms to dismantle state monopolies, guarantee free competition, increase private-sector participation in the generation, transportation and commercialization of energy resources, and improve the pricing system so that tariffs would reflect the real economic cost of investment and production. The state owns virtually all subsoil rights, including those to oil and gas reserves. The state-owned oil monopoly, Ecopetrol, is charged with developing these resources either directly or in association with private companies. Colombia offers excellent opportunities for foreign investment. It has one of the most stable economies in the region and has implemented far-reaching reforms to open its economy, liberalize its markets, and eliminate trade barriers.
Display's the thing. (Computer Merchandising)


Author: Ken Ryan

Abstract: The in-store display is one of the most effective marketing tools for computer products, and Merchandising Solutions is expert in maximizing display potential. Merchandising Solutions is an alliance of four companies, Marketing Force, White + Image Design, Metroplex Multimedia and Channel Services Group. The services provided by this alliance include interactive and multimedia displays, in-store detailing and point-of-purchase designing.

Subjects: Computer stores - Marketing
Marketing - Technique
Business consultants - Services

Companies: Merchandising Solutions - Services

SIC code: 5734; 8742

AN: 15844175
Fueled by technological advancements, mass marketing's fall from grace, and the concomitant rise of integrated marketing, point-of-purchase (POP) advertising grew from a $5.1 billion business in 1981 to $15.2 billion in 1992. Laura Seitz of Epson America and other brand marketing executives see POP now being included in the developmental stages of marketing and not just as an afterthought. Including POP strategy from the inception of a marketing program has proven profitable to leading merchandising firms, and POP companies are forming allegiances at the brand level. The future holds the promise of even more fully integrated POP and more in-store merchandising to support the increasing number of co-branded partnerships and cross-promotional relationships. However, Cynthia Ricciardi of AT&T said it is antiquated to depict POP only in terms of retail stores, especially when a growing number of purchases are transacted out of the store.