Franchise Research Assignment

Course: APS232F
Entrepreneurship and Small Business

University of Toronto
Faculty of Applied Science and Engineering

November 16 , 1996.

To: Donna Danyluk
From: David Tam

RESEARCH INTERNATIONAL INC.

MEMORANDUM

To: Mr. Joseph Paradi, President
From: David Tam, Research Consultant
Subject: Franchise Report
Date: Thursday, November 14, 1996

PURPOSE

This memo was written due to your request for a report on franchising. I interviewed Donna Danyluk, franchise owner of Subway Sandwiches on Yonge Street, just south of Wellesley Avenue.

REPORT

Donna, along with her business partner, Mostasa Moshtaghi, has been operating Subway Sandwiches for almost two years. Though this particular location has only been in their hands for six months, their other Subway franchise, which is located on Parliament Street, has been in operation for two years. The previous owner of the Yonge Street franchise went into bankruptcy and Donna was presented with the opportunity to purchase and revitalize this location.

Two years ago, at the age of thirty-eight, Donna was a social worker. Though she enjoyed the aspect of being in contact with people, she found that she suffered from burnout. Poor management, and the fact that she was working for someone else were some of the negative aspects of her previous career. She spent three weeks conducting research on franchise opportunities before she decided to purchase a Subway Sandwiches franchise. Her reasons for purchasing this particular franchise are that Subway Sandwiches has been the number one franchise choice in the Fortune 500 magazine for eight consecutive years, and that it has the lowest costs in terms of startup and on-going expenses compared to all other franchises.

The idea of a franchise business was attractive because of the proven formula of franchise businesses, and the fact that getting credit from the banks is much easier due to the reputations of major franchisers. From another perspective, this can be seen as a stepping stone on the path towards full entrepreneurship, in terms of both gaining business experience and in building a good credit history with banks. In fact, many Subway owners, including Donna, see their franchises as a stepping stone towards starting their very own businesses. Donna plans to take her next step in January by getting into the retail business in the Caribbean.

The requirements in obtaining the franchise license included an interview process, submitting a business plan, obtaining financing, passing the training program and other tests. It also helps to have some experience in business. Once an application is accepted, the franchise owners are given two weeks of initial training in Connecticut and one week of on-going, on-site support after startup. After the one week period, franchisees are on their own. Additional support can be obtained over the phone. Communication with the franchiser comes mainly in the form of completing control sheets and sending these to headquarters via telephone and mail. In addition, a major meeting is held once every three months, where all of the franchise owners meet with management at headquarters.

The disadvantages that Donna saw after purchasing the franchise include the fact that she still has a boss (the franchiser), though control from this boss is quite remote and not as direct as in her previous career. Dealing with the development agent, who acts as the liaison between headquarters and the franchisee, is not very good either. Her relationship with the franchiser has never been great, due mainly to the poor development agent, though relations with headquarters itself is very good. For a period of time during the startup phase of the Yonge Street franchise, the relationship was good, but now, Donna feels that she no longer needs very much support from the franchiser. Support amongst the franchisee community itself is quite good. They often borrow supplies from one another. In addition, she sees other franchise owners at the headquarter meetings. The opinions of other franchise owners varies depending on their sales and interaction with the development agent. Franchise agreements between the franchisees and the franchiser are pretty inflexible, with only variations in the rent policy.

An important issue for franchise owners in general is exclusive territory rights. This issue is not one of Subway's strengths, as highlighted in the media a few years ago. The current franchise owners within the area are given the option to purchase the potential new franchise, however, this option can be over-ruled. In effect, this gives no assurance at all to Subway franchise owners.

Product and service standards at Subway are very high. Once a month, an agent from headquarters conducts a major inspection of every detail of the franchise operation. On average, these inspections are five hours long. Supply issues, such as quality, pricing, and availability are handled by headquarters. Franchisees must buy certain major supplies from the suppliers determined by headquarters, such as meats, bread, condiments, and drinks. For instance, all franchisees must purchase from Pepsi and Snapple. Vegetable garnishes however, are left to the franchisees' discretion.

The one major improvement Donna would like to see is in making the development agent more accountable to the franchisees. Franchisees should have more say over them. In this way, complaints and compliments could be heard by headquarters and appropriate actions could be taken to improve franchiser / franchisee relationships.

When she purchased the franchise, Donna did not expect to enjoy the business as much as she enjoys it now, despite the long hours. In general, she is satisfied with her business, but she wouldn't stay in this business for too long. If she had to do it all over again, she would. As mentioned before, she sees this franchise as a stepping stone towards bigger and better things. Franchising, is a good way to get into business because of its long-proven formula.

In comparison to Donna's previous occupation, she believes she does more effective social work while running her franchise because she has more control over it, rather than having the government control her social work. One of her decisions was to start and support a community "Subway" baseball and soccer team which involves many of the less-fortunate kids that can be found in the Reagent Park community, where her other Subway franchise is located. Donna's biggest satisfaction is in having a business that helps her community. She has the best of both worlds, she does social work while running a successful franchise.