

A report to evaluate
the success or failure
of initial city links
decision to fra...



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Many large and national and international retail and service businesses have expanded rapidly and in most cases this is down to the business deciding to franchise out its outlets. What is franchising? Franchising is a means of a business (franchisor) with a product or a service to expand but does not want to sell to consumers directly.

Hence, it franchises out its outlets to business entrepreneurs (franchisee), in the form of a franchise agreement - this is a legal agreement between both parties for a set time. This allows the franchisee to sell the franchisor's products or services and the right to trade under their name and use the franchisor's logo and designs. But in return the franchisee must pay royalties; a percentage of the final profits to the franchisor and must contribute to a central pool of capital, for marketing, which benefits all franchisees. A franchise agreement is unique in the sense of the closer inter-dependence between both parties. The income of the franchisor is dependant on the income of their franchisees.

The franchisees depend on the franchisor for its market power and their brand name. Listed on the stock market in 1969 and incorporated in 1972, operating over 70 outlets in 2004, most of which are franchises in the UK, but also including some key European countries; Luxembourg and Germany employing 6000+ employees, Initial City Link was the pioneer of next day urgent deliveries. Initial City Link is also part of the Rentokil Initial Plc. group one of the largest business services organisations in the UK. The history of Initial City Link is long and complicated involving a number of mergers and acquisitions, but it all traces back to two businesses Ratin and Rentokil. On

the next page is the history of Initial City Link's parent company Rentokil Initial.

City Link Transport Services Limited was founded in 1969 to provide a collection and delivery service between British Rail 'Red Star' stations in London and London Airport. City Link had an unique opportunity, as under the 1968 Transport Act, British Rail (now known as Rail Track) were precluded from operating road transport services, hence City Link being established to fill the market niche of the importers, exporters, agents and airlines. Whilst the 'Red Star' service was efficient and simple to use, a large number of its existing and prospective users considered it inconvenient to collect and deliver parcels from rail stations. Therefore as the airport service became well known requests were received to organise similar services not only for London deliveries but also at other major city centres throughout the UK. Hence 150 agents were appointed to provide a delivery service to and from London. In November 1972 City Link Transport Holdings Limited was established in order to separate the administrative and operational divisions of the company.

As a result of this City Link continued to expand rapidly. This is when the critical stage was reached in order to sustain the business' size and growth rate the decision was taken to standardise all operational and logistical procedures, so it was decided to implement a franchise scheme. The suitability of franchising operations in Initial City Link is a tricky issue. As the franchisee does not purchase a single franchise agreement for one outlet, the franchisee instead purchases a franchise zone, such as Tunbridge Wells,

Maidstone, Newcastle, Sunderland etc. This means that the franchise is not a small operation, with 3-5 employees, as such for running a single outlet.

But with a workforce of about 50-150, and depots 17 500+ sq ft. this virtually means that the franchisee is running a whole network of outlets instead of one. Franchised delivery companies such as Initial City Link, are difficult franchises to operate as one franchisee relies on another franchisee for business, which in turn will affect the franchisee's profit and hence Initial City Link's profit. This means that all potential franchisees must be carefully vetted and interviewed. This is why the company directors at Initial City Link, take such a large and 'hands on' approach to new and potential franchisees. Unlike a franchisee agreement for a single outlet that even if it went completely 'belly up' it would not harm the companies image and profits significantly to cause a problem.

But in turn this also offers certain advantages, because even if the franchisees territory was suffering a downturn in business, that franchisee would know that even if they had less business, but all other areas were receiving a 'normal' level of business, this means that they would still receive some form of income as they are bound to be delivering some parcels for other franchisees. The system that Initial City Link operates is in principle like this. All prices are pre-determined and set by the Head Office, and is issued to all franchisees; this price list has to be adhered to. If deliveries are within the franchisee's own area then 100% of the cost will be retained by the franchisee (*royalties to be paid). But if the delivery address is outside of the franchisees area, then payment will made in return for delivery to franchisee that carries out the delivery.

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