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21. Franchising in the food industry

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Introduction: New century brings innovations into all spheres of human life. Franchising is a new way of making business which appeared in the XX century, but only nowadays it begins to spread all over the world.

Let's consider the franchising in the sphere of fast food industry using the experience of McDonald's, one of the most successful franchising companies.

Resources and methods: When the McDonald brothers, Dick and Mac opened their first restaurant in 1940 in San Bernardino, California, they could never have imagined the phenomenal growth that their company would enjoy. From extremely modest beginnings, they hit on a winning formula selling a high quality product cheaply and quickly.

There are now more than 28,000 McDonald's restaurants in 120 countries. McDonald's global sales were over \$40bn, making it the largest food service company in the world.

In 1954 Ray Kroc bought in McDonald brothers the right to act as exclusive agent for the franchise. Today, over 70 per cent of McDonald's restaurants are run on this basis.

On the financial side, McDonald's receives a **monthly rent**, which is calculated on a sliding scale based on the restaurant's sales, i.e. the higher the sales, the higher the percentage and visa versa. There is also a service fee of 5 per cent of sales in addition into the contribution to the marketing.

McDonald's is an example of brand franchising. McDonald's, the franchisor grants the right to sell McDonald's branded goods to someone wishing to set up their own business, the franchisee. The license agreement allows McDonald's to insist on manufacturing or operating methods and the quality of the product. This is an arrangement that can suit both parties very well.

The Franchise Agreement grants the right to the franchisee to run a specific McDonald's restaurant for a set period of time, usually for twenty years. These rights include the use of the McDonald's trademarks, restaurant decor and designs, signage and equipment layout, the formula and specifications of the menu items, as well as McDonald's methods of operating, stock control, bookkeeping, accounting and marketing.

In return, the franchisee agrees to operate the restaurant in accordance with McDonald's standards of quality, service and cleanliness. McDonald's regularly checks the quality of the franchises output and failure to maintain standards could threaten the license.

Every franchisee has to complete a full-time training programme, lasting about nine months, which they have to fund themselves. This training is absolutely essential. It begins with working in a restaurant, wearing the staff uniform and learning everything from cooking and preparing food to serving customers and cleaning. Further training at regional training centers focuses on areas such as business management, leadership skills, team building and handling customer enquiries. The franchisee will have to recruit, train and motivate their own workforce, so they must learn all the skills of human resource management. During the final period, the trainee learns about stock control and ordering, profit and loss accounts and the legal side of hiring and employing staff.

Results: The phenomenal growth of McDonald's is largely attributed to the creation of its strong brand identity. McDonald's trademark, the Golden Arches, and its brand name has become among the most instantly recognized symbols in the world.

Conclusions: The Ukrainian market of fast food restaurants will be completely filled in minimum 10-15 years. Because of active development of industrial regions in Ukraine this format becomes demanded not only in the capital, but throughout Ukraine. So investing this business is still attractive for business operators.

Moreover, one can forecast with confidence wide spreading of franchising model as a way of optimization of chain business costs.

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