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The Franchise: A study related to providing employment for retired Air Force officers

Douglas Allen Greven

The University of Montana

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THE FRANCHISE: A STUDY RELATED TO PROVIDING EMPLOYMENT
FOR RETIRED AIR FORCE OFFICERS

By
Douglas A. Greven
B.S.B., University of Minnesota, 1967

Presented in partial fulfillment of the requirements
for the degree of

Master of Business Administration

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1970

Approved by:

Chairman, Board of Examiners

Dean, Graduate School

June 2, 1970

Date
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CHAPTER I

INTRODUCTION

General Problem Setting

This paper is concerned with career opportunities for retired Air Force officers in three specific types of franchises. The retired Air Force officer has spent from twenty to thirty years in military employment probably after graduation from a college or university. This officer is forty to fifty years of age at the time of his retirement and change of profession. Although he will receive 50 to 75 per cent of his Air Force salary for the rest of his life, he could also be at the peak of his income need. So far as energy and age are concerned, he has many productive years ahead of him.

Many military positions have civilian counterparts, however, the skills in these areas are seldom held by officers. It is the enlisted men that carry out the everyday operations. The non-commissioned officer is the one who is familiar with the everyday problems and procedures of the department. The officer has been working with the personnel problems. He makes certain the mission is accomplished by seeing that his men have been properly trained. The
officer takes care of "fires" or abnormal daily developments within his area. He has developed into a manager of people.

Historical Background and Present Importance

Often, small businesses are operated by individuals who have worked for many years with a company. They learn the business from their parents or owners with plans to take active control once the parents or owners reach retirement age. Others enter into business using past experience as a guide line for success. This, perhaps traditional, route into small business is inappropriate for the retired Air Force officer. The Air Force officer has seldom had the opportunity to develop into, or obtain the necessary experience to open and operate a small business on his own.

Further research on civilian job opportunities which retired Air Force officers are interested in, and qualified for is needed. If the retired Air Force officer, however, has the desire for small business management, a franchise could provide an opportunity for entrance into this field without previous experience in the operation of a small business enterprise.

Part of the historical background of the proposed solution to this employment problem dates back to the end of World War II. Returning servicemen were eager to get into civilian life upon their return to the United States. They
had somewhat the same problems retired service personnel have today—lack of civilian job skills. They did, however, have ambition and the borrowing power that was guaranteed and insured by the Veterans Administration.

This was a period of rapid economic growth. Many companies did not have the required capital or experienced personnel to take advantage of this business expansion. Some found it profitable to begin offering small business franchises to these returning servicemen and other interested investors. Franchising has developed rapidly since World War II and has changed many basic distribution patterns.

The Research Problem

The retired Air Force officer might do quite well working for someone else. This research is concerned with franchise career opportunities for an Air Force officer with twenty to thirty years of specialized military experience upon retirement from active duty. The problem of the Air Force officer is made up of two parts. The first is to indicate a way to use the retired officer's relevant experience. The effective use of his capital is the second part of the problem.
Objective of this Study

This paper will attempt, through the use of primary and secondary research, to give information showing that the franchise will offer some retiring Air Force officers an excellent opportunity to employ their abilities. It will be shown, with some preparation on the part of the retired officer, how he will meet all the requirements necessary to operate a franchise. It will also be shown how the franchise meets the personal need and objectives of this segment of our population. The purpose is to present a case showing why the Air Force officer should consider a small business franchise as a solution to his civilian rehabilitation after military retirement.

Hypothesis

The small business franchise is a career opportunity available to the retiring Air Force officer. Very profitable opportunities await the mature individual in this field. The retired officer meets the personal qualities required for operating many franchises. He has the ability to manage people, is intelligent, and of good moral character. The franchise can provide the officer with effective use of his capital and ability. The franchise can also offer a supervisory management position and effective use of the officer's talent and attributes.
Procedure

Several sources of data will be used in the development of this paper. The next two chapters will be a general review of published literature on this subject. Major benefits available to the Air Force officer at retirement will be presented in the following chapter. A brief explanation of the history, success, and requirements of the franchise system of business operation will be presented in Chapter III.

Chapters IV, V and VI are included to provide information on three national franchises. The first section of each chapter is devoted to presenting information the franchisor would give an applicant for a franchise. The second section of each chapter is based on an interview with a franchisee. The purpose is to present part of what a franchisee has experienced in the development of his franchise.

The conclusion begins with a general review of what the franchise can offer the retired Air Force officer. A retired Air Force officer can not take advantage of franchising unless he has the necessary capital. If the retired officer has the desire for small business ownership, the franchise can offer an effective and interesting use of his time and capital. Being a retired Air Force officer can be an advantage in starting and operating a franchise.
CHAPTER II

AIR FORCE RETIREMENT BENEFITS

The Air Force officer is in a unique position when compared with civilian workers. After twenty to thirty years of military service, he receives full retirement benefits for the rest of his life. The benefits he receives at retirement can help him during the transition to civilian employment. In particular, these retirement benefits can help him toward a successful franchise operation. This chapter is devoted to presenting some of the pay, allowances, and other retirement benefits due the Air Force officer upon retirement. All figures are as of July 1, 1969.

Following the current trend of cutbacks in military expenditures, record numbers of Air Force personnel are entering retirement status. Last August, the Air Force retired the highest number of people in its history. Over 6300 names were published in the roster. By September of 1969, the Air Force had over 222,000 retired servicemen on its payroll. Each of the men and women listed in the roster receive monthly income and service related benefits from the federal government. These benefits give retired Air Force

personnel supplemental income and benefits which could support them after their active duty years. The benefits provide a definite advantage while breaking into civilian employment, for total wages are not affected by past service. Retirement benefits are available to regular and reserve officers retiring from active duty. The typical Air Force officer will retire after twenty-eight years of service. He will have earned the rank of lieutenant colonel, and will be between forty-five and fifty-five years old.\(^2\) His retirement pay will amount to 70 per cent of his basic pay as lieutenant colonel.

Voluntary retirement is open to any commissioned officer in the regular and reserve Air Force who has completed at least twenty years of active duty. Those who enlisted before being commissioned must have at least ten years of active commissioned service. When the officer does retire, he is entitled to \(2\frac{1}{2}\) per cent of his basic pay rate for each year for the rank held at the time of retirement, multiplied by the number of years of service. Thus from 50 per cent to 75 per cent basic pay will be paid to the officer each month after retirement. Monthly rates of retirement pay for ranks above captains are shown in Table 1.

# TABLE 1

MONTHLY RETIREMENT PAY

<table>
<thead>
<tr>
<th>Grade</th>
<th>Title</th>
<th>20 Year Retirement</th>
<th>30 Year Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10</td>
<td>General</td>
<td>$1,197.30</td>
<td>$1,908.23</td>
</tr>
<tr>
<td>0-9</td>
<td>Lieutenant General</td>
<td>1,047.45</td>
<td>1,683.68</td>
</tr>
<tr>
<td>0-8</td>
<td>Major General</td>
<td>972.90</td>
<td>1,518.08</td>
</tr>
<tr>
<td>0-7</td>
<td>Brigadier General</td>
<td>879.90</td>
<td>1,319.85</td>
</tr>
<tr>
<td>0-6</td>
<td>Colonel</td>
<td>673.50</td>
<td>1,159.65</td>
</tr>
<tr>
<td>0-5</td>
<td>Lieutenant Colonel</td>
<td>609.15</td>
<td>945.90</td>
</tr>
<tr>
<td>0-4</td>
<td>Major</td>
<td>527.40</td>
<td>791.10</td>
</tr>
</tbody>
</table>


Note: Congress has recently approved an 8½ per cent increase for Air Force Officers which is not reflected in this table.

The officer retains his active duty rank upon retirement, which entitles him to most of the benefits available to active duty personnel. Regulations provide moving expenses for himself, his family, and all personal goods to any location in the world. He is authorized to travel on military transportation on a space available basis. His military life insurance can be kept active, at his own expense, if he so elects. Dental, medical, and hospital service assistance, including prescriptions, continue for the rest of the officer's life. All base

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facilities, including the officers' clubs, commissaries, exchanges, and base recreational facilities are available to the retired officer.

Congress passed legislation in 1964 which authorized the federal government to employ retired Air Force officers. This law makes it possible for the retired officer to receive full pay from his civilian government job. He is eligible to receive the first $2,000 of his military retirement pay, plus one-half of any retirement pay greater than this amount, in addition to his government pay. The only restriction is that he may not be hired by the Defense Department until he has been separated from the service for at least six months. Retired Air Force officers may be given civil service preference when applying for employment with the federal government. This is done by adding five to ten points on to the rating earned through civil service examinations.

Other important benefits are available under the Veterans Benefits Act of 1966. The retired officer is eligible for educational benefits under the G. I. Bill. The retired officer can obtain a guaranteed loan toward the purchase of a home without a down payment, if the lending bank agrees.\(^3\)

\(^3\)Ibid., p. 192.
10

retired Air Force officer may apply; these are a few of the major benefits available.

Taken together, the above provisions provide for the officer after retirement. He will be able to live on the benefits he has earned during his active duty years. However, he is a relatively young man and has retired at an early age, some fifteen to twenty-five years ahead of his civilian counterparts. It is possible, and perhaps necessary that this man embark on a second career. The franchise could be the answer to this need. A brief explanation of the history, success, and requirements of a franchise will be given in the following chapter.
CHAPTER III

REVIEW OF THE FRANCHISE INDUSTRY

A brief explanation of the history, success and requirements of the franchise system of business operation is presented in this chapter. It is not intended to represent an in depth study of franchising. The purpose is to acquaint the reader with the franchise concept.

History

Franchising dates back many years in history. "During the Middle Ages, . . . important personages were granted, what today might be called 'franchises.' These usually conferred the right to collect revenues, in return for various services or considerations . . ."\(^1\) The term "franchising" did not come into use until the eighteenth century. At that time, the term applied to "Royal franchises," or those granted by the royalty or legislative type governments. These franchises "usually involved the acceptance of certain specific obligations on the part of

\(^1\) Ernest Henderson, Sr., *Franchising Today* (New York; Matthew Bender Company, 1967) p. 239.
the grantee, in return for certain privileges, usually long-term in nature, and frequently involving some monopolistic advantages." 2 By this time, franchising had taken a form similar to that we know of today. The current definition of the word franchise is "A privilege arising from the grant of a sovereign or government, or a privilege of a public nature, conferred on an individual or body of individuals by a government grant, or permission granted by a manufacturer to a distributor or retailer to sell his products." 3 The term is commonly used to describe a method of distribution which is based upon a contractual relationship between the franchisor and franchisee.

The Coca-Cola Company is an early example of franchise development in the United States. John S. Pemberton developed the Coke formula in 1886. He owned a drugstore and had been testing different types of "soft drinks." By 1900, John Pemberton's Coca-Cola syrup was being supplied to local franchised bottlers. Today, most all soft drinks are marketed using the franchise method developed by John Pemberton.

United States Development Since 1945

The franchises we know today were developed after

---

2 Ibid., p. 71.
World War II. Several factors account for this growth. The first was the "$\ldots$ returning GI, burning with ambition and fueled with the borrowing power of business loans guaranteed or insured by the Veterans Administration, and second, a booming economy, which inspired executives with business ideas to cash in through franchising.$^4$ This may or may not be true today.

Franchising enabled the franchisor to promote expansion without having the large capital expenditures normally necessary for such development. It was necessary to bring together the prospective franchisor, who had established a company with a product or service which lent itself to wider distribution, and the prospective franchisee who had some capital, some business ability, and the desire to be in business for himself.

Many of today's major franchise operations started development during the 1950's. Some examples are listed on the following page. By 1963, franchising had become so important that the Small Business Administration felt it desirable to fund a study on the subject. It granted the University of Minnesota $80,000 to make a detailed study of franchising. The ninety-five page report was published by the University of Minnesota School of Business Administration

in November of 1963. In the preface, they stated that
"... the report views franchising as a significant mar–keting phenomenon which has an important influence on the
American economy."

<table>
<thead>
<tr>
<th>Franchisor</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Rent-All</td>
<td>1949</td>
</tr>
<tr>
<td>Martinizing Dry Cleaners</td>
<td>1949</td>
</tr>
<tr>
<td>Dunkin Donuts</td>
<td>1950</td>
</tr>
<tr>
<td>Holiday Inns</td>
<td>1952</td>
</tr>
<tr>
<td>Dairy Queen</td>
<td>1952</td>
</tr>
<tr>
<td>Dog And Suds</td>
<td>1954</td>
</tr>
<tr>
<td>McDonald's</td>
<td>1955</td>
</tr>
<tr>
<td>Kentucky Fried Chicken</td>
<td>1955</td>
</tr>
<tr>
<td>Convenient Food Marts</td>
<td>1958</td>
</tr>
<tr>
<td>Hickory Farms Of Ohio</td>
<td>1960</td>
</tr>
</tbody>
</table>

The Economic Influence of the Franchise

"About 90 per cent of the franchise companies now
in operation have started since 1954."^ Almost any product
can be sold using the franchise system. Franchising has
experienced fantastic growth and development. There are now
over 1,200 franchise companies, which have granted more than
6,000 franchises. Estimates on total sales from the outlets
are about $90 billion. This would account for approximately
10 per cent of the U.S. gross national product^ and more

^Jeff Atkinson, Franchising: The Odds-On Favorite
(Chicago, Illinois, International Franchise Association,
1968) p. 3.

^Charles G. Burck, "Franchising's Troubled Dream

^Atkinson, Franchising, p. 5
than 26 per cent of all retail sales. An example of how fast the smaller franchises are growing can be established if several large and relatively expensive franchises are eliminated. Removing auto dealers, retail gasoline stations, tire dealers, soft drink bottlers, and hotel/motel syndicates leaves small business franchises with an estimated 1967 sales of $13 billion. The comparable increase in sales over the 1963 base year is 64 per cent. Over this same period of time, Gross National Products had increased only 34 per cent.

Chances of Success: The Business

When any person evaluates his employment, he often looks at his chances for success. This is usually true whether he works for himself, or is employed by another. Jeff Atkinson, author of Franchising: The Odds-On Favorite, has compiled several graphs and tables which indicate what the "odds" of success are in owning a franchised business. The record of business mortality in the United States is shown in Appendix I, Figure A. Six different areas for comparative study are shown on this graph. An examination

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8 Burck, Fortune, p. 118.

9 Smaller franchises are those which require under $100,000 total initial investment.

10 Atkinson, Franchising, p. 7.
of the data reveals that there is an eight times greater chance of failure with independent retail operation than with a franchise. The U.S. Department of Commerce, however, includes franchising in the data. These data indicate that the actual figure for retail trade should be even higher than it already is, if we exclude the franchise segment. After ten years of operation, only a 10 per cent chance of failure is noted. This is relatively low when compared with all businesses. The prospective franchisee might ask about the cost differential between an independent operation and a franchise. Sample figures are shown in Appendix I, Table A. It should be noted that the total investment is actually less for the independent. Why then would anyone build, and operate with a franchise developer, if the cost were greater? The answer is indicated in Appendix I, Figure A. The mortality rate data not only represent the expected rate of failure, but the inverse is the expected "success factor." Appendix I, Table A and Figure A are combined in Appendix I, Table B, and is a comparison of expected payoffs between an investment in an independent and a franchise retail outlet. The advantage to franchising is hypothetical and is based upon an annual profit of $28,000 per year for each type of outlet.

11 The failure rate for franchised business is, perhaps, expected to be lower because many franchisors will buy back and operate unsuccessful outlets.
The odds of success for the franchise are greater than that of independent operations and are shown in Appendix I, Table C. In the first year of operation, a franchise owner will have a twelve to one better chance of success when compared with the independent businessman. After ten years of operation, the odds of a franchise still being in operation are greater than eight to one when compared with independent operations. The odds of success stand on the side of the franchise by a significant margin.

Chances of Success - The Franchisee

Now that we have looked at the franchise, the next step is an examination of the qualities and abilities which the prospective franchisee should have. He will be working with all types of people in the everyday operation of his business. Some will be out to help him, but others will not. The franchisee must be able to appraise and handle all of them. The man must be a self-starter, for all that gets done will depend on him. If the individual has no business experience, he should be willing to learn. Much of his job as a manager will deal with paper work. Orders, payroll, tax records, and just everyday correspondence will all be done by the franchisee. The franchisee must be able to handle money. Impulse buying could be disastrous. The demands of running a franchise are great. One must work sixty hours or more a week, at the start, and be able to manage men, time,
money, and merchandise. It takes a man with drive and determination to be successful.

The franchisor can help the Air Force officer develop into a manager. First, the franchisee has access to the many years of know-how and experience that has been developed by the franchisor. Trial and error methods have already been ironed out. Successful operating procedures have been established. Schooling is provided to educate the franchisee on how these proven methods should be utilized. Site selection and lease negotiations are all carried out with the assistance of the franchisor. When the building is complete, the Grand Opening will be promoted and assisted by the franchisor. The assistance will continue after the outlet is in operation. Men from the "home office" stop in often to help with problem areas. Normally, large savings can be achieved through volume purchasing by the franchisor. Cooperative advertising is a great aid. Customers from all areas of the country know your product. This fact also accounts for the "instant" business from the first day of operation.

This is only one side of the picture. It must also be pointed out that a franchise can, and has led to failure. The franchise can rob a person of his life savings, if he lets it. Such things as going into a business for which one is not suited; financing too much of the initial costs; not having the immediate volume to back up the
payments; failure to follow the recommended procedures as outlined by the franchisor; not having the right attitude or dedication toward the entire operation; improper purchasing or paying can all lead to franchise failure.

Before signing any contract, the individual must carry out an extensive study of his own qualifications. The franchisee must be enthusiastic, have the ability, and be physically and emotionally ready to handle the task. After all, the franchise can, and will only succeed if hard work and full time effort is put into the operation. It must also be remembered that the franchisee must work with the franchisor as long as he owns the franchise. This means that the individual franchise owner is not completely independent. Both must work for increased profits through combined effort.

Emphasis will now be shifted from the franchise industry in general to specific national franchise corporations.

The franchises presented are Hickory Farms of Ohio, McDonald's, and One Hour Martinizing. These three were selected from the many available, because they represent well known national corporations and sell products or services different from one another. These three also represent franchises in a range of different price levels that could be purchased by retired Air Force officers, depending on the individual's assets. One Hour Martinizing can
be purchased for $12,000, Hickory Farms of Ohio for $35,000, and McDonald's for $63,000, according to the franchisor. All three can provide income levels equal to or better than the Air Force officer receives on active duty.

In each of the three following chapters, the first part is devoted to presenting some information the franchisor would give an individual who was considering a franchise in his organization. It is not intended to represent a complete analysis of the franchisor. The cost figures and services offered are as presented by the franchisor before an agreement is made. The second part of each chapter is based on an interview with a franchisee. The goal here is to present what actual costs are and what services the franchisor really did provide for the individuals interviewed.

It is not intended that information presented in the next three chapters represent the experience of every franchisee. Each individual franchise owner would have a different background and experience in the development of his franchise. Further research is needed in this area. The experience of the case studies presented here, however, are typical of the franchising industry.
CHAPTER IV

HICKORY FARMS OF OHIO

The Franchisor

Introduction

Hickory Farms of Ohio is a name that is well known throughout the United States for its excellent variety of specialty food products. This franchise has never had a failure and is recognized as an outstanding franchise value.

Origin and Growth

In 1950, Richard K. Ransom, now president of Hickory Farms, and Earl C. Ransom, now vice-president, were operating a produce business, but were looking for something new. Richard often thought about the potential of selling good quality cheese in a country store atmosphere. The two began selling cheese, that same year, in a small stall located at a travel show in Toledo, Ohio. They found that there was a market for their product. The fair circuit,

---

1Information for this section was obtained through personal correspondence with Mr. Milton B. Bostwick, Franchise Director, Hickory Farms of Ohio, Toledo, Ohio, March, 1970.
however, was a seasonal sales market and to supplement their income during the off season, they began a national mail order business. Both ventures were quite successful.

During the next nine years, they made contracts with a number of manufacturers and importers for the exclusive purchase of quality food products. In 1959, Hickory Farms opened its first store. It was located in Toledo. People began asking why Hickory Farm's products were not sold in their home town. In 1960, Hickory Farms entered the franchise field. The first franchised store was located in the Chicago area. By 1967, about seven years after opening its first franchise unit, the company had established eighty-five franchised store locations in twenty-three states. By January of 1970, Hickory Farms had opened a total of 135 independent stores in twenty-eight states.²

Common business conduct and practices have served to promote all franchise stores in the entire network of Hickory Farm operations.

General Policy

Hickory Farms will only grant franchise contracts to individuals who meet their requirements. An application for a franchise is shown in Appendix II. Decisions on whether to accept prospective franchisees are based on three

²Independent means without direct competition from another Hickory Farms of Ohio outlet.
objectives.

1. They insist that their national image continue to be synonymous with only quality products.

2. Their profit structure must continue to provide each franchise holder with a premium return on investment.

3. Each new store opened must develop into a successful operation in order that every Hickory Farm store owner benefits from their growth.

With the above in mind, each applicant is evaluated on the basis of his financial statement, personal resume, references, and his desire to obtain the franchise. Another important consideration is the wife's approval. As a minimum, it is hoped that she will acquire a basic knowledge of the franchise operation. Many store owners have found that a husband-wife team works out quite well. Applicants with the proper capital requirements have been turned down, because Hickory Farms felt that the franchise would not be in the best interest of both parties. Hickory Farms continually emphasizes that ownership of a franchised store is not a "get rich quick" program providing instant success. One must be willing to follow the program established by Hickory Farms and put in the necessary long hours and hard work required to make a franchise successful.

Capital Investment

Once approved by Hickory Farms, the individual is in a position to sign the license and franchise agreement. At this time, a $3,000 "buying-in fee" is collected from
the franchisee. For this fee, Hickory Farms agrees to help in securing a suitable store location, and in furnishing blueprints of interior and exterior design. The fee also includes advertising, news releases, and trained help for the Grand Opening. A training program is also provided to familiarize the franchisee with all aspects of the Hickory Farm program. Travel to and from Toledo, and personal expenses are not included. Hickory Farms also provides the first year's supply of letterheads, envelopes and other printed material.

When store development begins, an additional capital investment of between $35,000 and $40,000 is required. Of this amount, at least $30,000 must be in cash or assets. Using an average size store of 3,000 square feet, Hickory Farms breaks down the initial costs as shown in Table 2.

In addition to the specific capital requirements, some costs, such as exceptionally high labor costs, permits and licenses, phone installations, and other miscellaneous items must be taken into consideration. Hickory Farms realizes that some applicants may not have the required liquid assets. In these situations, outside financing of some portion of the required capital may be permitted. However, the individual must arrange for this capital at the local level, as Hickory Farms will not help the franchisee secure funds. The only type of direct financing available is for the fixtures and equipment. Approximately $11,000 of needed capital
could be obtained in this manner. The payments would amount to $240 per month. (This amounts to a total payment of principal plus interest of $14,400 over a sixty month period.)

TABLE 2

COSTS FOR AN AVERAGE HICKORY FARMS STORE

<table>
<thead>
<tr>
<th>Opening Merchandise Inventory</th>
<th>$15,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Follow-up Merchandise Inventory</td>
<td>3,500</td>
</tr>
<tr>
<td>Fixtures and Equipment</td>
<td>11,000</td>
</tr>
<tr>
<td>Barrels (for display) plus freight</td>
<td>350</td>
</tr>
<tr>
<td>Store Supplies (from Toledo Warehouse)</td>
<td>1,800</td>
</tr>
<tr>
<td>Opening Advertising Costs</td>
<td>1,200</td>
</tr>
<tr>
<td>Freight (general)</td>
<td>700</td>
</tr>
<tr>
<td>Outdoor Sign</td>
<td>600</td>
</tr>
<tr>
<td>Sundry Items (from local sources)</td>
<td>400</td>
</tr>
</tbody>
</table>

$34,550

Source: Hickory Farms of Ohio, Toledo, Ohio, March, 1970.

Once in operation, certain payments are collected each week by Hickory Farms. The first payment is a 6 per cent charge on the gross sales. This is a franchise fee which must be paid to Hickory Farms on Tuesday of each week. It is based upon the prior weeks total gross receipts. Second, 1 per cent of total gross receipts are collected
each week, and put into a national advertising fund. This money is to be used for the promotion of all Hickory Farms outlets. The last requirement is that an additional 5 per cent of the gross receipts must be spent for local advertising during the fiscal year. Only approved products can be sold from a Hickory Farms franchised store.

Profit Potential

If operated according to the Hickory Farms guide lines, a franchised store can be a very profitable venture. Hickory Farms will not open a store that does not have a projected sales potential of at least $180,000 by the second full year of operation. Fixed expenses remain fairly constant in the four fiscal quarters. In contrast, variable expenses are usually quite stable in the first three quarters. This is because 45 per cent to 50 per cent of the outlet's entire year's volume will be sold during the fourth quarter. Hickory Farms points out that every quarter should produce some profit for the store. Holiday sales should be a bonus to store owners.

Table 3 is a sample profit and loss statement of a franchised store in its first two years of operation. This sample store did not put 1 per cent into the national advertising fund nor was it required to spend 5 per cent of gross receipts on local advertising. At this time, the above provisions were not part of the Hickory Farms contract.
Adjustments should be made for this. Any store approved now would be required to include these in the operating expenses of the franchise.
### TABLE 3

**SAMPLE PROFIT AND LOSS STATEMENT**

**1967**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Percentage to Gross Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES</strong></td>
<td><strong>$163,420.95</strong></td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td><strong>COST OF SALES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory Beginning</td>
<td>17,928.79</td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>83,144.38</td>
<td></td>
</tr>
<tr>
<td><strong>Total for Sale</strong></td>
<td><strong>101,073.17</strong></td>
<td></td>
</tr>
<tr>
<td>Ending Inventory</td>
<td>18,323.67</td>
<td></td>
</tr>
<tr>
<td><strong>COST OF SALES</strong></td>
<td><strong>82,749.50</strong></td>
<td><strong>50.64%</strong></td>
</tr>
<tr>
<td><strong>GROSS PROFIT</strong></td>
<td><strong>80,671.45</strong></td>
<td><strong>49.36%</strong></td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll</td>
<td>12,424.70</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>8,142.10</td>
<td><strong>4.98%</strong></td>
</tr>
<tr>
<td>Franchise Fee</td>
<td>9,737.08</td>
<td><strong>5.96%</strong></td>
</tr>
<tr>
<td>Advertising</td>
<td>6,459.94</td>
<td><strong>3.97%</strong></td>
</tr>
<tr>
<td>Freight</td>
<td>4,283.21</td>
<td><strong>2.62%</strong></td>
</tr>
<tr>
<td>Store Supplies</td>
<td>6,367.95</td>
<td><strong>3.89%</strong></td>
</tr>
<tr>
<td>Office Supplies</td>
<td>346.59</td>
<td><strong>.21%</strong></td>
</tr>
<tr>
<td>Utilities</td>
<td>1,908.42</td>
<td><strong>1.17%</strong></td>
</tr>
<tr>
<td>Telephone</td>
<td>894.68</td>
<td><strong>.55%</strong></td>
</tr>
<tr>
<td>Postage</td>
<td>25.00</td>
<td><strong>.15%</strong></td>
</tr>
<tr>
<td>Repair - Maintenance</td>
<td>1,087.81</td>
<td><strong>.67%</strong></td>
</tr>
<tr>
<td>Insurance</td>
<td>273.89</td>
<td><strong>.17%</strong></td>
</tr>
<tr>
<td>Legal - Auditing</td>
<td>935.00</td>
<td><strong>.57%</strong></td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,502.40</td>
<td><strong>.92%</strong></td>
</tr>
<tr>
<td>Dues &amp; Subscriptions</td>
<td>163.75</td>
<td><strong>.10%</strong></td>
</tr>
<tr>
<td>Taxes - State &amp; Local</td>
<td>702.03</td>
<td><strong>.43%</strong></td>
</tr>
<tr>
<td>Taxes - Payroll</td>
<td>932.41</td>
<td><strong>.57%</strong></td>
</tr>
<tr>
<td>Travel - Entertainment</td>
<td>422.29</td>
<td><strong>.26%</strong></td>
</tr>
<tr>
<td>Auto Expense</td>
<td>453.82</td>
<td><strong>.28%</strong></td>
</tr>
<tr>
<td>Miscellaneous Rents</td>
<td>20.60</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td><strong>57,083.67</strong></td>
<td><strong>34.93%</strong></td>
</tr>
<tr>
<td><strong>PROFIT FROM OPERATIONS</strong></td>
<td><strong>23,587.78</strong></td>
<td><strong>14.43%</strong></td>
</tr>
</tbody>
</table>

*(Before Owner's Draw)*
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Percentage to Gross Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES</strong></td>
<td>$178,456.16</td>
<td>100%</td>
</tr>
<tr>
<td><strong>COST OF SALES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning Inventory</td>
<td>18,323.67</td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>82,098.35</td>
<td></td>
</tr>
<tr>
<td>Total for Sale</td>
<td>100,422.02</td>
<td></td>
</tr>
<tr>
<td>Ending Inventory</td>
<td>18,843.92</td>
<td></td>
</tr>
<tr>
<td><strong>COST OF SALES</strong></td>
<td>81,578.03</td>
<td>45.71</td>
</tr>
<tr>
<td><strong>GROSS PROFIT</strong></td>
<td>96,878.13</td>
<td>54.29</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll</td>
<td>13,869.54</td>
<td>7.77</td>
</tr>
<tr>
<td>Rent</td>
<td>8,921.72</td>
<td>5.00</td>
</tr>
<tr>
<td>Franchise Fee</td>
<td>10,528.32</td>
<td>5.90</td>
</tr>
<tr>
<td>Advertising</td>
<td>9,007.35</td>
<td>5.05</td>
</tr>
<tr>
<td>Freight</td>
<td>3,860.75</td>
<td>2.16</td>
</tr>
<tr>
<td>Store Supplies</td>
<td>5,001.45</td>
<td>2.30</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>348.28</td>
<td>0.19</td>
</tr>
<tr>
<td>Utilities</td>
<td>2,089.48</td>
<td>1.17</td>
</tr>
<tr>
<td>Telephone</td>
<td>813.50</td>
<td>0.46</td>
</tr>
<tr>
<td>Postage</td>
<td>155.48</td>
<td>0.09</td>
</tr>
<tr>
<td>Repair - Maintenance</td>
<td>1,036.26</td>
<td>0.59</td>
</tr>
<tr>
<td>Insurance</td>
<td>607.27</td>
<td>0.34</td>
</tr>
<tr>
<td>Legal - Auditing</td>
<td>935.00</td>
<td>0.52</td>
</tr>
<tr>
<td>Depreciation</td>
<td>4,281.59</td>
<td>2.40</td>
</tr>
<tr>
<td>Dues &amp; Subscriptions</td>
<td>211.70</td>
<td>0.12</td>
</tr>
<tr>
<td>Taxes - State &amp; Local</td>
<td>713.14</td>
<td>0.40</td>
</tr>
<tr>
<td>Taxes - Payroll</td>
<td>984.86</td>
<td>0.55</td>
</tr>
<tr>
<td>Travel - Entertainment</td>
<td>434.04</td>
<td>0.24</td>
</tr>
<tr>
<td>Auto Expense</td>
<td>354.43</td>
<td>0.20</td>
</tr>
<tr>
<td>Miscellaneous Rents</td>
<td>344.01</td>
<td>0.19</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td>64,498.17</td>
<td>36.14</td>
</tr>
<tr>
<td><strong>PROFIT FROM OPERATIONS</strong></td>
<td>32,379.96</td>
<td>18.15</td>
</tr>
</tbody>
</table>

*Source: Hickory Farms of Ohio, Toledo, Ohio, March, 1970.*
Mr. Gene Todd first became associated with Hickory Farms about three years ago. He is in his forties and is married. His wife does take an active part in the operation of his franchised outlets. Early in April, 1970, she will depart for Minneapolis to check on the salesgirls being hired for his third Hickory Farm outlet.

Mr. Todd has a Bachelor of Science degree from the University of Minnesota. He spent thirteen years working for Nash and Finch of Minneapolis before entering the franchise field. Nash and Finch is a wholesale food company, which also operates several retail food outlets in the Minneapolis area. Mr. Todd managed the grocery products in both the wholesale and retail areas of that company.

Being a native of Montana, Mr. Todd returned to this state to open his first Hickory Farm outlet. He chose the Hickory Farm franchise, because of its performance as a retail food outlet, and because of favorable interviews with established Hickory Farm franchise owners. After all, he said, "Hickory Farms has never had a failure. They (the Hickory Farms Franchise) are successful and profitable."

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3Information for this section was obtained through a private interview with Mr. Gene Todd, Great Falls, Montana, March 1970
Mr. Todd felt there were several considerations which favorably disposed Hickory Farms to his application for a franchise. First was his net worth. He believed that Hickory Farms would require him to have a net worth of at least $70,000 to even be considered for a franchise. He met this requirement. Second, he had thirteen years experience in the wholesale and retail food business. Mr. Todd felt that this was the most important factor in his selection. Third, he already had arranged for an acceptable location in the Holiday Village Shopping Center in Great Falls.

In October, 1967, Mr. Todd opened the 109th Hickory Farms store. He had invested over $62,000 in this venture by the opening day. The Great Falls area was one of the smallest population centers to be granted a Hickory Farms franchise. This outlet ranked ninety-sixth in size. In spite of this fact, the Grand Opening was the third largest in the history of Hickory Farms, based on gross sales for the initial week. One year later, Mr. Todd opened his second store in Boise, Idaho, at a cost of $53,000, the lowest cost outlet in his chain. The Grand Opening for this store was even larger than the one in Great Falls.

Multiple store locations have a habit of bringing on new problem areas, and this was no exception. Mr. Todd planned to "do the job right." He started by hiring two young college graduates to run both of his outlets. This, he thought, would provide the necessary level of management
to properly operate his outlets. After a few months in operation, Mr. Todd noted that one store always seemed to be "off" in the cash receipts. An investigation found that the manager was putting his hand into the till. He was replaced. The replacement was, again, a young college graduate. This new manager worked hard, but "never really developed a feel for the business." He was always running out of stock on items he knew sold well, and was always over-stocked on slow movers. Mr. Todd pointed out that proper stock balance is important when dealing with food.

At the other store, things were barely satisfactory. It was late October when Mr. Todd checked in to see how the operation was progressing. With the big season for Hickory Farms products just around the corner, Mr. Todd found that the manager was not at all prepared for the holiday season. He had only placed normal replacement orders to supply the store. No provisions had been made for the high demand of the season. The store was swamped with customers and the manager had nothing to sell.

Mr. Todd took drastic action and changed his entire management program. He felt that there just was no substitute for experience. Today, the managers in his two stores are forty-eight and forty-nine years old. The new store in Minneapolis will have a "young" manager of thirty-nine years. Mr. Todd is now quite satisfied with his managers' performance. The store manager's pay is $800.00 per
month, and 5 per cent of the gross profit before tax. His managers are given goals they must meet for the year. One is a 10 per cent increase in gross sales after the second year of operation.

Mr. Todd's third store located in Minneapolis will be used to show how Hickory Farms helps in the planning and development of a new store location. Again, Mr. Todd found the location on his own and he arranged for the lease contract before contacting Hickory Farms. The new store will be located in Southdale, the leading shopping center in the seven county Minneapolis/St. Paul metropolitan area. The rent will be $16,800 or 5 per cent of gross sales, which ever is higher. During December, 1969 Hickory Farms was contacted, site approval was made, and the contract was signed. It was now time to begin construction. Hickory Farms supplied Mr. Todd with all the needed blueprints for the 3,000 square foot store in the center. It was up to Mr. Todd to arrange for the contractors to do the actual remodeling. The cost of remodeling was estimated at $26,000. Next the merchandise had to be arranged for. Hickory Farms took care of this. It ordered $35,000 worth of stock to supply the store during its Grand Opening. Mr. Todd has supervised the construction, and set April 2nd, as the date for opening. However, the representative from Hickory Farms was busy that week and could not be present. Mr. Todd said, "We don't open a store unless everything is
perfect." The opening date was set for April 8th, and the Hickory Farms representative planned to be present.

Mr. Todd expects the Minneapolis area to be quite profitable. He expects sales to run $400,000 per year in this store alone. Arrangements have already been made for opening two more outlets in the Minneapolis area. Mr. Todd's present outlets net him 16 per cent to 18 per cent of gross sales before taxes. He claims that this is a constant and stable rate. There is no reason why these new stores will not net the same. This net is after all expenses, including payment of the manager, have been paid.

Once in operation, Hickory Farms provides Mr. Todd with weekly reports on how he is doing. The home office notes any irregularities in his operations, and makes suggestions for improvement. Hickory Farms also provides him with the advertising copy for his local sales promotion. Color print handouts are also supplied. However, the largest single service is the quality products supplied at a low cost. Mr. Todd never worries about the quality or price of his merchandise. Retail and wholesale prices are all set by Hickory Farms. In this way, his gross profit before expenses is assured. The rest is up to him.
Conclusion

For Mr. Todd, the Hickory Farms estimate of $35,000 was not accurate. In fact, the difference amounted to $18,000 for his lowest cost outlet. This cost differential is significant, and points out the importance of proper financial planning before signing a franchise contract. Second, the franchisor, in this example, did not provide a "turnkey" operation for the franchisee. Mr. Todd had to find his own location in every case. Once found, Mr. Todd spent weeks supervising construction. Third, the franchisor had not developed a workable system of management training. All of Mr. Todd's original managers had taken the Hickory Farms management training course. Yet he was forced to replace these men and employ new managers that had previous experience in the retail sales business.

Justification of a longer training program seems to be present. The retired Air Force officer is in a unique position to take advantage of an extended training program. Many individuals could not afford an extended training period. The retired Air Force officer could, because he is not totally dependent on current employment for his income. The franchisor could take advantage of this in providing extensive training for inexperienced franchise holders and their managers. In this respect, it may be to the franchisor's advantage to give preference to retired Air Force officers.
Further research in this area is needed.

A fast service food franchise will be the subject of Chapter V. McDonald's, represents a highly successful and profitable franchise operation.
CHAPTER V

McDONALD'S CORPORATION

The Franchisor

Introduction

The big "McDonald's Hamburger" sign is known throughout the United States for fast food service and quality food products. This chain of hamburger restaurants has sold over five billion hamburgers. Successful franchise dealers have various employment backgrounds. One franchise owner is a retired Air Force colonel. Another is a Navy commander. McDonald's claims that a prospective franchisee will need approximately $63,000 initial capital to be considered for a franchise location.

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1Information for this section was obtained through personal correspondence with Mr. John Franke, Assistant Regional Franchise Manager, McDonald's Corporation, Hollywood, California, March, 1970.
Origin and Growth

In 1955, Ray Kroc, now chairman of the Board of McDonald's Corporation, was selling multiple malted milk mixers. It was a new concept in mixers invented by a close friend, Earl Prince. The mixer was able to make five malts at one time, and seldom broke down. One outlet in San Bernardino, California had purchased eight of the multimixers. No other customer had ever purchased that many before. Mr. Kroc said, "This I have to see." When he arrived, Mac and Dick McDonald were selling 15 cent hamburgers just as fast as they could make them. People were waiting in line "clamoring for more." Mr. Kroc said to the McDonalds, "You are doing marvelously. Why don't you put these stores up all over?" At that time, Mr. Kroc felt the real money was in selling the multimixers. He thought he would become a rich man, if he could put eight units in each McDonald's location. However, the McDonalds were not interested. They were happy with just the single outlet, and had no desire to branch out. Both felt it would only lead to new problems. Mr. Kroc still felt that more outlets of the McDonald type would open up a substantial market for


\[3\] Ibid.

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the multimixers. In 1955, Mr. Kroc signed a ninety-nine year contract, which gave him exclusive rights to operate outlets based on the one owned by the McDonalds. In the contract, it was stated that Mr. Kroc could not change anything in the operation. This included the menu, prices, quantity and quality of the food, and every detail of the building construction. He could ask for exceptions, but they had to be in writing and sent by registered mail. For this the McDonalds would receive one-half of 1 per cent of the gross sales.

The first outlet was opened by Mr. Kroc in April of 1955. The second, which was the first franchised outlet, was opened by Art Bender, in September of 1955, in Fresno, California. Gross sales for 1955 were $235,000. It was at this time that Mr. Kroc noted that the real profit in this business was not in supplying the multimixers, but in selling the products. This change in thinking required changes in the basic operation. But no changes were permitted under the contract. The McDonalds did not care if he made changes, but they could not be bothered with sending registered letters every time Kroc wanted something changed. In 1960, Mr. Kroc called the McDonalds and offered them $500,000 to purchase back the original contract, and to buy the exclusive unconditional rights to the McDonald name and operation. Dick and Mac thought it over and replied, "We have a price."
In January of 1961, Ray Kroc paid Mac and Dick McDonald $2.7 million for all rights to the McDonald concept and trademark.

McDonald's now has 1,021 franchised outlets, and 191 company-owned outlets in operation. New franchises are being opened at the rate of over one hundred per year. McDonald's keeps more than one hundred approved franchisees on the waiting list at all times. Most must wait about one and one-half years, after approval, before being offered a location.

The McDonald's Corporation sold almost $90 million worth of goods and services in 1968. Total sales for all outlets (company-owned and licensed) were over $335 million. McDonald's outlets purchased over 180 million pounds of potatoes, 67 million pounds of hamburger, 660 million buns, 2 million gallons of ketchup, and over one million gallons of pickles to satisfy customer appetites. McDonald's is the nation's largest buyer of hamburger, with the exception of the U. S. government.

Mr. Kroc feels he has been successful, but is not about to give up trying to improve his operation. He owns about two million shares of stock in McDonald's Corporation.

\(^4\) Ibid.
General Policy

McDonald's is one of the most sought after franchises available. Because of this, McDonald's can, and is most selective in approving applications for franchised outlets. McDonald's prefers that the applicant have some business background and ambition. They are not interested in individuals whose goal is to play golf all week. The individual's character is quite important. His attitude toward his family and community is evaluated. One must be a "joiner" if he plans to operate a McDonald's franchise. Since over 90 per cent of sales originate from the local neighborhoods, McDonald's works toward building an image in the individual customer's mind. For this reason, you will never find a jukebox, cigaret machine, pinball machine, or telephone located in a McDonald's outlet.

Mr. Kroc claims that the reason for McDonald's success is the quality control of the food sold. On the average, it takes fifty seconds to serve the customer a hamburger, milk shake, and French fries. To set up the system that produced this, took years of development. Today, everything is spelled out for the franchisee in a confidential booklet published by McDonald's. The exact specifications for the hamburger and buns are given. The bun, for example, is 3 and 3/4 inches in diameter. McDonald's has always made it a policy to purchase all it
can at the local level. Also, McDonald's, or their executives, own no stock or have any interest in the few national suppliers it does have. The company goal is to earn profits on what goes out of the store, not on what is being sold to it. However, local suppliers must meet the high standards set by McDonald's.

Capital Investment

Once approved by McDonald's, the individual is put on the waiting list of accepted investors. At this time, two deposits totaling $4,000 are paid to McDonald's. This deposit is applied to the initial franchise fee of $10,000 when the individual is offered, and has accepted a specific location. The franchise fee pays for several items received from McDonald's. First, the franchisee will be granted an exclusive license to operate a McDonald's outlet in a specific location. Second, it includes assistance in making contracts with local suppliers. Third, "home office" help is given to the franchisee at its Grand Opening. Fourth, the franchisee is sent to "Hamburger University" located in Elk Grove Village, Illinois. This is a fifteen day course, which acquaints the owner/operator with the McDonald's operation. The basic curriculum at H. U. leads to a Bachelor of Hamburgerology degree. The program includes three basic themes. They are food, equipment, and management techniques. Travel to and from H. U. and personal
expenses are not paid for by McDonald's.

Once actual store development begins, an additional $100,000 will be needed. Of this amount, $59,000 must be available in cash by the franchisee. Using an average size store of 1,500 square feet, and parking for fifty cars for a total of 23,000 square feet, McDonald's breaks down the initial cost as shown in Table 4.

**TABLE 4**

**COSTS FOR AN AVERAGE MCDONALD'S OUTLET**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>McDonald's Site Development Fee</td>
<td>$2,500</td>
</tr>
<tr>
<td>McDonald's License Fee</td>
<td>10,000</td>
</tr>
<tr>
<td>Security Deposit Against The Lease</td>
<td>15,000</td>
</tr>
<tr>
<td>Net Cost of Arches, Signs, and Neon Work (Cash down payment on total net cost of $13,500.)</td>
<td>2,500</td>
</tr>
<tr>
<td>Food Service Equipment (Cash down payment on total net cost of $55,000.)</td>
<td>15,000</td>
</tr>
<tr>
<td>Miscellaneous Cash Requirement</td>
<td>18,000</td>
</tr>
<tr>
<td><strong>Total Cash Required</strong></td>
<td>$63,000</td>
</tr>
</tbody>
</table>


Notes:

The cash requirement can be reduced by agreement to a service fee of 4 per cent (instead of 3 per cent) by waiver of the $2,500 (Site Development Fee) and the $10,000 (License Fee).

The fresh product inventory, food, paper, and condiments cost approximately $5,000 which are needed to open the unit. Usually these items are not paid for until after the unit is in operation.
In addition to the specific capital requirements, some additional cost should be expected due to local price variation. McDonald's is not interested in any individual that does not have the necessary capital. Each franchisee is required to obtain his own funds. Any borrowing, that becomes necessary, must be found and secured by the franchisee. The only type of direct financing available from McDonald's is the waiver of the $2,500 site development fee and the $10,000 license fee. McDonald's requires 1 per cent of gross sales for this waiver.

Once in operation, the franchisee is charged a service fee of 3 per cent of gross sales. This amount is paid every six months to the McDonald's Corporation. The land and building are leased to the franchisee for twenty years. Rent paid to McDonald's is about 8 per cent of gross sales. Of course, only approved food items can be sold from a McDonald's franchised store.

Profit Potential

If operated according to the McDonald's franchise plan, a franchised operation can be a very profitable venture for both McDonald's and the franchisee. The average McDonald's store location, had gross sales of over $330,000 in 1968. Seventy-five outlets had gross sales of over $500,000. Of this, McDonald's states that average food and paper costs run about 39 per cent of gross sales. This
leaves 61 per cent of gross sales for other expenses and profit. These other expenses, including rent, payroll, utilities, franchise fee payment to McDonald's, and others total about 46 per cent of gross sales. This leaves a 15 per cent net profit before taxes. Taking his percentage times gross sales gives a figure of about $50,000 before tax income. McDonald's indicates that franchised owners with four or more outlets often become millionaires.

McDonald's would not release sample profit and loss statements. They feel that individual operators affect the figures, and to present them without explanation would not be beneficial to the prospective franchisee. Samples, however, will be made available during a franchisee interview at the time of selection. Also, McDonald's will not release a sample contract for evaluation. "These documents are held in strictest confidence for obvious reasons."^5

In contrast, McDonald's would release a statement giving exactly what the franchise could expect to receive for the 3 per cent of gross sales that is paid to the corporation. This information is presented in Figure I.

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^5John Franke, Assistant Regional Franchise Manager, McDonald's Corporation, Hollywood, California, Personal Letter, March, 1970.
Figure I

BENEFITS PROVIDED BY THE MCDONALD'S SYSTEM, INCORPORATED

1. McDonald's System, Inc., negotiates volume contracts with all purveyors and suppliers. These contracts are based on high quality and low prices. McDonald's makes all items available to the individual operator at the exact contract price. The overall advantage of this centralized buying power reflects a saving to the operator of at least 4 per cent of his sales.

2. Arrangements are made for the new operator to spend at least seventeen days in training and indoctrination into the business at Hamburger University. At opening a trained McDonald's consultant is sent to each unit for no less than three days. He will take charge of the opening of the unit, assist in training the employees, and generally oversee the opening to assure greatest efficiency.

3. McDonald's has a fully proven and tested system that enables an operator to sell the limited number of food items at a price well below market on a highly profitable basis.

4. The standards of high quality are maintained throughout all the operating units by virtue of centralized buying on periodic inspections and consultations.

5. McDonald's is available for consultation with all operators and acts as a clearing house for information. We advise each operator of new ideas, improved methods, and aid him to guard against pitfalls of trials and error.

6. All the advantages of brand identification, uniformity of color scheme, menu, and service are inherent in the McDonald's System.

7. Each McDonald's operator can benefit by his affiliation with experts in the specialized food field who provide tested and proven operating procedures for greatest efficiency and lowest operating overhead; who outline policies for the best interests of the McDonald's operators, which policies are designed to promote and protect each operator as well as the public interest and who provide personalized assistance and guidance.

Source: McDonald's Corporation, Chicago, Illinois, March, 1970
The Franchisee  

The McDonald's franchisee used as an example in this paper requested that his name and the exact location of his outlet be withheld. The name used in this section is based on the first name of the author, and has no resemblance to the actual franchisee. The location of this franchised McDonald's outlet is similar to other locations presented in this paper. All other information is exactly as given by the franchisee.

Mr. Douglas is forty-one years old, and a native of Phoenix, Arizona. He first became associated with McDonald's some years ago, as an investor. His wife does not actually work in the outlet, but could run the business if Mr. Douglas was unable to do so. Her knowledge is based on daily operational reports made up at the store level. In addition, guidance would be provided by the McDonald's Corporation.

Mr. Douglas graduated from the University of Wyoming in 1949. At this time, he returned to Phoenix and started a sales career. He began working for Air Research selling jet engines. During the following years, he entered into several small business ventures. These consisted of an electronic sales company and a land development company.

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6Information for this section was obtained through a private interview, March, 1970.
Then an important event took place in his life, one that would eventually require his life savings to develop. A friend applied for, and was granted a franchise location in Phoenix. Mr. Douglas loaned money to his friend to help finance the Phoenix McDonald's franchise. Over time, Mr. Douglas became acquainted with the operation and saw just how profitable it was. Mr. Douglas stated that he felt the McDonald's franchise operation could "provide the best all around return on his capital."

In 1967, Mr. Douglas made application to the McDonald's Corporation for a franchise location. Late that same year, he was accepted, paid the $4,000, and was put on the waiting list. Mr. Douglas waited approximately one and one-half years before his name came up for a location assignment. Mr. Douglas was offered two new locations. The first was a Texas site and the second was in the Northwest. He chose the later, and signed the contract and twenty year lease agreement in June of 1969.

At that time, McDonald's had already purchased the land and had begun site development. Mr. Douglas put in his $59,000 in cash, and had arranged for a $92,000 loan on his own credit rating. This figure is substantially higher than that quoted by McDonald's. When asked why it was so high, Mr. Douglas replied, "There is $25,000 in this basement alone that they (McDonald's) do not figure in." This includes $4,000 more in inventory required to open, uniforms,
extra food equipment, office equipment, office space, employee room, and other supplies. "And that's not all, now more parking space is required." Mr. Douglas estimated that an additional $60,000 will be required to put in the expanded parking area. "Whatever McDonald's says is needed, you can just about double it." Mr. Douglas stated. "An extra $10,000 was needed to provide for indoor seating alone." On Opening Day, Mr. Douglas had a total investment, including borrowed capital of $155,000.

Some problems developed during the period before opening. Even though the building and equipment are installed by McDonald's "at a very low price," all problems were handled by Mr. Douglas. Equipment deliveries were late. It was up to Mr. Douglas to find out what happened. The purchase order for the seating was not handled correctly. Again, Mr. Douglas stepped in. As stated before, all food merchandise is locally supplied. In most locations, this is no problem, as many vendors are bidding to supply the volume of buns and hamburger required by a McDonald's franchise. Mr. Douglas used twenty-two tons of hamburger during his first sixty days of operation. However, in this location, no one wanted to, or could supply the meat. McDonald's requires exacting ingredients, and will not compromise. The vendor needs to supply the meat in large quantities. In Great Falls, however, considerable time and much negotiation took place before even one vendor could be found who
would supply the hamburger. The same thing happened with buns.

In time, all problems were solved, and Mr. Douglas opened his McDonald's franchise in October, 1969. Company men had been helping him all along. Now, these company men were at the counter waiting on customers. New employees were being trained by example, to run the business. Mr. Douglas was out front taking customer orders. People could not find a place to park, and lines formed to buy the "McDonald hamburger." The only reaction could be, "That's wonderful, you must be making a killing." But this was not the case. Employees were still new, even the manager was just learning, and costs ran high. Inventory ran out, and replacement had to be flown in, as the local supplier could not handle the demand.

For the first month of operation, profits ran under one per cent of gross sales. After the second month, it had increased to just over one per cent. Mr. Douglas was making a profit, but not at the level suggested by McDonald's. His goal is fourteen per cent profit on gross sales before tax. He hopes this goal can be reached by the end of this year, or early next. Sales for his first full year of operation are estimated at $400,000. This is above the average for all McDonald outlets.

The operation is just starting to shape up. Mr. Douglas' employees can now serve about as fast as the "home
office" help could when he first opened. The manager has had some experience in handling his men. Mr. Douglas says his biggest problem now is purchasing. Local supply of food and material takes constant management and supervision. Retail prices are set by McDonald's, but supply prices are not, and therefore, can be negotiated. Mr. Douglas believes that purchasing is the single most important area of his business.

Mr. Douglas hopes to open more franchised McDonald's locations. This will, of course, depend on how well this operation turns out. Expansion is planned for the city he is now in, and for other locations in the state. Mr. Douglas works six to seven days a week and the hours are long. The best advice he has for others who plan to enter "franchising" is to make sure they have the necessary capital. It's expensive, and it takes months before any return is realized.

Conclusion

Mr. Douglas' experience with McDonald's was, in some respects, quite similar to Mr. Todd's experience with Hickory Farms. Both men were required to invest amounts of capital much greater than initially suggested by the parent franchise corporation. Both men emphasized the need for proper financial planning. Second, Mr. Douglas did not have the experience, and was not trained by McDonald's to
handle the purchasing problems of a McDonald's franchise. Since retail prices are established at low levels, proper purchasing is vital to successful operation of the franchise. It seems franchisor guidance in this area is urgently needed. Third, Mr. Douglas has had his franchise in operation for several months, but has not reached an acceptable profit level. He still must pay his personal obligations during the initial months of operation. Mr. Douglas has had to set aside savings for this purpose.

Again, the retired Air Force officer would have some advantage over many others in small business operations. Often franchises will operate at a low or zero level of profit for the first few months. This period can represent a hardship on those who have invested their life savings into the business. The retired Air Force officer is in a good position to withstand this demand on assets because his income would not be totally dependent on earnings from the franchise.

Information in Chapters IV and V indicated the requirement for large amounts of capital to enter franchising. It must be pointed out that this is not always true. One Hour Martinizing is a franchise that requires only $12,000 initial investment, according to the Martin Sales Company. Information on this franchise opportunity is contained in Chapter VI.
CHAPTER VI

ONE HOUR MARTINIZING

The Franchisor

Introduction

One Hour Martinizing is the least expensive of all franchises presented in this paper. It is also the oldest, established in 1949, and has the most franchised outlets. Many One Hour Martinizing franchise owners have multiple store operations. This is encouraged by Martin Sales and often leads to a full time management position.

The Company

Martin Sales is quite different from other franchise companies presented in this paper. First, it is a subdivision of a major United States Corporation. To be exact, Martin Sales is a division of American Laundry Machinery Industries, which in turn is a division of the McGraw-Edison Company. McGraw-Edison is listed on the

1 Information for this section was obtained through personal correspondence with Mr. Michael Devanney, Sales Manager, Martin Sales Company, Cincinnati, Ohio, March, 1970.
Fortune "500" list of largest corporations. Martin Sales claims to be part of a two billion dollar per year market, and they claim that this figure will continue to grow along with our population and increasing number of white collar workers. There are over 3,000 "Martinizing" outlets, located in England, South America, Caribbean Islands, Central America, Canada, as well as the United States. Second, Martin Sales obtains all its income from the sale of equipment. This equipment is the secret of the "Martinizing" process. The dry cleaning service offered by Martin is fast, simple, and efficient. The operation is almost automatic which leads to the term "One Hour Martinizing."

Martin claims that the real cost saving is a combination of speed and lower fluid costs. Martin's cleaning equipment is based on a two step cleaning process. First, the clothes are placed in the cleaning drum. It looks like a large washing machine, but uses cleaning fluid. On the side of this machine is a large filter. This filter is able to remove most all impurities from the cleaning fluid and make it ready for reuse. On conventional systems, the fluid must be completely changed twice daily. Martin outlets never need replace their fluid. They must just replace that amount which the filter traps. The filter is flushed clean once each day. Next, the clothes are put into a second machine, which resembles a dryer. Here the excess fluid is removed. A "sniffer" is located on the side of
this machine. When the fluid has been removed, the "sniffer" will stop the cycle and the clothes are ready to be pressed. The "sniffer" requires service once every three days. Normal service on both units can be easily carried out by the franchisee or store manager.

Martin does not supply any of the materials needed to operate the equipment once it has been installed. Supplies, such as cleaning fluid, are purchased at the local level. Of course, Martin will service its equipment if a breakdown or malfunction should occur.

Initial Application and Cost

Martin shows that the type of individual that normally opens a franchise is thirty-five to forty-five years old. He has no previous experience in the dry cleaning operation, but does have some managerial background. Martin seeks an individual who is a self-starter, and one who will look after details. Also, if Martin is to finance any portion of the business, it would require an individual to have a total net worth equal to the total cost of the franchise. Martin has no educational requirement. They have accepted individuals with almost any type of background.

Martin strongly suggests that floor space for Martinizing outlets be leased. It is up to the individual to find a store location and to negotiate for a rental agreement. Martin will then come and approve the site.
Martin has no objection to one franchisee owning several outlets. In fact, they often encourage it.

The initial cost of establishing a Martinizing outlet runs approximately $30,000. Martin only requires a 10 per cent down payment. However, they feel $12,000 is necessary in cash to establish an operation. This assumes the individual has made arrangements for obtaining rental space. If the franchise must have its own building, Martin has a pre-fabricated one for sale. The cost of the building is in addition to the amount stated above. Also, Martin charges a flat franchisee fee of $1,000 for the first three years. After the third year, a flat charge of $500 is made on an annual basis. This franchisee fee is used to pay for the Martinizing national advertising program. In fact, Martin usually adds its own capital to the advertising fund to help boost store sales. Martin also sells shirt laundering equipment, which can be included in the individual's operation. This can be installed originally, or at any time after the franchise is in operation. The cost for this additional equipment is $12,000. Training is provided at company expense, at a local Martin outlet. This means there are no travel or travel-related expenses for the individual during his training period.
Profit Potential

Martin states that a new Martinizing dry cleaning plant should break even within the first six months of operation. In fact, 90 per cent of all new outlets will be in the black by the end of the first year. The second year should show a 25 per cent to 50 per cent increase in gross sales over the first year. Most of the growth in sales will develop during the first five years of operation. After that, gross sales begin to level off. Sales are generally seasonal and about 75 per cent of total gross sales will be earned during the winter months. Profits should remain constant at 20 per cent to 25 per cent of gross sales. The average Martin outlet will provide the owner with $20 to $25 thousand in yearly income.

The Franchisee

Mr. Cecil Evans first became associated with Martin Sales eight years ago. He is fifty-eight years old, and is married. His wife often works at the counter of his Helena store location. She is completely familiar with the operation, and could operate it if Mr. Evans were unable to do so.

\[ ^2 \]Information for this section was obtained through a private interview with Mr. Cecil Evans, Helena, Montana, March, 1970
Mr. Evans has a high school education. He served in the Navy during World War II. Before entering the franchise field, he operated a bar and grill in the Lewistown area. Mr. Evans is a native of Lewistown and has always lived in Montana.

Franchising was introduced to Mr. Evans by his son. At that time, his son was looking for a business to operate while going to college in Missoula. Mr. Evans financed the original capital needed for his son to open a One Hour Martinizing store. After seeing just how profitable the operation was, Mr. Evans moved to Helena, at the age of fifty-one, to start his first Martinizing franchise. Soon after, his son-in-law, Jack French, became interested. Mr. Evans and Mr. French became partners and opened an outlet in Bozeman. When his son graduated from college he was no longer interested in operating the Missoula store. Mr. Evans was not ready for further expansion, and sold the Missoula outlet. About four years ago, Mr. Evans felt he was again ready for expansion. He gained approval from Martin to open two stores in the Great Falls area. These, it was originally planned, would be run by hired managers.

Mr. Evans does not agree with Martin that it takes $12,000 to open a Martinizing plant. He says it is more like $15,000. He agrees that it does take at least six months to make a profit. The extra cash is used to finance this low or no profit period. Sales for the first
year will average about $850 per week (that's $44,200 yearly gross sales). After about five years, he feels gross sales should run at the $1,000 to $1,500 per week level. (This is $62,400 to $78,000 gross sales per year.)

Space rental is an important part of Mr. Evans' operational expenses. It takes about 2,160 square feet to operate an outlet. Also, if a laundry is included, an additional thirty square feet will be required. Mr. Evans rents his outlets on a flat charge of between $2.50 to $3.00 per square foot. No percentage of gross sales is in the contract. Mr. Evans thinks that parking space and easy accessibility are key factors in the selection of outlet locations. The customer demands fast entry and exit from a dry cleaning store.

Expected profit levels have not been as high as projected by Martin Sales. Mr. Evans only clears about 12 per cent of gross sales before tax. He stated that Martin is just not realistic in its 20 per cent to 25 per cent figure. "It's just not that high. Also, the one hour time limit is just not possible. Some people expect us to clean items, such as a wedding dress, in one hour. It just can't be done."

Mr. Evans has had other problems in the operation of his stores. When the two plants were opened in Great Falls, he hired managers to operate them. Then, sales began to drop. Gross sales had been averaging about $800
per week in both locations. Soon the level had decreased to $350 per week. Mr. Evans felt the market had dropped right out from under him. And things just were not improving. Two years later, Mr. Evans felt action was required. He temporarily moved up to Great Falls to run both outlets. He fired his managers. Sales increased almost overnight. Soon they were back up, and exceeded $800 per week. Today Mr. Evans runs both Great Falls stores from his Helena plant. There are no managers now. The counter girl is in charge of the money, and opens and closes the store each day. The other employees carry out their respective duties. If any problem develops, such as one employee being ill, they call Mr. Evans. He handles all problems, and emphasized that no employee is in charge of any other. Mr. Evans finds that his outlets in Great Falls are just not as profitable as his Helena operation. Quality and quantity of the work done is just not as high. He states that no one can do the job as well as the individual that has his capital invested in the operation. There is no replacement for owner management.

Martin Sales helped Mr. Evans the most during original store development. Mr. Evans had to find the location himself. However, the factory representative was quite helpful in looking over the proposed site and in making suggestions for lease contract clauses. Once rented, Martin provided him with complete plans, and ordered all
equipment. Martin even helped make arrangements with local suppliers to furnish the franchised outlet with needed supplies.

Mr. Evans is still quite happy to be associated with Martin Sales. He enjoys his work and finds the Martin Sales representative helpful in his operation. Martin hopes to have an improved cleaning fluid on the market soon. If this happens, Mr. Evans will buy directly from Martin. The improved fluid will help reduce costs without sacrificing cleaning ability. At the present time, Mr. Evans has no plans for further expansion. He employs thirty-four people in his four plants, and is content with his present operation.

Conclusion

The franchisor seems to be capable of training the franchisee to operate equipment, but lacks the ability to train him in management concepts. Both Mr. Evans and Mr. Todd suffered financial loss due to ineffective store managers. Both solved the problem individually without assistance from the franchisor. This fact points out the need for management experience in the operation of a franchise. Profitable franchises result from proper management, not from franchisor directives. Again, the retired Air Force officer has this vital asset. He has spent twenty to thirty years managing people. His job has required him to
obtain effective results from the men under him. These management techniques developed over the years can be effectively applied in a franchise.
CHAPTER VII

CONCLUSIONS

The Franchise

The reputable franchisor will never promise a successful operation and high profits to any franchisee. Figures given in Chapter III show the reduced risk in franchise operations, but it does not guarantee success. A continuing relationship must be developed between the franchisee and the franchisor, with both having a mutual need and interest in each other. Once this is established, the franchisee is in a position to take advantage of the guidance and experience of trained experts in the chosen field. Franchising can eliminate the need for the franchisee to spend years developing a workable system of business operation.

The franchisee can expect the franchisor to assist him with five basic and important areas of small business development. First, an established product name will be licensed to the franchisee. This product represents a brand name which has already been proven successful. The public usually knows the products and trusts the company backing it. A proven idea for sales and profits is an extremely
valuable asset to successful business operation.

Second, the quality of products being sold is guaranteed. The franchisor has already spent the capital required for research and development of approved products. Central purchasing assures uniform quality. If central purchasing is not possible, the franchisor will require purchases to be made from approved suppliers who meet the established high standards. Quantity discounts are generally obtained, and passed on to the franchisee, when central purchasing is used. Uniform prices and products combine to help all franchised outlets increase sales and profits.

Third, location development and financial aid is supplied by the franchisor. Many franchisors require that they approve any site for a franchise location. Once the site is selected, complete blueprints, along with sources of supply are provided by the franchisor. The franchisee need not be concerned with architectural and engineering development. McDonald's, for example, invests all the necessary capital for site development. The outlet is then rented to the franchisee. This means that a limited amount of the franchisee's capital need be invested in land and building. For this same reason, generally, franchisors prefer leased arrangements. Often financing can be obtained directly from the franchisor. If this is not the policy, independent financial sources of capital are available. The franchise represents a proven product with a proven
record of success. McDonald's, for example, does not loan any capital to the franchisee. However, CIT Financial Corporation and General Electric Credit Corporation are eager to loan money to McDonald's franchise holders, and consider them excellent risks.

Fourth, all initial training and continued supervision is supplied by the franchisor. Just as three months of Officer Training School does not develop the professional military officer, one month of franchisor training does not assure successful franchise operation. However, it does supply him with the basic understanding of the operation. Course studies deal with proven business techniques, which have been developed over many years. When this phase is complete, the regional supervisor takes over. He guides the franchisee through initial development, and provides continued supervision after opening. The franchisor also becomes a source of new concepts and vital comparative statistics that are necessary for improving sales and profits.

Fifth, promotion ideas and actual advertising copy are provided by the franchisor. Few small businessmen could afford national advertising campaigns. Through combined contributions from all franchisee outlets, the franchisor is able to provide extensive promotion programs for the benefit of all. The franchisee's contribution is often quite small when compared with the cost and success of these promotion programs.
The franchisor does not provide all the above without making certain demands. Every prospective franchisee must be made aware of this fact. First, the franchisor will demand some control and often complete standardization of his franchised outlets. Established rules have been set up for successful operation and they must be followed. Quality of product, service, and cleanliness are usually written into the contract. This means that the franchisee is not his own boss on every decision. The franchisor demands he relinquish some control in return for his proven formula.

Second, the franchisor will always require a return on his investment. Normally, this is represented as a set percentage of the franchisee's gross sales. Profits are also made in other areas. McDonald's requires a $10,000 franchisee fee be paid for the license. Often profits are made on products sold to the franchisee. Martin Sales makes its profit on the original sale of equipment; McDonald's makes additional profit on rent paid for store location.

**Capital**

The capital requirements for all the presented franchises are substantial. This does not mean that all franchises are expensive. Some can be started with very little capital. Some others require even greater amounts.
But the amount needed is increasing every year. The lowest cost franchise evaluated here is the One Hour Martinizing plant. It requires $12,000 to $15,000 of the franchisee's capital. Hickory Farms only stated they required $35,000. Actual initial cost for store locations are much higher. Mr. Todd's outlets cost him between $50,000 and $70,000 per unit. His newest store required $35,000 in inventory alone. McDonald's also requires well over $50,000 in owner cash assets to even be considered. In summary, establishing oneself in a franchised business is expensive compared with an Air Force officer's ability to accumulate savings.

Normally, the Air Force officer will not meet the capital requirements, unless he has taken it into account when planning for retirement. Based on current military pay levels, it may exceed the officer's ability to accumulate capital. But this does not mean it's impossible. Once the officer decides to make the Air Force his career, he should start saving if he plans a business career after retirement. Retirement pay is generally no more than adequate to provide for normal living expenses. It is not adequate to establish the capital for small business development. As a Captain, the officer should develop a program that will accumulate sufficient capital assets by retirement. Only individual officers who have financially planned for retirement can consider the franchise concept of civilian employment.
Position

Being the owner of a small business franchise does provide a similar employment position, and can make excellent use of the officer's personal attributes. In fact, the franchise owner is in almost the exact position as the Air Force officer at retirement. The franchise owner is the head man in his business. He operates his outlets on his own, and makes all the everyday management decisions. However, he is not alone. The franchise operates under basic guidelines that have been established by the franchisor. Major policy decisions are made at the franchisor level, based on feedback from the franchised outlets. At retirement the Air Force officer is working in approximately the same level. He would normally be a squadron commander, or serving on a staff position at base or wing level. This officer would be in charge of his area, and make the everyday operating decisions. His area of responsibility would be governed by the basic guidelines established at higher command channels. The two positions are almost identical.

Effective use of the retired officer's capabilities is as important after retirement as during his Air Force career. A franchise business can put his management background to excellent use. The store owner is the manager of all employees. Hickory Farms, Great Falls, employs seven to ten permanent employees. During the holiday season, this
number increased to twenty-eight employees. The McDonald's franchise employs twenty-five part time and twenty-five full time employees. Mr. Evans employs thirty-four people in his Martinizing outlets. Mr. Todd explained how an individual must have management background to effectively operate a store. He claimed that there was no substitute for experience and maturity. All his managers are in the age bracket of the retiring Air Force officer. The officer's experience seems to be suitable for proper franchise management.

Return on Investment

If properly operated, a franchise can be very profitable for the investor. Mr. Todd claimed that profits were "instant" in a Hickory Farms outlet. The initial investment should be returned in profits within the first two years of operation. Mr. Todd invested $62,000 in his Great Falls location, and earns profits of over $30,000 yearly. Return on invested capital is about 50 per cent excluding debt. McDonald's claims its required investment will be returned in three to five years. Mr. Douglas hopes to earn 15 per cent on gross sales of $400,000. If he achieves this goal, he will earn $60,000 per year. His initial investment was $63,000 in cash. Martin claims that all invested capital will be returned by the end of the second year. Mr. Evans earns 12 per cent (which is half the percentage earned by other Martinizing locations) on gross
sales of about $70,000. This amounts to $8,400 per outlet. His original cash down payment was $15,000.

All of the franchise investors interviewed either owned multiple locations or had plans to open others. Mr. Todd has been associated with Hickory Farms for three years and has three outlets in operation. Each earns him a profit before tax of 15 per cent to 20 per cent of gross sales. Mr. Douglas has only been operating his McDonald's franchise for seven months. He already has plans for expansion. Mr. Evans opened his first Martinizing outlet eight years ago. Today he operates four stores. Profits do not necessarily double with each new store opening. But for the experienced manager, multiple outlets can mean income at the six figure level. The franchise then, can represent a more than normal return on invested capital.

Other Considerations

In some respects, the retired Air Force officer is in a better position than civilians to begin operating a franchise. Once the contract is signed with the franchisor, it usually takes several months before the franchise is ready. An average period would be four to six months. During this time, the store location is being constructed and the individual is being trained. This is four to six months of no income for the franchisee. The cost of living for the individual and his family continue even though he
is not being paid. Also, most franchises take from six months to one year after opening to return an acceptable profit. The retired Air Force officer is in an excellent position to provide for this type of financial burden since he is receiving his retirement pay. He may not get rich on it, but it can certainly cover most of his normal living expenses. This means the retired officer is in a position to enter the franchise field with less capital than his civilian "brother."

The retired Air Force officer also has the advantage of his other Air Force related benefits before, and after, the franchise is in operation. Such assistance as hospital and dental care can represent a substantial savings in premiums when in civilian life. Franchised stores are usually relatively small operations. Health insurance would be expensive, if it were not provided as a retirement benefit. After all, any business expense paid for with franchise funds represents a loss in profits for the owner.

Further Research

The officer considering the franchise as a possible civilian employment opportunity should develop some feel for contract law. Because franchising of business opportunity is a relatively recent development, few attorneys have had experience with franchise work. Also, there is no generally accepted statutes, or laws controlling the
content or form of franchising agreements and contracts. In fact, many franchisors keep contracts under lock and key and class them as being "confidential." A sample Hickory Farms contract is presented in Appendix III of this paper. However, this author found that most franchisors would not release a sample contract for evaluation. Also, the franchisee, in most cases, was most reluctant to disclose any part of his contract when asked. One franchisee, whose case study has not been presented here, was required to pay a $2,500 "investment" before he could be considered for approval. If approved, and then did not sign with the franchisor, he would lose his $2,500. Other agreements required the franchisee to purchase goods and materials from the franchisor. These same items could be purchased on the open market at much lower costs.

Termination provisions of franchise contracts are most important to the franchisee. Many individuals have invested their life savings in a franchise. Then when he decides to retire, a provision in the contract requires sale of the franchise back to the franchisor for the cost of inventory and depreciated fixtures.

Evaluation of franchise contracts is necessary and urgently needed. Contract legislation is needed to control and hopefully abolish "hidden clauses" and fraudulent operators. One must be completely familiar with his franchise contract before he signs it. There is just no substitution
for proper legal council. Beware of the franchisor that will not approve of you taking his contract to an attorney. No reputable franchisor uses high pressure to sell his franchise. Take the time to be certain of all contract provisions. And last, be certain to talk with individuals who already own a franchise location. They are probably the single best source of accurate information.
APPENDIX I

ADDITIONAL INFORMATION ON THE ODDS OF SUCCESS IN OWNING A FRANCHISED BUSINESS
FIGURE A

THE RECORD OF BUSINESS MORTALITIES

Per Cent Business Mortalities

Number of Years

<table>
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<th>COST FACTORS</th>
<th>FRANCHISE</th>
<th>INDEPENDENT</th>
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<tbody>
<tr>
<td>Total Investment</td>
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<td>$ 54,250</td>
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<td>Equipment, Land, Building, Etc.</td>
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<td>49,250</td>
</tr>
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<td>Working Capital</td>
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<td>5,000</td>
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<td>Franchise Fees</td>
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<td>Initial Investment</td>
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<td>30,000</td>
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<tr>
<td>Residual Loan (Five Year Loan)</td>
<td>32,000 (6400/yr)</td>
<td>24,250 (4850/yr)</td>
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<td>7.5% (Add-on $1820/yr)</td>
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<td>Yearly Retail Sales Rate</td>
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</tr>
<tr>
<td>(Net before loan payments and franchise fees)</td>
<td>23</td>
<td>23</td>
</tr>
</tbody>
</table>

TABLE B

A COMPARISON OF EXPECTED PAYOFFS

<table>
<thead>
<tr>
<th>Years In Operation</th>
<th>Net Profit</th>
<th>Franchise Fee</th>
<th>Loan Cost</th>
<th>Success Factor</th>
<th>Gross Payoff</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$28,000</td>
<td>$3,600</td>
<td>$8,320</td>
<td>97%</td>
<td>$15,597</td>
</tr>
<tr>
<td>2</td>
<td>56,000</td>
<td>7,200</td>
<td>16,660</td>
<td>94%</td>
<td>30,212</td>
</tr>
<tr>
<td>3</td>
<td>84,000</td>
<td>10,800</td>
<td>24,980</td>
<td>93%</td>
<td>45,775</td>
</tr>
<tr>
<td>4</td>
<td>112,000</td>
<td>14,400</td>
<td>33,300</td>
<td>93%</td>
<td>59,799</td>
</tr>
<tr>
<td>5</td>
<td>140,000</td>
<td>18,000</td>
<td>41,620</td>
<td>92%</td>
<td>83,149</td>
</tr>
<tr>
<td>10</td>
<td>280,000</td>
<td>36,000</td>
<td>41,620</td>
<td>90%</td>
<td>182,142</td>
</tr>
</tbody>
</table>
### TABLE B—Continued

<table>
<thead>
<tr>
<th>Years In Operation</th>
<th>Net Profit</th>
<th>Loan Cost</th>
<th>Success Factor</th>
<th>Gross Payoff</th>
<th>Franchise Advantage (Theoretical)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$28,000</td>
<td>$6,670</td>
<td>62%</td>
<td>$13,225</td>
<td>$2,372</td>
</tr>
<tr>
<td>2</td>
<td>56,000</td>
<td>13,340</td>
<td>43%</td>
<td>18,344</td>
<td>11,868</td>
</tr>
<tr>
<td>3</td>
<td>84,000</td>
<td>20,010</td>
<td>33%</td>
<td>21,120</td>
<td>24,655</td>
</tr>
<tr>
<td>4</td>
<td>112,000</td>
<td>26,680</td>
<td>27%</td>
<td>23,036</td>
<td>36,763</td>
</tr>
<tr>
<td>5</td>
<td>140,000</td>
<td>33,350</td>
<td>23%</td>
<td>24,530</td>
<td>58,619</td>
</tr>
<tr>
<td>10</td>
<td>280,000</td>
<td>33,350</td>
<td>16%</td>
<td>39,464</td>
<td>142,678</td>
</tr>
</tbody>
</table>


Note: All columned figures are cumulative through the years. The success factor represents the actual likelihood of still being in business; it is the inverse of the failure rates detailed on Figure A, and is employed to statistically weight the Gross Payoff figures. The Franchise Advantage figures are statistically sound and reflect the advantage of the "average" franchise over a comparable "average" independent venture.
<table>
<thead>
<tr>
<th>Years In Business</th>
<th>Franchise Per Cent Of Failures</th>
<th>All-Retail Per Cent Of Failures</th>
<th>Franchise Odds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3.0%</td>
<td>38.0%</td>
<td>12.6 to 1</td>
</tr>
<tr>
<td>2</td>
<td>6.0%</td>
<td>57.0%</td>
<td>9.7 to 1</td>
</tr>
<tr>
<td>3</td>
<td>6.7%</td>
<td>67.0%</td>
<td>10.0 to 1</td>
</tr>
<tr>
<td>4</td>
<td>7.4%</td>
<td>73.0%</td>
<td>9.9 to 1</td>
</tr>
<tr>
<td>5</td>
<td>8.0%</td>
<td>77.0%</td>
<td>9.6 to 1</td>
</tr>
<tr>
<td>10</td>
<td>10.0%</td>
<td>84.0%</td>
<td>8.4 to 1</td>
</tr>
</tbody>
</table>

APPLICATION FOR A
HICKORY FARMS OF OHIO FRANCHISE
PERSONAL RESUME AND FINANCIAL STATEMENT

Please complete this entire form with detailed accuracy. If additional space is needed, use the suppsheet provided. All information submitted will remain confidential, and will be used only for the purpose of our Advisory Board's approval, it is necessary to be as extensive as possible in supplying personal and financial data. All information requested, we feel, is relevant to evaluate your application in being considered as a potential Hickory Farms franchised store owner.

PLEASE PRINT OR TYPE

Name ____________________________

Wife's First Name ___________________

Hon. First Name ___________________

Last Name _________________________

Middle Name ______________________

Address __________________________

Street ____________________________

City _____________________________

State _______ Zip _____________

Previous Address ___________________

Street ____________________________

City _____________________________

State _______ How Long There ______

Age ______ Height ______ Weight ______

Wife's Age ______ No. of Children ______

Other Dependents ____________________

Does Your Wife Work? ________

If Yes, Describe __________________

Do You Have Any Physical Defects? ________

If Yes, Describe __________________

Any Major Physical or Mental Illness in Last 5 Years? ________

If Yes, Describe __________________

NAME & ADDRESS

DATE

ATTENDED

YEAR

GRAD.

COURSES & DEGREES

Att

Rec

Ph

He

Elementary

High School

College

Special

U.S. Military Record

FROM

TO

DUTIES

Any Lawsuits, Voluntary or Involuntary Bankruptcies? ________________________________

If Yes, Explain in Detail _______________________________________________________

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# EMPLOYMENT

<table>
<thead>
<tr>
<th>DATES</th>
<th>EMPLOYER AND ADDRESS BEGIN WITH MOST RECENT EMPLOYER</th>
<th>POSITION HELD AND IMMEDIATE SUPERIOR</th>
<th>ANNUAL EARNINGS</th>
<th>REASON FOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>From</td>
<td></td>
<td></td>
<td>BEGINNING</td>
<td></td>
</tr>
<tr>
<td>To</td>
<td></td>
<td></td>
<td>ENDING</td>
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<tr>
<td>From</td>
<td></td>
<td></td>
<td>BEGINNING</td>
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<td>To</td>
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<tr>
<td>From</td>
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<tr>
<td>From</td>
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<td>BEGINNING</td>
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<tr>
<td>To</td>
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<td></td>
<td>ENDING</td>
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<tr>
<td>From</td>
<td></td>
<td></td>
<td>BEGINNING</td>
<td></td>
</tr>
<tr>
<td>To</td>
<td></td>
<td></td>
<td>ENDING</td>
<td></td>
</tr>
</tbody>
</table>

You May_____ I Would Prefer You Do Not_____ Contact Present Employer.

Give Civic and Fraternal Interests (If Any) — Positions Held.

How Did You Become Interested In A Hickory Farms Franchise?

Do You Feel You May Have Any Special Skills Suiting You For This Type Business? (Explain)

City and State For Possible Store Location

Would You Consider Relocating If The Opportunity Presented Itself?

State Areas of Possible Preference If Relocation May Be Considered

If Your Application Is Approved, How Soon Would It Be Possible For You To Terminate Your Present Ac, And Actively Enter Into Preparatory Arrangements To Open A Hickory Farms Store? (Explain)

# PERSONAL REFERENCES

(Not Former Employers or Relatives)

<table>
<thead>
<tr>
<th>NAME</th>
<th>ADDRESS</th>
<th>PHONE NO.</th>
<th>OCCUPAT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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PERSONAL FINANCIAL STATEMENT

AS OF _____________

(If you operate your own business or are in a profession, use the enclosed Individual Proprietorship Financing Form CRD12)

Please prepare CURRENT financial statement being as complete and accurate as possible. Where detailimation is requested, please be specific with name(s), dates, terms and amounts. Again, we assure you all information will remain confidential, and will not be employed for any other purpose than intended, namely, ider bing this application for a possible Hickory Farms of Ohio franchised store. If additional space is require supplemental sheet enclosed.

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash On Hand and In Bank(s)</td>
<td>Notes Payable to Bank(s)</td>
</tr>
<tr>
<td>(Name(s) and Address)</td>
<td>(Name(s) and Address)</td>
</tr>
<tr>
<td>U.S. Gov. and Other Marketable Securities (Schedule 1)</td>
<td>Notes Payable To Any Others</td>
</tr>
<tr>
<td>Mortgages, Notes, Loans Rec. (Give Payer, Due Date, Collectability)</td>
<td>Any Other Indebtedness Due In One Year (Detail)</td>
</tr>
<tr>
<td>Real Estate Owned (Schedule 2)</td>
<td>Mortgage(s) or Liens On Real Estate (Schedule 2)</td>
</tr>
<tr>
<td>Cash Value Life Insurance (Schedule 3)</td>
<td>Other Liabilities (Detail)</td>
</tr>
<tr>
<td>Autos: (Year, Make, Est. Fair Mkt. Value)</td>
<td>Total Liabilities</td>
</tr>
<tr>
<td>Other Assets (Exclude Home Furnishings, Jewelry)</td>
<td>Net Worth</td>
</tr>
<tr>
<td></td>
<td>Total</td>
</tr>
</tbody>
</table>

Total Assets $___

Estimated Annual Gross Income for Last 5 years $___

Estimated Annual Living Expenses $___

Schedule 1

<table>
<thead>
<tr>
<th>U.S. GOVERNMENT AND OTHER MARKETABLE SECURITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO. OF SHARES</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

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## Schedule 2

### REAL ESTATE

<table>
<thead>
<tr>
<th>DESCRIPTION AND LOCATION</th>
<th>TITLE IN WHOSE NAME</th>
<th>IMPROVED OR UNIMPROVED APPRAISED VALUE</th>
<th>MORTGAGES</th>
<th>$</th>
<th>INSURANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Schedule 3

### LIFE INSURANCE

<table>
<thead>
<tr>
<th>FACE AMOUNT &amp; TYPE</th>
<th>COMPANY</th>
<th>POLICY OWNER</th>
<th>BENEFICIARY</th>
<th>SH SURRENDER VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>$</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Schedule 4

### OTHER INVESTMENTS AND SECURITIES

<table>
<thead>
<tr>
<th>NO. OF SHARES</th>
<th>NAME OF COMPANY &amp; TYPE DESCRIPTION</th>
<th>OWNER(S)</th>
<th>MARKET VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

IF ADDITIONAL FINANCING MAY BE NECESSARY OR CONSIDERED, GIVE NAMES OF BANKS OR OTHER SOURCES

<table>
<thead>
<tr>
<th>NAME (IF OTHER THAN BANK, IDENTIFY SOURCE)</th>
<th>AMOUNT PLEDGED OR ANTICIPATED</th>
<th>TERMS &amp;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td></td>
</tr>
</tbody>
</table>

I hereby certify all information submitted on this form to be true and accurate in every respect except for the exception of my present employer, as may be noted on page 2, Hickory Farms of Ohio, Franchise I has my full authority to verify all, or any part of, the information furnished. In the event of any substantial change in my financial condition, I agree to promptly so notify Hickory Farms of Ohio, Franchise Division.

Date Signed__________________________ Signature__________________________
APPENDIX III

HICKORY FARMS OF OHIO

LICENSE AND FRANCHISE AGREEMENT

Source: Hickory Farms Of Ohio, Toledo, Ohio, March 1970

85
LICENSE AND FRANCHISE AGREEMENT

AGREEMENT made in Toledo, Ohio, the ... of .............................................. day of .............................................., 19 ......,

WHEREAS, Licensee is desirous of operating a "Hickory Farms of Ohio" retail store in certain licensed territories; and

WHEREAS, Licensee is further desirous of aiding Hickory Farms of Ohio, Franchise Division, by exclusively using the "Hickory Farms Method of Operating a Hickory Farms of Ohio Retail Store" and the names "Hickory Farms of Ohio" and "Hickory Farms" and

WHEREAS, Licensee is agreeable thereto upon the terms and conditions more particularly herein set forth,

NOW, THEREFORE, it is mutually agreed as follows:

5. Licensee hereby grants an exclusive license to Licensee to use and advertise the name "Hickory Farms Beef Stick", "Hickory Farms of Ohio", and "Hickory Farms" in connection with one retail store to be conducted solely within the licensed territory set forth in paragraph 1 below, and in connection with such retail store, a license to sell the product Licensee shall be permitted to conduct and operate said retail store under the name "Hickory Farms of Ohio", "Hickory Farms" or "Hickory Farms of Ohio" label, to register or file statements of his use of such name with the proper authorities and/or governmental office where same by Licensee for the purpose of conducting such retail store shall use in its title the name "Hickory Farms" or "Hickory Farms of Ohio" without the written permission of Licensor.

6. It is expressly agreed that the franchise and license hereinafore and hereinbelow granted, shall not apply to the demonstration and sales of Licensee's products in Fairs and Shows, present or future, and that Licensee shall remain free to demonstrate and sell his product in any Fair and/or Show within the licensed territory and Licensee shall not operate within a Fair and/or Show without the express written consent of Licensor.

7. Licensee agrees as follows;

(a) Simultaneously, with the execution of this agreement, to pay to Licensor the sum of ...............................................

(b) To pay to the Licensor each week, for the duration of this agreement, in weekly payments on the Tuesday following the close of each calendar week during the term hereof, six (6%) per cent of the gross receipts of said retail store, or in the alternative, and at Licensor's option, twelve (12%) per cent of the purchases of any and all merchandise for resale, whichever amount is greater. The alternative twelve (12%) per cent of the purchases of merchandise referred to above, shall not be applied to opening inventory of merchandise purchased for resale by Licensee, nor shall the alternative be enforced by Licensor, except upon an audit of Licensee's books and records which would indicate to Licensor, at its sole discretion, that inaccuracies or discrepancies exist in the weekly reporting of Licensee's gross sales. The term "gross receipts", for the purpose of this agreement, shall mean monies and other considerations of any kind, whatsoever, received by the Licensee, as a result of or in connection with the ownership or operation of the retail store pursuant to the terms of this License and Franchise Agreement, including, but not limited to, monies and other considerations received for catering services and demonstrations, excluding therefrom any sales taxes or admissions taxes properly imposed and collected by Licensee for transmission to any State, Federal or Governmental agency. Licensee, in conjunction with each weekly payment, agrees to deliver to Licensor a full and accurate statement, showing the gross receipts received by Licensee during the preceding calendar week, and other information as requested on the standard weekly report form. Licensee shall furnish to Licensor at the end of Licensee's fiscal or calendar year (depending on Licensee's method of Federal Tax reporting) a certification of Licensee's gross sales. Said certification shall be prepared by the preparer of Licensee's Federal Income Tax return no later than four months after the end of Licensee's fiscal or calendar year.

(c) To pay to Licensor an additional one per cent (1%) of gross receipts at the same time, and in the same manner, as set forth in paragraph 7, sub-paragraph b above; which said one per cent (1%) is to be held in trust, by the Licensor, for a national advertising program for the benefit of all franchise participants.

2. It is expressly understood and agreed that the aforesaid one per cent (1%) of gross receipts shall not, under any circumstances, be used for general operating expenses of Licensee, but shall and will be used for national advertising only; however, the exact disbursement of all such sums accumulated and held in trust shall be administered at the sole discretion of Licensor as to time, amount and type of advertising program to be developed.

3. The advertising sums held in trust by Licensor shall accumulate until such time as Licensor shall deem that a national advertising program can be successfully sustained, whereupon Licensor shall enter into a national advertising program with the full cooperation of the Licensee and all other franchise participants.

4. To effectuate the trust intent of this paragraph 7, sub-paragraph c, it is expressly understood and agreed that the said one per cent (1%) aforesaid, shall be deposited by the Licensee, upon receipt, into separate and distinct bank accounts, commercial or savings, known as "Hickory Farms of Ohio, National Advertising Trust Account"; and that said advertising account shall be strictly accounted for to all participants in the account.

5. Upon entry into a full scale national advertising program, Licensor shall outline in detail to all Licensee's the full particulars of said program, and give an accurate accounting of trust funds expended annually, no later than four months from the end of the calendar year.

7. In the event that Licensor shall not commence a national advertising program by January 1, 1972, or in the event Licensor shall at any time deem it impracticable to continue a national advertising program, then, in that event, the trust fund shall be dissolved and such Licensor’s contribution, minus his pro-rated share of monies expended for national advertising and costs of administration of the trust fund, shall be refunded to him, his heirs, successors or assigns.

(d) To keep true and correct books of account in accordance with good standard accounting practices, and to pay the entire cost of establishing, maintaining and auditing the books and records as required hereunder, as follows:

1. Accounting records shall be maintained on what is known as the double-entry method of accounting, using the Standard Chart of Accounts furnished by the Licensor.

2. Submit quarterly financial statements to the Licensor, which will consist of a Balance Sheet and a Profit and Loss Statement. These statements will be sent to the Licensor no later than 15 days after the end of the quarter for which the figures are being submitted, on statement forms provided by the Licensor.

3. Take actual physical inventories each quarter, which will be used in preparing the financial statements referred to in 2 above.

4. That the financial statements referred to in 2 above, will indicate the accounts payable owed by Licensee for merchandise, and these amounts will be reflected in the Balance Sheet and Profit and Loss Statements.

5. That the Licensor will have the right, after appropriate notice, and at reasonable intervals, to inspect the accounting records of the franchise holder, for the purpose of ascertaining that all matters concerning financial information and reporting are being complied with.

(e) The books of accounts and other business records shall be open to the examination and inspection of the Licensor or Licensor’s duly authorized agent at all times during Licensee’s business hours, and as a further consideration of this agreement, Licensee agrees that Licensor may maintain Licensee’s complete accounting records or any part thereof as considered practical, by Licensor, subject to the following conditions.

1. Licensor may assume this responsibility at such a time as he is able to provide facilities adequate to perform this service to the direct benefit of Licensee.

2. Licensor’s accounting service shall provide Licensee with quarterly financial statements on the Licensor’s business which shall consist of a Balance Sheet and Profit and Loss Statement. These statements shall be on a standard form prepared by Licensor and sent to Licensee within a reasonable length of time at the close of each calendar quarter.

3. Licensor shall accompany each quarter’s financial statement with an analysis and evaluation, and suggest to Licensee means and methods for improving his operation for greater sales volume and increased profits.

4. Licensee will furnish Licensor on a constant and continuing basis full particulars necessary to maintaining an accurate accounting of Licensee’s business. Licensor will advise, with completeness, the information required from Licensee and methods for furnishing this information to Licensor’s accounting service with accuracy and a minimum of effort on the part of Licensee.

5. Licensee’s accounting service shall be made available to Licensee at a cost to Licensee, comparable to rates for similar type services performed by independent accounting services.

(f) To have available within (______) weeks after the execution of this agreement, premises within the licensed territory suitable for use as a “Hickory Farms of Ohio” retail store. Licensee agrees that it is to the mutual interest of Licensee and Licensor that decorations, equipment, fixtures and furnishings of the Licensee’s store are to be in good taste and of high quality and character, and accordingly, Licensee agrees that the decoration, equipment, fixtures, furnishings and maintenance of his “Hickory Farms of Ohio” store shall be subject to the approval and specifications of Licensor, and Licensee will, at his own expense, make such reasonable
dollars invested in the retail store during the term of this license and franchise agreement, in order to insure operation of the business. This amount to include a constant minimum of $   in merchandise inventory.

(i) To have a minimum of ($______) dollars in opening advertising during a period of one week before store opening and through the first week of opening. And, as a further consideration, Licensee agrees to expend annually, for advertising, not less than 1% of the total Gross Receipts of his calendar or fiscal year. This annual advertising expenditure shall be in addition to the national advertising 1% fee set forth in paragraph 7.

(j) To pay cash for all merchandise necessary to start operation of the franchised store, and to pay any and all suppliers within the supplier discount period or upon receipt of invoice on merchandise ordered to replace merchandise sold. Such failure to pay suppliers for merchandise as outlined above, will permit Licensor, at his discretion, to withdraw the franchise, without the right of renewal, as set forth in paragraph 7, sub-paragraph b above. The word “cash” as used in this sub-paragraph shall be interpreted to mean payment for merchandise upon receipt of billings or within the discount period.

(k) To either pay cash or secure financing approved by Licensor, for fixtures, equipment and leasehold improvements necessary to start operation of the franchise store. Such approval to be given in writing by Licensor, and such approval shall not be unreasonably withheld by Licensor.

(l) To devote his full time and attention, and best efforts exclusively, to the conduct of said “Hickory Farms of Ohio” store, and to provide adequate personnel for the maintenance, management and conduct thereof.

1. To use his best efforts to procure attractive personnel and conscientious employees, and further agree to institute and maintain all reasonable rules of behavior and regulations pertaining thereto, which may be established from time to time by Licensor.

(m) Licensee will not have any interest, financial or otherwise, in any other business of a similar nature, without the written permission of Licensor while operating a “Hickory Farms of Ohio” store.

(n) Licensee agrees that he shall be solely responsible for all the expense of the aforesaid retail store, and for taxes and for levies of any and all kinds in connection with said “Hickory Farms of Ohio” franchised store and the income therefrom, and the Licensor shall not be liable for any such expenses, taxes or levies, or disbursements otherwise paid in connection with the establishment and maintenance of the aforesaid franchised store, and Licensee agrees to indemnify and save Licensor harmless from any and all claims, lawsuits, demands, actions and causes of action that may arise or be asserted against Licensor by reason of the establishment and maintenance of the aforesaid store or by reason of Licensee’s use of the name “Hickory Farms Beef Stick”, “Hickory Farms of Ohio”, and “Hickory Farms”, and to pay all counsel fees and expenses in defending same. It is understood and agreed that in granting this license and franchise, the Licensor does not authorize or empower Licensee to use the name “Hickory Farms Beef Stick”, “Hickory Farms of Ohio”, “Hickory Farms” in any other capacity than as provided herein or to sign the name “Hickory Farms of Ohio” or “Hickory Farms” to any contracts, documents, bills, checks, drafts, notes, mortgages, bonds, leases, bills of
sale, or any other instrument in writing, or to hold himself out as a partner or a general or special agent of Licensor, and Licensee agrees that all contracts that he may enter into in the establishment and maintenance of said retail store shall be in his own name.

(e) That Licensee will not at any time, directly or indirectly, furnish any information as to the methods of operation, packaging, advertising, publicity, promotion ideas, or any other information relative to the Licensor's store or any store licensed, owned or managed by the Licensor, to anyone except the Licensor or Licensee's employees.

(f) Licensee agrees to handle, promote and/or sell only those items approved by Licensor; however, Licensee may purchase approved items from other suppliers if of equal quality with the written permission of the Licensor.

(g) Licensee agrees to purchase articles of uniformity, size, color, design, and style to the best of his ability.

(h) Licensee agrees to offer at least a 5% discount to all members of the public who are entitled to the same.
proprietor of a HICKORY FARMS of OHIO retail store, to any person or persons, corporate or otherwise, hereinafter granted.

16. This agreement shall not be deemed to create any relationship of agency, partnership or joint venture between the parties hereto. No employee engaged by Licensee shall, under any circumstances, be deemed to be an employee of Licensor, and all employees engaged by Licensee shall be so notified.

17. This agreement shall be construed and interpreted in accordance with the provisions of the laws of the State of Ohio.

18. Any notice required to be given pursuant hereunder, shall be mailed to:

Licensee: HICKORY FARMS OF OHIO, FRANCHISE DIVISION,
a Partnership
1021 N. Reynolds Road
Toledo, Ohio 43615

19. If Licensee shall fail to perform, keep and observe any covenant, term or condition of this agreement, a default hereunder shall be deemed to exist. This license and franchise is granted subject to the specific condition that, if a default hereunder on the part of Licensee is not remedied within thirty (30) days after written notice of default delivered by Licensor, the license and franchise herein granted may be forthwith terminated by Licensor, but without prejudice to any other rights or remedies Licensor may have.

20. Licensee agrees that for a period of not less than two (2) years following the termination of the license and franchise granted herein or any renewal or extension thereof, he will not, without the written approval of Licensor, either directly or indirectly, as owner or to a new license or franchise, engage in a business similar to that of the Licensor, within a radius of one hundred (100) miles from the licensed territory herein granted.

21. Licensee recognizes and agrees that Licensor has developed certain "trade" secrets for the operation of HICKORY FARMS retail stores, and as a consideration for the teaching of and the divulsion of the said secrets aforesaid, Licensee agrees that Licensee will, at any time, directly or indirectly, furnish any information as to the methods of operation, advertising, promotional and merchandising programs and/or ideas, or any other information relative to the operation of a HICKORY FARMS of Ohio retail store, to any person or persons, corporate or real.

22. In the event that differences should arise between Licensee and Licensor as to the meaning or application of provisions of this agreement, such differences shall be settled by arbitration. Both parties agree to submit the matter to arbitration and accept the decision of the majority of an arbitration board consisting of one member selected by Licensor, one member selected by the Licensee, and a third selected by the two arbitrators nominated as above. In the event that the two arbitrators selected by the parties fail to agree on the selection of the third arbitrator, thereupon application of either party hereon, any judge of the Court of Common Pleas of Lucas County, Ohio, shall appoint the third arbitrator, who shall act under this agreement with the same effect as if he had been specifically named herein. Site of arbitration shall be at an appointed time and place located in Toledo, Ohio. Such arbitration may be demanded by either party to this agreement by notice in writing. It shall be incumbent upon both parties to nominate an arbitrator within ten (10) days after such notice is given. The expense of the arbitrator selected by the Licensee shall be borne by the Licensee; the expense of the arbitrator selected by the Licensee shall be borne by the Licensor; the expense of the arbitrator selected by the parties shall be borne by the parties equally. In the event that the parties are unable to agree on the selection of the third arbitrator, the decision of the majority of the arbitration board shall be final and binding.

23. If Licensee shall fail to perform, keep and observe any covenant, term or condition of this agreement, a default hereunder shall be deemed to exist. This license and franchise is granted subject to the specific condition that, if a default hereunder on the part of Licensee is not remedied within thirty (30) days after written notice of default delivered by Licensor, the license and franchise herein granted may be forthwith terminated by Licensor, but without prejudice to any other rights or remedies Licensor may have.

24. The paragraphs of this agreement are severable, and in the event any paragraph, clause or phrase thereof is declared illegal or unenforceable, the same shall be void, and the remaining provisions shall be effective and binding on the parties. No waiver declared illegal or unenforceable, the remainder of the agreement, shall be ineffective and binding on the parties.

25. This License and Franchise Agreement contains the entire and only agreement between Licensor and Licensee, and shall supersede all prior understandings, agreements, contracts and arrangements between Licensor and Licensee. This agreement may be amended or changed only by the execution of an endorsement or amendment hereto duly executed by both Licensor and Licensee.

26. This agreement shall be binding upon the parties hereto, their respective heirs, successors, legal representatives, and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate the day and year first above written.

Witnesses as to Licensee:

Witnesses as to Licensor:

HICKORY FARMS OF OHIO, FRANCHISE DIVISION
(a Partnership)

By: Richard K. Ransom, Managing Partner

(Licensor)

Licensee

Licensee

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