

Saimaa University of Applied Sciences
Business Administration, Lappeenranta
International Business

Heidi Ranta
Helmi Pikarinen

What does it require to open a franchising clothing business?

Abstract

Heidi Ranta and Helmi Pikarinen

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Instructor: Lecturer Jyri Hänninen, Saimaa University of Applied Sciences

The purpose of the study was to find out how to open a franchising clothing business in Finland and what is required from the new franchisee. The goal of this thesis work was to make preparation work for a potential future business. This thesis was to find out the possibility if a franchising business could be a possible future career for the authors.

The information for this thesis was gathered from literature, the Internet and by interviewing the franchisees and franchisors from different clothing companies. Furthermore, one example case company was contacted to find out more information about their franchising operations and possibilities to open the store in Finland.

Contrary to expectations, the results indicated mainly the same issues that were expected to be found. More detailed data about franchising and the requirements for opening a franchising clothing business. The interviews provided many new points of view what it is like to run a franchising business in practice. As a result of this thesis work the franchising business is considered as a potential future career.

Keywords: Franchising, Franchisor, Franchisee, Clothing business

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1 Introduction

1.1 Background

It would be very interesting to open a clothing store in franchising form, because franchising gives a good opportunity to open a business without the same risks as you would have when opening a business on your own. In franchising, the business form is already made and the company is previously known. Naturally work still needs to be done for the new business to succeed in a new environment.

The purpose of this thesis is to focus on how to open a franchising clothing store and what it requires to open a new business. It was essential to find out from other franchisees and franchisors their comments about opening a franchising business and their opinions about the franchising system by interviewing them. A southern franchising fashion chain Calliope was chosen to bring an example case about franchising. Calliope was chosen because it does not yet exist in Finland and the majority of Finland's fashion chains are Nordic. This company is seen as one of the potential stores that could be considered opened in the future, because something new should be brought to the fashion market.

We find fashion industry as a personally interesting subject and as a growing business field. Opening a youth fashion store is a profitable business, because fashion has a bigger meaning to people nowadays and taking care of your looks has become a trend. That is why people spend more money on fashion, especially young adults.

1.2 Exact objectives and limitations

In the theory part of this thesis the theory of franchising is included; what it is, what types of franchising there are, who is the franchisee, the history of the franchising and the franchising contract and furthermore, the theory of what is needed from an owner of a franchise company.

Calliope is an example case company and the objective was to study they require for opening a new point of sale. The Calliope development department will be contacted in order to to ask for more information of their franchising operations. We are also going to interview franchisees and franchisors in South Karelia to get more specific information and their own opinions about franchising and opening a franchise business.

This thesis will not include a research of how profitable this company would be, because it is almost impossible to say. For example doing a questionnaire about if people would come to our shop and buy our clothes, would not give an real answers. With this we could find out the first reaction of the possible consumers not the truth what would happen in the long run.

A store space will not be looked for yet and this part is not included in thesis. This thesis is more of a background research and to find out what could be done in reality. At this point there are no resources or capital for opening a store and that is why the financial issues are not discussed in this thesis.

1.3 Research

The purpose of this study is to find out how a franchise company could be started in Finland and what it requires to open a store. The goal is to find out what the possibilities to open a fashion store are in Finland.

In this thesis a focused interview is used as the research method. The focused interview is a qualitative research. Unlike normal form interviews and surveys where interviewees can be randomly chosen, the interviewees are carefully selected for the purpose of study. (Kurkela)

The focused interview is like a conversation where the themes of discussion are carefully selected and defined beforehand and the questions are made for a specific purpose. The interview is outlined to give the exact answers that are needed in the study in focused interview (Kurkela.)

The benefit of the focused interview is that the material gathered from the interview is mainly based on the real experiences of the interviewee. It is very important that the interviewer can keep the structure of the interview together,

because otherwise the disadvantage might occur if the interviewee gets to lead the course of the interview when the produced material is not similar to other answers and therefore not comparable (Kurkela.)

The focused interview is a challenging method of gathering data and it can easily become just a confusing collection of answers that are not well comparable (Kurkela.)

In a qualitative interview like the focused interview, the most challenging part is the interpretation of the material gathered from the interviews. There are no specific instructions how the interpretations should be made, but the analyzer should consider that the answers are just personal opinions of the interviewees (Kurkela.)

2 Franchising

There is no right or wrong way to define franchising; every source defines it in its own way. James A. Meaney takes three approaches to give a good overview of the essential elements of franchise. The three elements include; franchising payment fees, the right to use trademark, service mark or trade name, and marketing plan, which is a significant assistance, or community of interest. (Meaney 2004, p.11.)

From these three approaches James A. Meaney forms a definition

“Franchising is a legal business arrangement, governed and created by a contract, under which the franchisor (owner/supplier) sells to a franchisee (retailer/buyer) the right to sell certain goods and/or services of the supplier under specific, agreed-upon conditions.”

Basically franchising is a relationship between a company that wishes to franchise its business – a franchisor- and a person who wants to purchase and operate the franchise-the franchisee (Purvin 1998, p. 6).

2.1 Types of franchising

There are three types of franchising; Trade Name Franchising, Product Distribution Franchising and Business Format Franchising (Laakso 2005, p. 34-35).

In Trade Name Franchising the franchiser concedes a right to use their trade mark, trade registration code or business name to the franchisee, but otherwise the model of operations between different Trade Name Franchising -companies may vary a lot. Usually there is no practical co-operation between the franchising chains, the co-operation is more indirect or limited to a service maintained by the franchiser. This franchising type is often used by hotel chains (for example Finlandia and Best Western hotels) and repair shops (for example authorized Toyota -car repair shops or Siemens –repair shops). These stores are usually part of a large service net which is created by national or worldwide service producer who wants to benefit from the chain in their own marketing. The co-operation with the chain members is usually limited by some marketing systems and operations. The franchiser makes profit from the royalties that the franchisees pay for using the franchiser trade name. (Laakso 2005, p. 34.)

In Product Distribution Franchising the franchisee is allowed to sell goods that are original or controlled by an owner that bears the owners trademark. The franchisee receives a lot of help from the franchisor on how the product is distributed and marketed. It is really important to follow the guidelines and/or the policies which the franchisor has set. Product franchisees benefit a lot from national marketing campaigns and they benefit from the name recognition usually associated with the trademarked products. For the supplier this is a way of product distribution where the customers are considered to be more committed. The chain members' co-operation is low and often limited by the franchisers' indirect marketing operations. Furthermore the co-operation between the franchiser and the franchisee is concentrated only in the product, sales and distribution. The Franchiser does not necessarily get involved with the franchisees business activities more than by producing all the sales material for the franchisees who work as retailers for the franchiser. The Franchiser makes profit from the gross margin of the sales when selling his products to the

franchisees and sometimes by receiving royalties. This franchising type is the most commonly used and there are many companies in soft drink, clothing and IT industries that operate this way. For example Coca-Cola, Mexx and Boss. (Lipiäinen 2000, p. 408-409; Laakso 2005, p. 35.)

In Business Format Franchising the entire business models right of use is sold to the franchisee. The franchiser and the franchisee are permanently co-operating in marketing, products and services supply, development activity etc. The Franchiser has two different businesses; the basic business and the franchising business. The basic business is working on its own functional unit in accordance of the concept. The franchising business is renting the license and leading the system. Examples of business format franchising companies in Finland are Arnold's Bakery & Coffee shop, Body Shop, McDonald's, Pentik and Top-Sport. (Laakso 2005, p. 35.)

2.1.1 Business format franchising

The franchising we know today, the business-format franchising, was launched in 1950s when Ray Krock, the creator of McDonalds, recognized the 'cloning' potential of franchising to repeat a successful formula (Purvin 1998, p. 9.)

According to the story Ray Krock was a successful salesman who sold milkshake-mixing machines. He had a successful hamburger stand business in San Bernardino, California, called MacDonald's, which sold 15-cent hamburgers and a high volume of shakes and fries. He was fascinated by the success of a business which is so simple to run, that most of its employees were part-time high school students. Krock reasoned that he could replicate exactly the MacDonald's business system and repeat its success all over the country. Krock believed, quite correctly as it turned out, that carefully controlling and repeating the business format that became McDonald's, he could achieve predictable success (Purvin 1998, p. 9.)

Krock invented a concept we now call trade dress which contains not only the look and feel of the business decor but every detail of the way business is built. This was to ensure that the customers would experience every McDonald's the same every day and everywhere. (Purvin 1998, p. 9.)

Krock's theory proved to be a success, the concept spread throughout the franchising industry. In 1960s the gasoline stations started to adopt a uniform trade and standardize the methods, also convenience stores, motels and flower shops began to standardize the décor and service methods. Some succeeded better than others. The ones who did not succeed thus failed to control the quality and uniformity throughout their system. The importance of cloning was the key to the success of franchising. (Purvin 1998, p. 10.)

To ensure that in the franchising system the uniformity of quality and service stayed the same, franchisors had to have more control over the franchise owners. Because of this the simple franchise agreements began to expand from the reach of franchisor's authority to virtually every aspect of the business. The buyers accepted the contracts because the success was ensured by uniformity. The contracts became more restrictive and one-sided because there was a need to protect the trade name, trade dress and the system. The franchise agreement often stretches the legal requirements for an independent contractor relationship. (Purvin 1998, p. 10.)

The customers kept buying and the franchise marketplace offered a huge amount of stressful terms that continued to sneak into the agreements of the modern franchise (Purvin 1998, p. 10).

Today the franchisor usually dictates every aspect of the enterprise, there is even a condition to sign a renewal agreement, because the franchisor wants to have the freedom in decisions and imposes on any terms in the future. Usually franchisees agree on this because uniformity is a big benefit in this business. (Purvin 1998, p. 10.)

Franchising is really popular nowadays and because of this franchisors do not guarantee a market protection at all or if they do, it is a very limited protection to the franchise owners. This is because it is not right to distribute products that are franchised it is the system and that is why most franchisors charge rent in the form of royalty on the right to use the name and system. Without contractual limits and the royalties earned on each dollar of gross sale, the focus is only on the system sales. The problem is that there is no big need to have suitable profit

margins to be successful, the franchisors do not even measure the profit margins of their franchisee and this is why they are unable to predict the prospective purchasers. (Purvin 1998, p. 10.)

An interesting thing about the modern franchising is that the agreements are not negotiable. Arguing 'the need of uniformity within the system'. The fact is that if someone wants to negotiate and does not take the one-sided agreement the next willing buyer will grab the contract. And as long as there are willing buyers the franchising market place will continue to protect only the franchisor's interests. (Purvin 1998, p. 11.)

There are signs that the marketplace is beginning to change for the better in the future. The agreements are trying to achieve a balance between franchisors and franchisees interests but still keep the need of uniformity for the entire franchise network. (Purvin 1998, p. 11.)

2.2 Franchisee and responsibilities

A franchisee is a company, which invests on a license on which some other has developed a business model (Laakso 2005, p.101-102.)

When the business model is bought, the franchisee will get its own responsibilities toward the franchising chain; these responsibilities are the same for every franchisee in the chain. There are four main responsibility points 1. The responsibility of sales and profit in franchisees own unit; actively getting new customers, human resource management and maintenance of the unit. 2. The responsibility on customer service. 3. Responsibility on brand and concept; represents the chains brand in their area and meet up the requirements of the concept. 4. Co-operation responsibility; meet up the chains operations in their unit, participate in co-operation of the chain and give your effort to develop the chain. (Laakso 2005, p.102.)

A franchisee has various responsibilities that are based on the chain's distribution on work. The franchisor aims that all the individual units operate similarly. Another main purpose concerning responsibilities is that in each unit

the main focus is on the most critical part of business: sales and customer service. (Laakso 2005, p.102-103.)

2.3 Internationalization of franchisee

When franchisee buys a foreign franchising concept and starts the business in its own area it is internationalization to the franchisee. To be a member of an international franchising chain it requires adapting to a new language, culture and operational environment. It is a challenge to adopt the concept which is made by a foreign company and to make profit with it on a new market, especially if it is a new concept. (Laakso 2005, p.105.)

When the franchisee starts operating first in his own country it might be a bit lonely, because there are no other companions near. Furthermore, the support is not that intensive and wide as in national chains. That is why it will be harder to open an international franchising chain than a national one, also business risks are bigger and mistakes might be more expensive. This is especially if the franchisee has done the *master franchisee agreement*, when the entrance fees and beginning investments are higher. (Laakso 2005, p.106.)

2.3.1 Master Franchisee Agreement

One of the franchising agreement options is to make a master franchisee agreement. In this model the franchisor gives one of the main franchisee the right and responsibility to develop a specific market area by building a franchisee-subcontract net. The main franchisees' main responsibility is not to run a franchising unit but to get new franchisees, co-ordinating and supervising them. Master franchising is a popular approach when internationalizing because it gives an opportunity to maintain quite an easy administration and take advantage in the knowledge of main franchisees' national experience and knowhow. (Greiner 2011.)

In the master franchising system the franchisor has a contract between the master franchisee but not with the sub-franchisees. In order that the franchisor has the main control, the contracts, quality- and sales handbooks, continuous training and reporting responsibilities with sub-franchisees need to be agreed

on very detailed. The master franchisee agreement should allow that the franchisor can quickly take over the whole network, if there are any problems in co-operations or unwanted development. (Greiner 2011.)

3 The franchising contract

It is essential that there is a close customer contact in franchising but the impacts on the marketing actions are limited. The franchising agreement has three basic standards (Lipiäinen 2000, p. 407).

1. The contract made to the rights to the a trademark is trademark license. In the contract it is defined how long the contract is valid, how much royalty is paid from the license, which usually is 4-10%. The trademark needs to be registered and it should also have a positive image of the country. (Lipiäinen 2000, p. 407.)
2. The Franchising contract is not a two-party contract, although it seems like it would be because both parties are signing it. The owner of the franchise is already bounded to the earlier terms established so the new party should follow them. Everyone in the chain is watching at others so that the fair business works. To prevent the drop of the brand everyone should keep the store in good condition and the staff and products good. The owner of the franchise has the right to keep all the franchisees in line. (Lipiäinen 2000, p. 407.)
3. Intellectual property; the franchise is leased, not sold or transferred to yourself after the contract has ended. The length of the contract is usually 5, 10 or 15 years, the length should be so long that you have time to cancel your status, machine and equipment. After the contract has ended there is no right to continue with the same product, image or marketing. There may also be a clause stating that there is no right to start the same kind of a business for 1-2 years. (Lipiäinen 2000, p. 407.)

3.1 Content of the franchising contract

Every franchisee makes a contract with the franchisor with specific conditions (Lipiäinen 2000, p. 411). Although the content of the contract is always unique,

there are several universal factors which are included in the franchising contracts (Record 1999, p. 78).

Legal adviser Marja Tommila has published on 2.2.2005 on the website of the Finnish Franchising association a list of important issues that a franchisee needs to know when opening a franchising business. In addition, Henri Laakso the author of *Franchising – Malli yrittäjyyteen ja ketjunrakentamiseen* has collected major points of the franchising contract.

The key points of the agreement should cover following areas in detail so there will not be any confusion between the franchisee and franchisor:

- The background of the contract, purpose and parties
- Important sectors in implementing the concept
- Franchisors rights, performance and obligations
- Franchisees payments, finance and reporting
- Contract validity, competition and confidentiality
- Obligations after the contract has ended

3.1.1 The background of the contract, purpose and parties

The background should have a detailed description of the franchising company and its history, also a short description of the franchise in this business. The terms of contract and any specific terms used in the operation need to be clearly described. You should also know the outstanding uniform brands the business you are entering has and how the brands are designed. The two parties, the franchisor and the franchisee are also defined in this section. You need to know who can work as franchisee and are there any limitations to this. Determine also the person who is in charge and his responsibilities

3.1.2 The important sectors in implementing the concept

Determine the exclusive rights, if the franchisee will get any exclusivity and what is meant by the exclusiveness in this concept.

The retail area and the choice of selection you are selling are major factors to be able to operate in the business. It is important to know how relevant the store

space is and how strict regulations there are. In addition define clearly the collection that you can and need to offer for consumers and if you can sell some other brands in the store. After knowing the selection, you need to know where and how the goods can be ordered or purchased. Competition legislation needs to be noticed. Trademarks are one of the most important parts in franchising business and they need to be protected throughout for usage and to prevent offences. Define also in the contract to which brands the licence is given and if the chain has any other brands in use.

It is not possible to agree as detailed as needed on technical needs and verifying things in the contract. That is why there is a need for other documents to be included and the main is the document of the business. The contract clause that cannot be agreed in detail, they need to be left changeable in the handbook. Find out what kind of a handbook does the company has or if there is being planned one, and is the concept described good enough in order for you to be successfully in this business.

3.1.3 Franchisors' rights, performance and obligations

The rights that the franchisor is handing over are the concept and the brand, which you need to follow and maintain as it is regulated. The obligations of the franchisor are written in contract on a general level, basically telling how the franchisor is going to help the franchisee in practice.

Obligations concerning the operational activity include establishing the store, personnel and training. When establishing the store, you need to consider what kind of support the franchisee can receive from the franchisor when opening a new store and what is required from the store. Furthermore, it needs to be considered what kind of retail area is required, what kind of equipment should the store have; is the newness, condition and representativeness important to the business and how often does the equipment need to be renewed. What kind of selection can the franchisee offer and where and how are the products purchased and what are the prices and terms of delivery.

When hiring personnel are there any regulations according to the personnel and is there any account on their profession/education. One of the obligations in

Finland is that the franchisors train the franchisees constantly, so what kind of training the franchisees get and are there any post training.

The rights and obligations in marketing and advertising need also to be defined; how is the responsibility divided with other franchisees and can franchisees affect the national advertising. Furthermore, are there any regulations on how the franchisee can market locally.

The franchisees' area of operation needs to be defined geographically and commercially, or in some similar way. The rights and obligations need to be defined in the specific area.

3.1.4 Franchisees' payments, finance and reporting

In this section the joining fees, their extent and due dates will be defined. Find out if there are any co-operation / service / royalty / franchising / marketing / etc fees and what kind of a fee is applied to a franchisee and why. What is the amount of the payment and how is it calculated, paid and reported? Be sure that both the franchisor and the franchisee can success with the payments.

Finance and reporting will have the guidelines on how accounting is done and controlled and if there are any specific regulations concerning accounting or billing, it should be clear at this point. It is also important to find out if the franchisor will give any kind of financial guidance and support to the franchisee. Every action needs to be reported, find out how it is done and will this information be in the contract or in the handbook.

In every business there might be some kind of complaints and the quality of the product may not be what it should be, so define who is in charge of the complaints, quality control, reclamation and who is responsible of the mistakes. Everyone needs to have an insurance, does the company require any special insurance or is the basic one good enough.

3.1.5 Contract validity, competition and confidentiality

This part will discuss when the contract will become effective and how long the agreement period is. It needs to be decided if the contract will be determinate or

for the time being. If there is a cancellation or assignment of the contract, there needs to be conditions how it can be done.

Confidentiality is very important. The strictness of confidentiality depends on what the concept requires. Competition or parallel business is also a major threat to the franchisor so at this point it is determined how the parallel business needs to be restricted.

3.1.6 Obligations after the contract has ended

When the contract ends the franchisee is obligated to stop the business operations but to find out if there is determined a suspension not to work in this business field afterwards, because of competition. After the contract ends you need to find out are there any specific regulations on claiming franchisees' operating characteristics and current assets and what is the price for this. In addition you need to be sure if there are any specific regulations to given about the use of the store space after the contract has ended. If there is an argument, find out how it is solved, is arbitration or district court used.

4 What does it require to be a franchise business owner?

It can be generally really beneficial to join a franchising system, because you get so much help from experts in the business - trainers, specialists, investors and operational people. You can also be in contact with other trained franchisees, who already are more experienced. You also get a blueprint with results of years of mistakes and how to correct them and making sure that they are not done again. You are paying for a working system and the franchisor must assist you to deliver the working system to your area. After this you develop business friendships with other franchise owners. (Lamble 1998, p. 16-17.)

Being a successful owner requires a person who enjoys working in a team, it also requires adapting to operations manual and certain procedures and to be able to follow a set of program (Lamble 1998, p. 17).

4.1 Qualities required from a successful franchisee

The first quality required is to be able to cope with the franchisors' game plan. You need to be satisfied by following the plan and should not be disappointed if the suggestions you make are not implemented. You need to accept the things the way they are. The advantage of this is that when there are difficulties you have professionals to consult with and resources to fall back on and the disadvantage is that you have to do everything how it is and there is really limited ability to change anything. (Lamble 1998, p. 17.)

You need to be able to tolerate different points of view and accept consensus. Every franchisee has a chance to express their opinion and you need to have patience and tolerance to listen to everyone and every side and you just need to accept the decision. You should accept to be corrected and take it gracefully. You will hear everything that needs to be improved and you will accept any suggestion and criticism. (Lamble 1998, p. 18.)

High level of trust in the franchisor is needed. You need to believe and support the system and the policies and approve any changes in the policy. Furthermore, you should be able to communicate. You need to work closely with other field consultants and communicate with them as often and as openly as possible. (Lamble 1998, p. 18)

The second is to approve your franchise agreement and abide your operations manual if you need to build the system exactly by the blue print and follow the rules. The changes can be only done from within and if you have a good idea it could eventually be adopted but it needs to suit the entire system, not only your area. (Lamble 1998, p. 18-19.)

5 An example case Calliope

As our example case company we chose Calliope, because it fits into the profile of a fashion business we were looking for. Calliope is an Italian youth fashion store that has clear information about their franchising activity and the regulations demanded from the franchisee. We contacted the development

department of Calliope and received more detailed information about the franchising opportunities in Finland.

5.1 Description of the franchise company

Teddy was founded in 1961 by Vittorio Tadei. The first family-run store was opened in Riccione in Italy. Calliope is one of the many brands Teddy S.p.A has and this brand was not launched until 2005. Calliope is a trademark under the Teddy S.p.A. distributor. It is a business in sale of clothing, footwear and accessories for women and men. The concept is based on trendy and affordable fashion for young adults. Teddy S.p.A launched Calliope in 2005, in Italy. There are 43 Calliope stores in Italy and 55 stores in other parts of the world. In the year 2010 Teddy S.p.A. has opened over 550 stores for their trademarks **Terranova**, **Calliope** and **Terranova kids** and a sales network of trademark **Rinascimento**. (Calliope Franchising.)

Today Teddy is a company with a 36 million euro of corporate capital. In addition to Terranova, Calliope and Terranova Kids stores Teddy Company has more than 9.000 agents, dealers and wholesale clients and over 1.500 people directly involved in the business (Calliope Franchising.)

Calliope franchisers do not need to pay royalties or entrance fees. There are also no transportation costs of the arriving garments, but the unsold stock has to be sent back (Calliope Franchising).

5.2 Products and services

Calliope is an Italian fashion chain for men and women. Calliope sells basic fashionable clothes for young adults for affordable price. Calliope has a range of in wear, out wear, shoes and accessories such as bags, jewelry and belts. The clothes are mainly made in Asian countries like China.

5.3 Requirements for opening a Calliope store

In order to open a Calliope store in Northern European countries where Calliope is not yet represented, it is required that the stores are opened in a city of at least 100 000 inhabitants. In Finland, the first store is required to be opened in

the capital city Helsinki. The surface area for the new point of sale should be from 350 to 500 square meters. The location of the point of sale should be a commercial centre at least 30 000 square meters and only the shops on ground floor near to main entrance are accepted for business premises. The store should be on the main street of down town and have at least two large windows. Depending on the characters of the single nation, the Calliope stores can be opened only in the cities with at least 35.000 inhabitants. (Kolnikova.)

The requirement from the Teddy S.p.A for the location of the store is to locate it in Helsinki. This is understandable because Helsinki is attractive trade center and the capital city of Finland with over half a million inhabitants. Helsinki is Finland's largest entrepreneurship center and it has a significant role in the national economics and employment. In Helsinki and the nearest 14 towns is made 44% of our countries turnover and employed 33% of inhabitants. (Hsy.fi.)

Helsinki is a famous city to visit, not only for international tourists but also for Finnish inhabitants. In 2012 there were 3, 2 million people staying in Helsinki at some kind of tourist accommodations (Statistics Helsinki).

Because of these figures Helsinki is a great trade center to open a new fashion store. The huge amount of inhabitants and tourists will bring a lot of money for the company.

The strategic location requirements from Teddy Corporation are quite strict in order to keep all their points of sales profitable. The business surfaces for the Calliope-store in Helsinki could be for example in the city center at Mannerheimintie in a shopping center Forum or shopping center Kamppi.

5.4 Training

When launching a new Calliope store, Teddy provides architects and interior designers to help. That way a franchisee can have a personalized lay-out so there is a right visual strategy to communicate the presence of Calliope on market. Teddy offers the services of their business and visual merchandising departments for the franchisees to help them with any sale and visual merchandising strategy. (Kolnikova.)

Franchisee or the manager of a point of sale will attend a 'training course' at one of Calliope 'pilot' points of sale. Once the store has opened, its staff will receive ongoing training, using easy and practical tools. The sales managers and visual merchandisers will help franchisees to compare and implement sales strategies. (Kolnikova.)

5.5 Cost and guaranteed profit margin

The 'licensing on consignment' formula means that the franchisee only pays for sold goods and the unsold stock is sent back to the company. Calliope franchisees do not have to pay for costs such as royalties or entrance fees in order to open a Calliope store. (Kolnikova.)

The profit margin for the franchisee is the same in both regular sales periods and end-of-season or clearance sales periods. In this way franchisees avoid one of the greatest commercial risks. (Kolnikova.)

The products arrive to the point of sale without any transport cost for the franchisee. The company also pays for the costs of picking up unsold products at the end the season. (Kolnikova.)

Teddy Development Department sets the potential budget for a point of sale according to the information gathered during the assessment stage (point of sale location, shop windows, surface area, market, etc.). (Kolnikova)

5.6 Communication and marketing

Communication and Marketing Department develops up-to-date brand communication tools and image to be used inside the point of sale. Franchisee is in charge of local advertising campaigns for which the Department provides franchisees with necessary material. The franchisee will have all updated material and the Manual for a Coordinated Corporate image available for use in their point of sale. (Kolnikova.)

The local advertisement channels that could be used in Finland are Helsingin Sanomat –newspaper, commercial magazines and social media channels such as facebook, twitter and blogs and also advertising campaigns on the streets.

The target customers are young adults between ages 16 to 30, because of the concept of trendy and affordable clothing.

5.7 Management and personnel

The authors of this thesis are planning to buy the franchising system from Teddy S.p.A. so that Calliope could be opened in Finland, Helsinki. The writers of this thesis are planning on working in management themselves.

For opening a Calliope point of sale in Finland some personnel such as visual merchandiser in charge of the visual appearance and selling clothes, would be needed to hire. In addition, a salesperson selling clothes and being in charge of general appearance of the shop would be needed. At the beginning there would be only a small amount of personnel hired in order to keep the budget low. There would also be need to hire an accountant who would be in charge of the accounts.

5.8 Competition

The direct competitors are other clothing stores with affordable fashion for young adults. These stores are for example H&M, Vero Moda, Cubus, etc. The indirect competitors are more expensive clothing stores for example Moda, Lindex, Kappahl, Kekäle, Halonen, etc. Other stores in nearby cities are also indirect competitors, because people go shopping to the other cities as well.

The main reason to be more competitive against the other clothing stores is the style of clothes Calliope represents, because the competitor stores are mainly Nordic but Calliope is Italian and has more south European styled apparel.

The customers have many choices to satisfy their need of shopping. Calliope would be competing against other clothing stores with the new style brought to the market, the large range of accessories and also with the men's clothes which are not available in that many stores.

6 What does it require to open a franchising store?

The information was gathered by interviewing franchisees and franchisors from different clothing stores in South Karelia, but due to lack of clothing franchising concepts and to poor responds only two interviews from franchisees and one interview from a franchisor. We chose these companies based on the authors' personal interest.

A franchisor and a franchisee from one of the children's clothing stores and a franchisee from a young adult fashion store were interviewed. The process was limited by choosing only companies focused on clothing; the type of clothing was not a limitation, because it did not have effect on the answers since all the clothing stores had a similar base of the franchising contract. The focused interview where the questions are based on different themes was used as a research method.

6.1 Background

Some basic questions were asked about the background of the interviewee, their education, the company and its target group and how long they had been in the franchising business. Furthermore, we found out the reasons for choosing the city they operate in.

One of the owners of the children's clothing concept was interviewed. The family owned company designs the clothes, produces them and resells them. Their target group is mainly parents, because they sell clothes from babies to play age. The company has 15 stores around Finland, of which three are franchisee owned and they have limited amount of foreign sales. The owner is educated as a master of economics and has been a franchisor for eight years.

One of the franchisees was from the children's store. The franchisee has a degree in nursing and has been in this clothing business for eleven months. The reason this company was chosen was because there was a proposition given and the franchisee has worked earlier as a home salesperson in this company. "After some consideration and calculations I was ready" comments the franchisee. In her opinion the target group is from babies to play age and the

store has been found well among the customers. The reason the store was opened in Kouvola was that the chain suggested and it is quite near the place of living. Also the advantage in competition is that there are only few special stores but it does not mean that an entrepreneur can be safe, customer service and knowing the product is the key thing.

The other franchisee was from a young adults fashion store. The franchisee has a double degree from high school and vocational school, studying IT. The franchisee has been in this business for almost three years. The reason this company was chosen was actually half accidentally, the franchisee was making advertising for another store and at the same time was getting to know the webpages and found out information about franchising. The target group is 25-35 year old young adults who have found the store well, but the company hopes to get more customers. The reason the store was opened in Lappeenranta was because it was the hometown; there were not even other options for opening the store somewhere else. The biggest advantage to open a store in Lappeenranta is that there are many Russian customers.

6.2 Relationship

In this section the relationship between the franchisor and the franchisee was observed and what kind of regulations there are in the point of view of franchisee and franchisor.

This children's clothing store requires that the store is located in a shopping centre and in a city with at least 30 000 inhabitants. The store needs to be over 150 square meters. The franchisee orders about half of the clothes straight from the franchisor and rest of the clothes from distributors or sales representatives. The franchisee has committed to have mainly the same collection as the other stores, but the franchisee has a freedom to choose some brands which are popular in the region of operations. All the store supplies are bought by the franchisee. The franchisor recommends partners to co-operate and helps to plan the procurement, but the final decisions are made by the franchisee. The general image should still be similar in all stores.

The franchisor supports the franchisee by helping in the rent negotiations and by giving comments and guidance for rent and the store space. The franchisor offers store design, marketing help, training for the collection, presentation and sales. Furthermore, the franchisor helps ordering the goods and takes care that nothing essential is forgotten. The representatives from the franchisor are helping to build the store, planning the layout, shelving the goods for the grand opening and on the opening day to help the staff of the store.

There are no requirements for the staff of the store; the franchisee chooses the staff. The franchisor can help in the recruit process and guide in the pay checks. In addition, the franchisor will tell their experiences on the amount of staff, but the education level is not assigned, but it is recommended to employ at least one window dresser. Also the franchisor encourages recruiting people with good language knowledge.

In the children's store the franchisee comments that the franchisor requires from the franchisee a specific area, specific goods, specific pricing and the image of the store. The franchisee orders half of the goods from the franchisor and the other half from different distributors. The support the franchisee gets from the franchisor is basically the working concept. And there are no requirements on the staff's education level.

In the young adult fashion store the franchisor requires from franchisee only the same image and furnishing as other stores, but gives free hands on the store space and location of the store. The franchisee orders goods from distributor and also from franchisor. The business concept requires having only specific brands and the franchisor cannot choose other brands to the collection. The franchisee receives concrete help from the franchisor when opening the store. The franchisees get sales-, presentation- and product training. There are no requirements on the staff's education level.

6.3 Training

The purpose of the study was to find out what kind of training the franchisor gives to the franchisee.

In the children's clothing store the franchisor offers the franchisees training on clothes, presentation, sales and how to keep up a store. They also offer to teach how the cash desk works. Other post trainings are usually on products and presentations. In addition, there might be some training if the store reforms on some level if needed, for example if the cash desk system is renewed.

The franchisee of children's clothing store gets all the above mentioned training.

The franchisee of the young adults fashion store gets sales-, presentation- and product training and other training from some brand representatives. There is post training if needed, for example if there are new brands coming to resale.

6.4 Finance

In this section the goal was to find out about the payments the franchisee needs to pay to the franchisor and how much financial guidance does the franchisee receive.

The franchisor offers financial guidance if needed, according to the contract the franchisor does not help financially the franchisee. The franchisor collects 6% of royalties from the revenues as co-operation and also the franchisor claims a 6000€ franchising fee.

The franchisee of the children's clothing store receives financial guidance only case-specifically and pays royalties and franchising fee. The franchisee comments on franchising fees "If you don't have money it is expensive, but if you have money it is cheap."

The franchisee of a young adult fashion store receives financial guidance always when needed and the franchisee pays the franchising fees and royalties. The franchisee does not want to tell the amounts of the fees but comments that they are quite reasonable.

6.5 Marketing

One of the objectives of the study was to figure out how the marketing responsibilities are divided between the franchisee and franchisor and how franchisee can affect on marketing.

In this business the franchisee is responsible for marketing. The franchisor offers a limited amount of marketing help by brochure, the store marketing material and helps to plan the newspaper ads. In addition, the franchisee can market their own happenings on the main webpages and on the company's facebook pages.

The franchisee of the children's clothing markets the company on the company's facebook pages, newspapers, homepages of the company and on the homepages of shopping centres and also voice commercial is used.

The franchisee of the young adults fashion store is responsible for the marketing regionally. The franchisee uses print advertising and has a lot of co-operation with the local ice-hockey team and other sports clubs. The franchisor is responsible for national marketing in television and different magazines, for example Olivia.

6.6 Contract

The questions about the franchising contract were asked to find out what practical things are needed to open a franchising store and what kind of requirements there are for franchisees.

To start a business the franchisee needs to have capital. The more important demand is to have a real interest in opening a successful children's clothing store. To work as an entrepreneur a lot of work and taking responsibility are required. The franchisor negotiates with every potential franchisee to find out do they have the needed motivation and needed skills to be a franchisee in the business.

The main concept according to which every franchisee needs to work is defined clearly in the franchising contract and the handbook. The importance of

customer service, the uniformity of presentation and the general appearance of the store are determined. In the contract is also defined to use the common cash desk system, through which all the revenues of a day will be delivered to the franchisor. The responsibilities of the entrepreneur is to operate the store daily, deal with issues concerning the personnel, picking the collection and ordering, dealing with rental relations, regional marketing and other issues concerning the store.

The franchisee of the children's clothing store comments on the contract that it is a normal legal contract and the requirements are what the franchisor has imposed. The requirements from the franchisor are continuous training and quality control.

The franchisee of the young adults fashion store says that to open a business of your means that you have to be interested in entrepreneurship and to have capital. And all responsibilities concerning the store is on the franchisees responsibility and the franchisor does not give any demands on revenue numbers.

6.7 Challenges

The study also wanted to look into the plusses and minuses that the franchisor and franchisee have in this type of business and what kind of challenges they have faced.

The franchisors plusses are that this particular business has been working successfully for over 30 years and has established its position in Finland. The concept is working strongly around the franchisors own collection and high-quality partners in cooperation. The franchisor offers their experience and knowledge to the use of the franchisee. In addition to this the franchisor offers purchasing channels that are not available at other places and a well-known brand to the use of franchisee.

The franchisors minuses are that from the franchisee is demanded a lot of personal devotion to open a business and operating it. The starting finances might be too big for someone. In reality the workload might be much bigger that

the franchisee has expected. The franchisor tries to inform all potential franchisees on these aspects already in the first negotiations.

There have not been a lot of challenges concerning franchising. The franchisees are really committed to the work and to the concept and building the brand. The franchisor tries to be in touch regularly with the franchisees and to solve all the questions as quickly as possible.

The plusses of the children's clothing store are that the place is own by them and the rules are made by themselves. The biggest minus is the risk to fail in the business. The challenges the franchisee has met are remembering everything and also managing with everything.

According to the franchisee working in the young adults fashion store the plusses are that the concept is ready for you and it is easy to start to operate in the business. The minuses are usually regional. The challenges the franchisee has met is the weather; if the winter is bad the winter coats are not selling and also if the summer is bad the shorts and other summer clothes are not selling good enough. Also one challenge is that all the customers have not found the store yet.

6.8 Future and advice

The future plans and visions of the company were asked in this section to get some advice from the franchisees and franchisors to people who want to become a franchisee were collected.

The franchisor of the children's clothing store sees the future bright. The business needs to be able to compete with others in the same business. The franchisor believes that the concept gives good chances to this. The growth of the company is planned thus it should be controlled. The personnel in every new opened store need to be trained well and the company should only expand if it has real predictions to succeed. The franchisor is passive and active, mainly passive, but if a really good spot to open a store is found, the company is being an active franchisor.

The franchisors' advice is that it is important to understand what running a business is in practice. Being entrepreneur is really rewarding but also labor consuming. If entrepreneurship interests somebody, the franchisor recommends to consider franchising, it provides a lot of entrepreneur benefits but gives also a lot of support and knowledge to the franchisee. For many entrepreneurs franchising might be the right way to create their career.

Both of the franchisees see their future quite bright. The franchisee of the young adults fashion store comments also that when the business plan was made they thought where the business would be in five years, and they are on timetable.

The advice that the franchisee of the children's clothing gives is that it is important to be spontaneous, brave, have a good physical and emotional condition and persistent and you should not be afraid of working. The franchisor of young adults fashion store advices to follow your dreams.

7 Conclusion

The results from the franchising interviews show that the main things you need to have to succeed in franchising business is to have initial capital, motivation and interest towards the franchising business you are entering.

The most important thing in order to be approved to become a franchisee is to qualify for the requirements that the franchisor sets for the franchisee. Every franchisor has very different requirements towards the business area, amount of inhabitants in a city, location of the store and store sizes. Different companies have different regulations regarding the product offering. Some franchisees may be able to decide themselves what products they want to take into their store selection but some franchisors are strict about the choice selection the franchisees may sell in the chain stores.

The franchising payments are also very variable between different companies. Usually there is a certain amount of entry fees and royalties required, but some companies like the example company Calliope does not require any fees, you

only pay for the sold goods and the costs of a store opening. That makes it easier to get more franchisees and the chain will grow faster.

The similarity between every franchising business is the training that the franchisees get when opening a new point of sale. The training consists of setting up a store, product training and assistance on the first opening days.

The base of franchising contract is also similar between different franchising companies and the same information should be found in every contract. This contract information has been discussed earlier in the theory part.

When opening a franchising business, it is important to become acquainted with the company and its franchising contract and regulations towards the franchisee. It is also important to make a business plan to set up the future goals and to find out whether or not you have a possibility of opening a business financially.

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Appendices

Appendix 1: The Interview questions for the Franchisee

Haastattelukysymyksiä franchising-yrittäjälle

Tätä haastattelua käytetään osana opinnäytetyötä

“What does it require to open a franchising clothing business?”

Jos et halua, että yrityksesi nimi tulee julki opinnäytetyössämme, mainitsethan siitä erikseen.

Tausta

1. Kuka olet?
2. Mikä on koulutuksesi?
3. Mikä on yrityksesi?
4. Kauan olet toiminut franchising-yrittäjänä?
5. Miksi valitsit juuri tämän toimialan/yrityksen?
6. Mikä on teidän asiakaskohderyhmänne? Miten he ovat löytäneet teille?
7. Miksi päätitte perustaa yrityksenne juuri Lappeenrantaan?
8. Onko Lappeenrannassa mielestänne yritykselle tärkeitä kilpailuetuja muihin kaupunkeihin verrattuna?

Suhde

1. Mitä franchising-antaja edellyttää toimipisteeltä? esim. tila, tarvikkeet, sijainti
2. Miten ja mistä yrittäjä hankkii tuotteet ja tarvikkeet?
3. Mitä tukea yrittäjä saa franchising-antajalta liikkeen avaamiseen?
4. Asettaako franchising-antaja määräyksiä liikkeen henkilökunnan osalta? Onko heidän koulutuksellaan tai jollakin muulla ominaisuudellaan merkitystä?

Koulutus

1. Tarjoaako franchising-antaja koulutuksen yrityksen avaamisvaiheessa?
2. Onko jatkokoulutuksia?

Talous

1. Saako yrittäjä minkäänlaista taloudellista neuvontaa ja/tai tukea franchising-antajalta?
2. Maksatteko franchising-antajalle maksuja, kuten liittymismaksua, lisenssimaksuja tai muita maksuja?
3. Ovatko maksut mielestänne kohtuullisia?

Markkinointi

1. Miten olette markkinoineet?
2. Hoidatteko itse yrityksen markkinoinnin vai hoitaako franchising-antaja markkinoinnin?

Sopimus

1. Mitä on vaatinut, että saa avattua franchising-liikkeen? Mitä asioita yrityksen perustaminen tarvitsee?
2. Onko Franchising antajalla velvoitteita yrittäjää kohtaan? Esim. asiakaspalvelu, esillepano, myyntiluvut? Mitkä asiat ovat yrittäjän omalla vastuulla?

Haasteet

1. Mitkä ovat mielestänne franchising-yrittäjyyden plussat?
2. Entä miinukset?
3. Mitä haasteita on ollut?

Tulevaisuus

1. Millaisena näette yrityksenne tulevaisuuden?

Neuvot

1. Mitkä ovat teidän neuvonne franchising-yrittäjäksi aikovalle?

Kiitos vastauksestasi!

Appendix 2: The Interview questions for the Franchisor

Haastattelukysymyksiä franchising-antajalle

Tätä haastattelua käytetään osana opinnäytetyötä

”What does it require to open franchising clothing business?”

Jos et halua, että yrityksesi nimi tulee julki opinnäytetyössämme, mainitsethan siitä erikseen.

Tausta

1. Kuka olet?
2. Mikä on koulutuksesi?
3. Mikä on yrityksesi?
4. Kauan olet toiminut franchising-antajana?
5. Mikä on teidän asiakaskohderyhmänne?

Suhde

1. Mitä edellytätte franchising toimipisteeltä? esim. tila, tarvikkeet, sijainti
2. Miten ja mistä franchising-ottaja hankkii tuotteet ja tarvikkeet?
3. Mitä tukea annatte franchising-ottajalle liikkeen avaamiseen?
4. Asetatteko määräyksiä liikkeen henkilökunnan osalta?

Koulutus

1. Tarjoatteko koulutuksen yrityksen avaamisvaiheessa?
2. Onko jatkokoulutuksia?

Talous

1. Annatteko minkäänlaista taloudellista neuvontaa ja/tai tukea franchising-ottajalle?
2. Maksaako franchising-ottaja maksuja, kuten liittymismaksua, lisenssimaksuja tai muita maksuja?

Markkinointi

1. Saako franchising-ottaja markkinoida itse vai hoidatteko te kaiken markkinoinnin?

Sopimus

1. Mitä vaatii, että saa avattua franchise-liikkeen? Mitä asioita yrityksen perustaminen tarvitsee?
2. Onko Franchising-antajalla velvoitteita franchising-ottajaa kohtaan? Esim. asiakaspalvelu, esillepano, myyntiluvut? Mitkä asiat ovat yrittäjän omalla vastuulla?

Haasteet

1. Mitkä ovat mielestänne franchising-antajan plussat?
2. Entä miinukset?
3. Mitä haasteita on ollut?

Tulevaisuus

1. Millaisena näette yrityksenne tulevaisuuden?
2. Onko ketjun tarkoitus kasvaa vielä muihin kaupunkeihin/maihin?
3. Toimiiko franchising-antaja aktiivisena vai passiivisena osapuolena ketjun uusien toimipisteiden luomisessa? (etsiikö antaja aktiivisesti yrittäjiä vai ottaako mahdollinen yrittäjä itse yhteyttä antajaan)

Neuvot

1. Mitkä ovat teidän neuvonne franchising-yrittäjäksi aikovalle?

Kiitos vastauksestasi!