

# BASIC KNOWLEDGE ABOUT FRANCHISING

Franchising is a business model that allows a company to expand its operations by granting licenses to other businesses to operate under its brand name and system.

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# Overview of Franchising



## Brand Owner (Franchisor)

A franchisor grants a partner (franchisee) the right to use its trademark, business model, and operational knowledge to open and operate a store.



## Franchise Partner (Franchisee)

The franchisee pays a fee to the franchisor for the right to use the brand and system. The franchisee operates the business under the franchisor's guidelines.

# Benefits of Franchising

## Rapid Expansion

Franchising allows brands to expand their market quickly without having to invest directly in each location. This is because the franchisee bears most of the investment costs, minimizing financial risk for the franchisor.

## Reduced Financial Risk

The franchisee bears most of the investment costs, minimizing financial risk for the franchisor. This allows franchisors to focus on developing their brand and expanding their reach without having to worry about the financial burden of opening new locations.

# Responsibilities of the Franchisor

The franchisor is responsible for providing initial training and ongoing support to franchisees. They must also ensure that the brand standards and operational guidelines are followed by all franchise partners. Additionally, the franchisor is usually responsible for marketing and advertising at a national or regional level to promote the brand.



# Providing Complete and Accurate Information



## Franchise Disclosure Document

The franchisor must provide the franchisee with a complete, accurate, and truthful franchise disclosure document. This document includes information about the business, business model, costs, franchisee responsibilities, and franchise terms. This helps the franchisee have full information before deciding to sign the contract.



## Brand and Intellectual Property Information

The franchisor needs to provide detailed information about intellectual property rights related to the brand, including trademarks, trade names, business secrets, and other licensed rights.

# Initial Support and Training

## 1 Training

The franchisor is obligated to train the franchisee and their staff on how to operate the business, management processes, service standards, and how to use related systems and equipment. This training must be conducted before the official business operation begins.

## 2 Technical Support

Provide technical support throughout the operation process, including installation, operation of management systems, equipment, and sales management software. This support may include periodic maintenance and repair when needed.





# Marketing and Brand Promotion

## Marketing Campaigns

The franchisor must implement marketing and brand promotion campaigns to support the franchisee in attracting customers. These campaigns are usually planned and implemented at the national or regional level.

## Marketing Materials

The franchisor must provide advertising materials, signage, images, and other materials related to the unified marketing strategy that the franchisee will use.

# Quality Monitoring and Control



## Operation Monitoring

The franchisor has the right and obligation to monitor the franchisee's operations to ensure that business standards and processes are followed in accordance with the agreements in the franchise contract. This monitoring can be done through periodic inspections, revenue reports, and other performance indicators.



## Product/Service Quality Assurance

The franchisor must ensure that the products and services provided by the franchisee meet the brand's quality standards. This may include providing sources of goods, materials, or pre-approved suppliers.



# Updating and Enhancing



## Continuous Improvement

The franchisor is obligated to update and improve the business model, products, services, and operational processes to adapt to market changes and maintain competitiveness. These improvements should be communicated and implemented with support provided to the franchisee.



## Providing Information on Improvements

When changes or improvements occur, the franchisor must inform and provide the franchisee with complete information about these changes, as well as guidance on implementation.

# Legal Support

## Legal Compliance

The franchisor must ensure that all activities related to franchising, including contract signing, franchise registration, and other business operations, comply with the current laws of Vietnam.

This includes protecting intellectual property rights and other rights related to the brand.

## Dispute Support

In the event of a dispute between the franchisor and the franchisee, the franchisor is obligated to cooperate in resolving the dispute in accordance with the provisions of the law and the franchise agreement.

# Expansion and Development

## Market Expansion

The franchisor can support the franchisee in expanding the market. This includes finding new locations, conducting market analysis, and developing long-term development plans.

## Financial Support

Some franchisors may offer financial support programs. These programs may include preferential loans to help franchisees expand their business operations.



# Responsibilities of the Franchisee

The franchisee is responsible for upholding the franchise agreement and operating the business in accordance with the franchisor's standards and guidelines. This includes maintaining the reputation of the brand, providing quality products or services, and adhering to all operational and marketing requirements set forth by the franchisor. Additionally, the franchisee is responsible for ensuring compliance with local laws and regulations, including obtaining necessary permits and licenses for the operation of the franchise.



# Process Compliance

## 1 Business Model and Operational Processes

The franchisee must strictly adhere to the operational processes established by the franchisor, including management methods, daily operations, marketing, and customer service. The goal is to ensure that all franchise stores or units operate consistently with the brand's standards.

## 2 No Changes to the Business Model

The franchisee is not allowed to arbitrarily change or adjust the business model without the consent of the franchisor. Any changes must be approved in advance to ensure that they do not affect the brand image.



# Payment of Contractual Fees

## Franchise Fee

The franchisee must pay the initial franchise fee as agreed upon in the contract. This fee typically includes the right to use the brand and business model. The franchisee is required to pay monthly or quarterly recurring fees, including royalty fees and marketing fees, usually calculated as a percentage of the store's revenue or sales.

## Other Costs

In addition to the main fees, the franchisee may have to pay additional costs such as training fees, facility upgrade costs, and equipment purchase costs as required by the franchisor. These costs are typically outlined in the franchise agreement and are essential for maintaining the brand's standards and ensuring the franchisee's success.

# Brand Protection and Maintenance



## Brand Protection

The franchisee is responsible for maintaining and protecting the brand image in their area of operation. This includes complying with regulations on the use of the brand's logo, colors, and marketing materials.



## Product and Service Quality

The franchisee must ensure that all products and services provided meet the quality standards set by the franchisor. Any decline in quality can damage the overall brand.

# Compliance with Legal and Management Regulations

## Licenses and Legal Compliance

The franchisee must ensure that all its business operations fully comply with applicable laws and regulations. This includes obtaining necessary business licenses, food safety and hygiene permits, and labor regulations. The franchisee must also adhere to the franchisor's operational guidelines and procedures.

## Financial and Operational Reporting

The franchisee is required to submit periodic reports to the franchisor on the business situation. These reports include revenue, profits, expenses, and promotional activities. These reports help the franchisor monitor the franchisee's performance and provide timely support.





# Cooperation



## Cooperation with the Franchisor

The franchisee needs to work closely with the franchisor in initial and advanced training programs. This includes participating in mandatory training courses and adhering to guidelines and regulations from the franchisor.



## Inspection and Supervision Requirements

The franchisee needs to be prepared for periodic inspections from the franchisor to ensure that all processes and standards are being strictly adhered to. If there are any errors, the franchisee must promptly rectify them.



# Marketing in Accordance with the Franchisor's Strategy

## 1 Marketing and Promotion Strategies

The franchisee is obligated to carry out marketing and promotion campaigns in line with the brand's overall strategy. This includes participating in national marketing programs, using approved advertising materials, and adhering to established sales strategies.

## 2 Reporting and Feedback on Results

After implementing marketing strategies, the franchisee needs to report the results to the franchisor and provide feedback on the effectiveness of the campaigns for appropriate adjustments if necessary.

# Confidentiality

## Confidentiality of Business Information

The franchisee must keep confidential all information related to the business model, operating procedures, and other trade secrets they receive from the franchisor.

Disclosure of this information may result in a breach of contract and damage to the brand.

## Customer Data Management

The franchisee needs to comply with regulations on customer information security, ensuring that customer data is protected and not misused.



# Business Development

## 1 In Accordance with the Agreement

The franchisee is responsible for developing and expanding the business in accordance with the terms agreed upon in the contract. This may include opening new stores in the authorized area.

## 2 Adherence to Long-Term Development Strategy

The franchisee must adhere to the long-term development strategy set forth by the franchisor, including expanding the network, enhancing customer service, and improving product quality.

# Costs Paid by the Franchisee to the Franchisor

The franchisee is obligated to pay certain costs to the franchisor as outlined in the agreement. These costs may include initial franchise fees, ongoing royalties, marketing expenses, and any other required payments. It is essential for the franchisee to meet these financial obligations in a timely manner to maintain a good standing with the franchisor.



# Initial Franchise Fee



## Description

This is the fee that the franchisee must pay upfront to have the right to use the brand, business model, and guidance materials from the franchisor. This fee is a fixed, non-refundable amount, and is usually paid upon signing the franchise agreement.



## Fee Level

This fee can range from tens of thousands to hundreds of thousands of USD, depending on the value of the brand and the scale of the franchise.



## What does it include?

This fee typically covers initial training costs, launch support, and the right to use proven business processes.

# Royalty Fee



## Description

This is a fee that the franchisee pays periodically (usually monthly or quarterly) to the franchisor. This fee is usually calculated as a percentage of the franchisee's revenue or sales.



## Fee Level

Royalty fees typically range from 4% to 8% of the franchisee's monthly revenue.



## Purpose

This fee is used to maintain the operation of the franchise system, including technical support, quality monitoring, and new product/service development.



# Marketing/Advertising Fee

## Description

Franchisees are often required to contribute to the brand's common marketing fund. This fund is used to finance national or regional advertising and marketing campaigns to increase brand awareness and attract customers.

## Fee Level

This fee is usually calculated at 1% to 3% of the franchisee's monthly revenue. This fee helps to ensure that the brand has the resources it needs to effectively market itself and attract new customers.

## Benefits

Franchisees will benefit from national or regional marketing campaigns, helping to increase customer base and revenue. This can lead to increased sales and profits for the franchisee.



# Training Fee

## Description

While initial training costs are usually included in the initial franchise fee, if there are subsequent advanced or supplemental training programs, the franchisee may have to pay these fees. This cost may vary depending on the training program and the number of employees participating.

## Benefits

Ongoing training ensures that franchisees and their employees are kept up-to-date with new skills and processes, thereby increasing business efficiency. This can lead to improved customer satisfaction, higher sales, and a stronger brand reputation.

# Transfer Fee

## Description

If a franchisee wishes to resell their franchise to another person, they will have to pay a transfer fee to the franchisor. This fee covers administrative costs and due diligence costs to ensure the new buyer meets the franchisor's standards.

## Fee Level

This fee is usually a fixed amount, which can range from a few thousand to tens of thousands of USD. The fee is determined by the franchisor and is typically outlined in the franchise agreement.



# Renewal Fee



## Description

When a franchise agreement expires and the franchisee wishes to continue the agreement, they will have to pay a renewal fee. This fee is usually lower than the initial franchise fee but is still a significant expense.



## Fee Level

Renewal fees typically range from 10% to 50% of the initial franchise fee. The renewal of the contract may also be subject to certain conditions, such as upgrading facilities or complying with new brand standards.

# Development Fee



## Description

For franchisees tasked with developing a certain area, they may have to pay an area development fee. This fee allows them to open multiple stores in that area and retain exclusive franchise rights in that area.



## Fee Level

Area development fees are usually based on the number of stores expected to open and the size of the area.

# Some issues for the Franchisor to Consider



# Choosing a Franchise Partner

The franchisor needs to ensure that the franchise partner has sufficient financial capacity to maintain business operations in accordance with the brand's standards. This includes reviewing the franchisee's financial statements, cash flow, and other financial commitments.

Beyond financial capacity, the franchisor should evaluate the partner's management capabilities. This includes business experience, leadership skills, and commitment to adhering to the brand's operating procedures.



# Protecting IP Rights

## Registering Trademarks and Intellectual Property Rights

Before proceeding with franchising, the franchisor needs to ensure that intellectual property rights such as trademarks, logos, and patents are registered for protection in the countries where they intend to franchise. This helps protect the brand from infringements or legal disputes.

## Monitoring Brand Usage

The franchisor needs to closely monitor the franchisee's use of the brand to ensure that the brand is being used for its intended purpose and is not harming the overall brand image.

# Building Support and Training Systems



## Comprehensive Training Program

The franchisor needs to develop and provide comprehensive training programs for franchisees. This program must cover all aspects of business operations from management, operations, to customer care and marketing.



## Technical and Operational Support

A strong technical and operational support system is needed to help franchisees resolve issues that arise during the course of business. This may include support in information technology, supply chain, and human resource management.



# Monitoring and Maintaining Quality



## Periodic Inspections

The franchisor needs to conduct periodic inspections of franchised outlets to ensure that quality and service standards are being met. This inspection may include reviewing operating procedures, product quality, and customer service.



## Handling Violations

If any violations of brand standards are found, the franchisor needs to take timely action. This may include requiring improvements, imposing fines, or in serious cases, terminating the franchise agreement.



# Managing Relationships with Franchisees

## Effective Communication

Building a clear and transparent communication system with franchisees is essential. The franchisor needs to listen to feedback from franchisees and provide appropriate support or adjustments to maintain a long-term partnership.

## Legal Support

Provide legal support to franchisees in matters related to contracts, intellectual property, and other disputes. The franchisor needs to have a strong legal team to effectively address these issues.

# Managing Finances and Profits

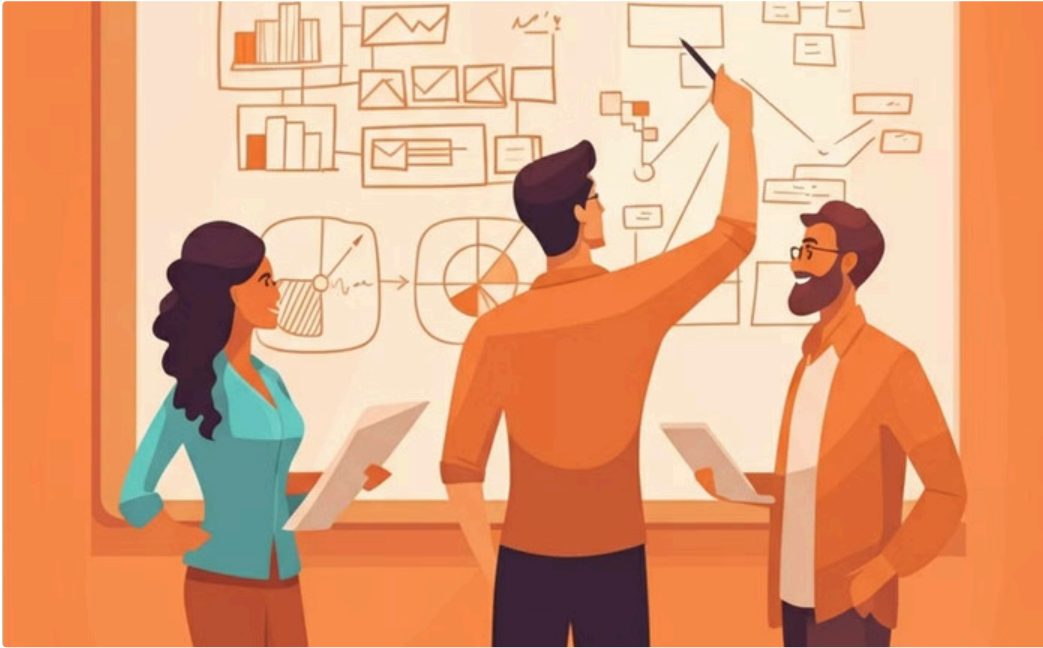
## 1 Tracking Cash Flow

The franchisor needs to closely monitor the flow of funds from fees received from franchisees, including franchise fees, royalties, and other fees. This helps ensure that the franchise model is generating profits as expected.

## 2 Investing in System Development

A portion of the profits from franchising needs to be reinvested in system development, product and service improvements, and market expansion. This ensures the franchise model remains competitive and profitable in the long term.

# Develop and Expand the Franchise Model



## Research New Markets

Franchisors need to conduct thorough market research before expanding their franchises into new areas. This includes analyzing market demand, competition, and the adaptability of the business model.



## Adjust the Model

During the expansion process, the franchisor may need to adjust the business model to suit the cultural and economic characteristics of the new market.

# ABOUT US



Herman, Henry & Dominic is an experienced team of lawyers and legal experts, based in Saigon and Hanoi. The firm is a member of the INTERNATIONAL TRADEMARK ASSOCIATION (INTA).

Herman, Henry & Dominic believes in building strong relationship with clients based on trust and respect. The firm maintains permanent good working relations with various governmental bodies in Vietnam to enable its team to access the resources necessary to produce timely and effective results for clients.

Herman, Henry & Dominic works under the motto: "Local Expertise & Global Standard."

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