Ice delights case essay

In business there are no guarantees for success. Skills, knowledge, great motivation and honest evaluation of ability to carry out and then manage the operations are just some of the requirements that determine the probability of the successful project. Success is never automatic and does not rely on luck. There are no ways to foresee or eliminate all of the risks that might affect successful operation of a new business. However detailed planning, thorough analysis and well-carried out organization create good potential for a new business.

In the provided case study, we will assess the probability of success for Icedelights franchise in Florida. Analysis will be done through evaluation of each step in the decision making process, close study of a financial data and Business plan as well as the examination of risks in case of failure. Mark, Paul and Eric are young second year students with limited to no relevant experience of how to run their own business, especially in the food retail industry. Their eagerness to run their own business is understandable; however, enthusiasm is often not enough without necessary knowledge, skills and abilities.

From the very beginning when idea of starting up the business took hold, it was obvious that there was no clear picture of how the future business will look like. The market for operating was not defined, and the list of targeted industries was rather spread. The three knew, however, the size of the company they were looking for (was defined sales volume) as well as the level of commitment they were prepared to give (minimum). Such approach of determining the type and area of business has long proved to be out of date.

Considering that none of the three had ever owned the business, they should first get a clear picture of what is really like to run a business. Some ideas could be gained rough talking to friends or colleagues in the university who already have their businesses. The next thing they should do is honest and accurate assessment of strengths and weaknesses as potential business owners. Apart from the size of the sales volume, founders should also identify who they future customers will be, how their needs will be met and what the three would like to provide them with: products or services.

Minimum level of responsibility will not guarantee a profitable running even a news agent kiosk, and if the three were looking for a company with 5 to 10 million sales volume they should be prepared to roll up the sleeves for very hard work and immense time commitment during six or even seven days a week. The decision to purchase an Icedelights franchise might sound reasonable, as it is generally less risky than running a start up. The opportunity of being given a well-working business model, training, assistance with finding real estate and other support outweighed the fact that large size of the finance was required (825. 00).

In addition, the failure percentage of franchisees of a well established company within first 3 years was much less as opposed to a brand new business. Though becoming franchisee seems to be easier and less risky, I believe that Mark, Paul and Eric have not investigated properly all of the business opportunities. Plus they should have gathered as much information as possible to ensure that the choice they did was the best suitable for them. Considering the lack of experience, smaller and less costly deal should be considered as an alternative.

Even when decision of franchising was taken, it feels that franchise opportunities in other industries were not examined well. In addition to that, initially, retailing was not even in their specification sheet, meaning that the choice of becoming a franchisee came almost “ out of the blue”. Though some of the friends of Paul’s family recently purchased the franchise for Oregon and California, there is no information on whether someone actually talked to the people already operating in the business the three were about to step in.

The promising opportunity Mark, Paul and Eric saw in becoming franchisees of Icedelights can partially explain why they did not search further about other types of businesses that could be potentially suitable and decided to go for what appeared to be rewarding and sounded like a fun business. Attractiveness of the project was seen in:

1. Possibility of making almost 10 million in 10 years time with how they perceived low risk and high return opportunity. 2. Relatively little amount of capital required for a bigger return, including the ability of having no liabilities after 4 years. 3. Major plus was seen in acquiring rights to entire state of Florida, which they thought had a lot of potential for gelati/cafe concept presently and in the future. Florida market with warm climate, relatively wealthy population and friendly lifestyle showed the potential for the business growth and profitability. 4. As they noted it was a perfect time and age to take a risk, as opposed to waiting for the graduation, when they might not have the same opportunity. 5. Additionally, market did not seem oversupplied so coffee, ice cream and pastries could have a demand among broad groups of customers.

All of the pros given above lead the three to go ahead and make a deal with Icedelights parent company which turned out to be restrictive and dangerous for the franchisees. According to the deal, the owners (Mark, Paul and Eric) will not have a control over the real estate and the product, so it would not be truly their own business. Though the parent company seemed flexible and supporting it is somewhat lacking the formal commitment to the project in Florida.

Apart from assistance in consulting, operating and training other franchises would also provide support in obtaining finance. In case of franchisee’s failure, the parent company is not carrying any financial risk, which creates some doubts as to the parent company’s support and dedication to the project. Moreover, parent company was still uncertain weather it would proceed with the Florida franchise due to the company’s limited capacity to provide products and assistance given its priority to California franchise.

The fact that the company did not want to be legally obliged but yet could have the possibility to withdraw during 9 months indicates that all of the risks would be on Mark, Paul and Eric, whether for Icedelihgts such agreement appeared to be risk free. Given such conditions of the agreement, there is little that the owners could do to lessen the level of risk in case the project will not be carried out or the business was struggling. Due to the fast expansion in early years, Icedelights had some financial problems.

They mainly accrued as a result of poor organizational and control system. Company stressed its commitment to slow, quality growth. In view of that, it is rather suspicious why Mark, Paul and Eric were required to expand at the alarming rate without even being informed where their first stores will be located. The parent company is certainly aware that the plan of opening so many stores can break easily, leaving franchisees in the financial troubles. The fast expansion, 30 stores in 10 years, including 22 in the first five, is the most risky aspect of the deal.

While entering new market niche, for company like Icedelights it might take a few years to get its place in the market and generate positive revenues. Instead of fast expansion strategy, franchisees should focus all of their efforts into developing smooth operation of just a couple of stores. Controlling small number of stores would allow the owners to gain necessary knowledge, skills and experience as well as become more familiar with the operation and management sides of the business.

There is no evident information, whether Mark, Eric and Paul were advised to change the schedule of opening new stores. Should chairmen and president of Icedelight have been more committed to a new venture in Florida, they would have proposed the business plan they use or perhaps less risky approach. As to the limited knowledge about the market in Florida, it seems to be foolish to start a business in the location where none of the three has not even been yet.

At the given point of the process, market has not been fully researched (population growth and income data is not all what is needed); neither there was an information about the type and size of a target customers. The Florida is untested market for Icedelights products; thus it should be carefully observed not after but before signing the contract and investing so much time and money. Mark, Eric and Paul were due to sign a contract at the end of March, while they planned to visit Florida during the spring break.

Before visiting Florida none of them could be sure whether Icedelights concept would really work there. With so mush ambiguity involved, including restrictions by the parent company and lack of competence of the business and its market, the three definitely do not have a complete picture on the business they about to enter, therefore the date of signing the contract should be postponed. One of the keys of success of the project is well prepared business plan. Complete and accurate information, presented in the right order can enable to execute the worthiness of the project.

Evaluating information included in business plan for Franchise in Florida, one can see that the data is incomplete and not presented in the right order. In this section I will try to identify what information is missing, incomplete or perhaps should be presented differently. Considering that we do not have a full business plan but only some excerpts, we will consider that the executive summary including general business overview have been written. It has been mentioned the type of products the franchisee is brining into the market (coffee, pastries and ice cream), however some additional information is necessary.

Such as: a)who are the customers will be and how much they would buy; b)what will make them visit the shop and buy the product; c)what differentiate the product from another products of the same group; d)what competitive advantage will allow the product to be accepted and be successful and whether it is strong enough to generate long-lasting demand;

This information is necessary not only for presenting to potential stakeholders and investors, but for the franchises themselves, so they can have a broader picture of the portfolio of the products as well as how it will fulfil customer's needs.

Mark, Eric and Paul are planning to create and fill market demand for gelati almost immediately. With a few new stores opening every year, it is imperative for sales to grow quickly and substantially. For this to happened, franchisees have to analyze the market in Florida really well; yet even after that no one can guarantee that current competitors will remain unsuccessful in their ventures and future competitors will be slow to enter the market.

In the exhibits provided, there is no review of competition proving that future franchisees do know the market; barriers of entry in food retail industry; names, market positions and strategies of their competitors, the size of their operations; the value of Icedelights products that would allow competeing successfully with existing brands.

Should franchisees had more time and/or possibilities to perform thorough analysis, the three would realize that 5 years to get investment back in relatively low barrier to entry industry does not sound very promising start for expected great success in the 10 year time (is the year of fast majority of the return from the business).

Detailed analysis would also help to find out the reason why some of the competitors' ice cream shops were not doing that well. The process of gathering information is rather time consuming and certainly requires visiting the area. For the profitable operation of the business of such magnitude (22 stores in the first 5 years), well-developed marketing and operational strategies has to be presented.

Detailed strategy should explain: a) how target customers will be informed about the product and what competitive advantage it will have; b) precise description of what will be needed in running the business, such as: location (do not know yet where the first store will be!), equipment needs, number of employees; c) what steps will be taken to ensure that operations between parent company and franchisee run smoothly; d) how production and day-to-day operations of the stores will be maintained in case of failure to deliver products by parent company.

With such a tight schedule of stores' opening there is no room for errors, thus it is vital to develop action program that would address following questions: – what exactly will be done for the project to start operating; – when and how long will it take before for the stores to get opened; it is indicated that retail operations will start no later than early 1996, yet more expanded information should be included – how the responsibility will be distributed and what is the dynamic of the owners as a team? – and obviously the costs of the project (financial data has been included in the case).

I believe that Mark, Eric and Paul are aware of the importance of this part in the business plan, and in case it has been prepared it should have been included in the case, otherwise it is rather difficult to evaluate completeness and accuracy of the business plan and take any decision of the value of the project as a potential stakeholder. Assess of the major threats and opportunities that the business might face while integrating into the market in Florida has a significant importance as a part of a business plan.

Franchisees are planning to raise 90% of the working capital through selling shares and borrowing; meaning that the three must present potential share- and stakeholders with rather persuasive facts that every aspect of the project is well mulled over. People who will be interested to invest in a new business that would be run by a team composed of a three second year students with limited to no relevant experience will require a sound assurance that in case of negative developments of the project there is back up plan ready for execution. SWOT analysis is as important for investors and creditors, as for franchisees themselves.

Many things can go wrong especially during the first year or two, when the owners will be faced with tons of challenges and pressure to get the business started and setting the operation mechanism. At this point, studied in advance possible factors that might affect implementation of a plan can be addressed effectively and in a timely manner. For example, considered in advance situation where demand for rich creamy gelato might be affected due to the weight/ calories reasons, the franchisees might look straight away for the sorbets and low fat flavours.

Or in case of a production supply failure, what would be other options for effectively using the store spaces and purchased equipment. The same time, knowing the strengths and opportunities of the business, it can be quickly recuperated and, if necessary, reorganized without putting all invested capital in jeopardy. In the financial part of the business plan I would add information about forecasted number of units sold and average net price (as opposed to given total amount of sales). I believe names of sources that were used to make sales projections should be mentioned also.

Some of the data used for forecasting sales level and growth is based on the knowledge from existing Icedelights locations provided by the Icedelights parent company. This information should be rechecked carefully, as it is in the parent company interest to provided franchisees with " attractive figures" so the deal would look more promising. Considering different markets conditions, population structure and composition of competitors, information about sales level and growth in other markets might not reflect the level of demand and growth in Florida market.

According to the provided indicator of real growth, it is expected to slow down by 2 % from the year two; nevertheless schedule of stores openings is planned to increase significantly till the year six. It remains a mystery, how the franchisees are planning to organise profitable running of each five new stores per year, contrary to forecasted decrease in real growth. Regarding the section about the dividends distribution, it has to be revised with more consideration of the investors.

The probability of ttracting investors with no intention to distribute dividends in the first five years is very low. I certainly would not be on the list of the potential investors with such conditions and no assurance even after five years. Initially Mark, Eric and Paul planned to raise 750. 000$ of the capital. Detailed explanation about how the finance will be distributed has been provided. Meanwhile, the decision to increase capital to 825. 000$ has been taken with no supportive documentation showing how the funds will be located.

It seems to be very puzzling how the three were going to raise 825 thousands by the end of March, if they were still 400. 000 short. As to the management of the project, the team composition is lacking confidence and ability to execute the project. It is unclear how the management of such large number of stores will be carried out. Already before signing the contract, each of the franchisees has some doubts and concerns regarding the success of the venture or compatibility of the partners.

The decision has to be taken regarding how they see themselves working as a team, what each one can contribute to the project, and how they are planning to persuade potential investors that second year students are capable of running profitably the business of given size. As I mentioned earlier the likelihood of me being among the stakeholders is rather limited. Even with required additional information about the project I would not go through with this deal.

It has to do with the number of reasons: The management team of Mark, Paul and Eric is young and inexperienced; I doubt that they have the ability to handle the types of problems that can and will be faced with while managing a new venture consisted of a 30 stores and employees stretched all over entire state of Florida. As noted earlier, from investor’s point of view it is not worthwhile to invest in the business which does not have even 90% of certainty, no dividends in the first five years plus ambiguity regarding the amount of dividends from the year 6th onwards.

The fact that there will not be positive cash flow until year 6th and very large debt for an uncertain stream of revenues do not work in favour of the borrowers. Furthermore, the deal with the parent company is disadvantageous to the franchisees given its structure for expansion and limited amount of control over the product and real estate. The risk factors are too big at this point. Even though projected returns are high, they largely rely on very aggressive growth assumption.

For the Icedelights franchisees to meet their expected growth forecasts, they must remain relatively uncontested at least for the first couple of years, while establishing strong brand equity. In order to make this happened; there must be a person in their team with good background to be able to start implementing the plan straight away. Uncertainty in the ability to get needed cash and shortage of time for securing financing, do not provide credibility to the franchisees either. There is no assurance in the market, especially when it has not even been researched yet.