Question 11. What are the disadvantages of franchising to the franchisee?
Answer: Following are the disadvantages of franchising to the franchisee:

1. Right and the only way of doing things: Degree of freedom for the franchise gets limited. There is over guidance and over-influenced degree of control over them. This leaves no scope for the innovation.
2. Continuing cost implication: Revenue gets shared with the franchisor. This is in addition to the royalty and the fees. Additional amounts can be charged towards sharing the cost for advertising, training, etc. It may become an expensive business due to tendency of exploitation by the parent firm.
3. Risk of franchisor getting bought: The franchisee faces irreversible changes in form of problems and difficulties when the franchisor either fails or goes for merger.
4. Inability to provide services: When promises made in the agreement are not kept, the franchisee are left without any support in important areas.

Question 12. Give examples of failure of franchisee due to inability to provide services.
Answer: Curtis Bean bought a dozen franchises in Checkers of America Inc., a firm that provides auto inspection services. After losing Rs 200,000, Bean and other franchisees filed a lawsuit claiming that the franchisor had misrepresented advertising costs and had made false claims including that no experience was necessary to own a franchise.

Question 13. How growth is essential for the existence of an enterprise?
Answer: Growth is always essential for the existence of a business concern.

1. For further growth of an enterprise every concern must try some ways.
2. According to the requirement try to expand its activities.
3. An entrepreneur must act as a challenge seeker.
4. Quick and thoughtful decision of various factors like increase in financial, logistical, and market share of a business.
5. The rule of thumb is that one should only expand when there are untapped opportunities that can benefit the business.
6. There may be a comfortable way that an entrepreneur want capture or a location not serviced even by your competitors.
7. Extra managerial ability, its continued efficiency and profitable functioning ensures existence and growth of enterprise.

Question 14. Why big brands make head towards for franchising? Explain with an example.
Answer:

1. The big corporate houses that have opted for a franchise route consider franchising as an easy mode of expansion as per the requirement and commitment level of the franchisor

and the franchisees.
2. It is a powerful and ideal way to expand business, for a company which does not have any capital, manpower or time to build the network of company-owned outlets. Example - Dabur is one of the big established brand that has taken up franchising for expansion.

Question 15. State some of the disadvantages to franchising to franchisor.
Answer: Some of the disadvantages to franchising to franchisor are as follows:

1. Difficulty in identifying quality franchisees:
(a) Sometimes the franchisor may find it difficult to identify quality franchisees.
(b) Even after extending all support towards training and providing capital, poor management may lead to the failure of the franchisee and in turn, which may affect adversely franchisor and the system as a whole.
2. Legal Regulation:
(a) Franchising is a regulated activity and requires follow with federal and state franchise laws.
(b) To successfully establish a franchise, franchisors are required to work with an experienced franchise lawyer to establish a solid blueprint for franchising.
3. Investment: Every one knows that franchising serves as a source for the capitalized expansion of your business (i.e., franchisees invest in your expansion), the establishment of a franchise system requires the investment of capital to cover legal fees and the cost of establishing a franchising infrastructure.

Question 16. What do you mean by acquisition? Give some examples.
Answer: Acquisition is a more general term, enveloping in itself a range of acquisition transactions. It could be leading to takeover of a company. Acquisition refers a corporate action in which a company buys almost, the target company's ownership stakes in order to assume control of the target firm. It is often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations . It is often paid in cash, it could be the acquisition of company's stock, tangible assets, intangible assets, ' rights, acquisition of control, and other kinds of obligations. It is also known as a takeover, means the buying company takeover or acquire by another.
For Examples: Bharti Airtel acquired Zain Africa, February 2010

1. Bharti Airtel is the largest mobile network in India. It is also expanding its reaches throughout the globe, Bharti Airtel added 180 million new customers in its list by acquiring an African Mobile Network provider called Zain Africa.
2. Tata Steel acquired 100% stake in Corus Group on January 30, 2007. It was an all cash deal which cumulatively amounted to Rs 12.2 billion.

Question 17, How cost advantages are one of the important advantage of an enterprise?
Or
"The mere size of a franchised company offers many advantages to the franchisees". Explain.
Answer:

1. The franchisor can purchase supplies in large quantities, thus achieving economies of scale that would not have been possible otherwise.
2. Many franchise businesses produce parts, accessories,

packaging and raw materials in large quantities, then in turn sell these to the franchisees.
3. The franchisee are usually required to purchase these items as part of the franchise agreement and they usually benefit from lower prices.
4. One of the biggest cost advantages of franchising a business larger sums of money to advertising. Which covers major media wide geographical area.
   Therefore each franchisee contributes a percentage of sales (1 to 2 %) to an advertising pool.

Question 18. "Quick expansion is the most obvious advantage of franchising for an entrepreneur." Explain with the help of an example.
Answer: The most obvious advantage of franchising for an entrepreneur is that it allows the venture to expand quickly using little capital.

1. It involves low capital investment by the franchisor as the capital used to expand the network comes from franchisees.
2. By using the franchisees' capital, the franchisor is able to establish a large number of outlets in a short period of time.
3. A franchisor can expand a business nationally and even internationally by authorizing and selling franchises in selected locations.
4. Quick expansion can be achieved without incurring the overheads and costs associated with opening company-owned outlets.
5. Operating a franchised business requires fewer employees, this allows the franchisor to maintain low payroll and minimizes personnel issues and problems.
   This brings benefit to both the franchisor and franchisee as it helps build consumer recognition quickly and establish the franchise. Example: Just think of the capital needed by DeLuca to build 8,300 Subway sandwich shops!
   The value of the franchise depends on the track record of the franchisor and on the services offered to the entrepreneur or franchisee. Subway's low franchise fee has enhanced expansion opportunities, as more people can afford it.

Question 19. Explain the reasons for mergers and acquisitions.
Or
Why do companies merge with or acquire other companies?
Answer: Reasons for mergers and acquisitions: Every company wants to achieve higher growth rate and diversification. Mergers can give the acquiring company an opportunity to grow market share without having to really earn it by doing the work themselves - instead, they buy a competitor's business for a price. While one often hears CEOs saying that M & As are inspired by a desire to diversify or achieve higher growth rate, the reasons could be varied. Some of the commonly identified reasons are:

1. Synergy:
   (a) It refers to the difference between the value of the combined firm and the value of the sum of the participants,
   (b) Synergy accrues in the form of revenue enhancement and cost savings.
   (c) For example, if firms A and B merge and the value of the combined entity—V(AB)—is expected to be greater than (VA+VB), the sum of the independent values of A and B, the combined entity is said to be benefitting through synergy.
2. Acquiring new technology: To remain competitive, companies need to constantly upgrade their technology and business applications. To upgrade technology, a company need not always acquire technology. By buying another company with unique technology, the buying company can maintain or

develop a competitive edge.
For example is a merger (a) Logistics company such as a land transport entity with an air-line cargo company. (b) Blackberry and Treo which can incorporate cell phone capability and e-mail connectivity in one device; palm pilots and tablet laptops can provide benefits to both the entities.

3. Improved profitability: Companies explore the possibilities of a merger when they anticipate that it will improve their profitability.
   For example, European Media Group Betelsmann, Pearson, and others have driven their growth by expanding into the US though M&As.
4. Acquiring a competency: Companies also opt for M&As to acquire a competency or capability that they do not have and which the other firm does.
   For example,
   (a) the ICICI ITC alliance made the retailer network and depositor base available to the merging entity.
   (b) IBM merged with Daksh for acquiring competencies that the latter possessed.
5. Entry into new markets: Mergers are often looked upon as a tool for hassle-free entry into new markets. Under normal conditions, a company can enter a new market, but may have to face stiff competition from the existing companies and may have to battle out for a share in the existing market. However, if the merger route is adopted, one can enter the market with greater case and avoid too much competition. For example, the merger of Orange,Hutch, and Vodafone took place to achieve this objective.
6. Access to funds: If a company finds it difficult to access funds from the capital market. In such situation, a company may decide to merge with another company that is viewed as fund-rich.
   For example, TDPL (Tamil Nadu Dadha Pharmaceuticals) merged with Sun Pharma since TDPL did not have funds to launch new products.
7. Tax benefits: Mergers are also adopted to reduce tax liabilities. By merging with a loss-making entity, a company with a high tax liability can set off the accumulated losses of the target against its profits gaining tax benefits.
   For example, Ashok Leyland Information Technology (ALIT) was acquired by Hinduja Finance, a group company, so that it could set off the accumulated losses in ALITs books against its profits.

Question 20. How growth of an enterprise is possible through Mergers and Acquisitions (M & A)?
Or
“Mergers and Acquisitions (M&As) is a potential strategy for ensuring the accelerated growth of a business.” Explain.
Or
What are the reasons that firms may choose to grow through M & A instead of expanding internally ?
Answer: The term ‘business growth’ is used to refer to various things such as:

1. increase in the total sales volume per annum,
2. an increase in the production capacity,
3. increase in employment,
4. an increase in production volume,
5. an increase in the use of raw material and power.But in actual way, business growth means an increase in the size or scale of operations of a firm usually accompanied by increase in its resources and output.

Mergers and Acquisitions (M&As) is a potential strategy for ensuring the accelerated growth of a business.” The various reasons are as follows:

1. It is often cheaper to acquire an existing unit than to set up a new one or less expensive.
2. New ways to generate ideas.
3. It provides economies of large-scale operations.
4. Easy and Better utilization of funds can be made to increase profits.
5. Gaining economic and marketing power.
6. More possibility of diversification.
7. More efficient use of resources can be made.
8. Sick firms can be rehabilitated by merging them with strong and efficient concerns.
9. It is possible to gain quick entry into new lines of business.
10. It can provide access to scarce raw materials and distribution network.
11. Supporting managerial expertise'.
12. Analysis client’s requirements
13. Valuing companies
14. Identifying potential partner’s.

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