

# Tobacco shop franchising

Business



Tobacco Shop Franchising The first and foremost advantage of the franchising agreement is the fact that Ralph Emerson can operate as an independent businessperson but still realize the advantages of a regional or national organization which the Pipe Dreams network has already developed into. This means both the brand-name appeal and a proven track record.

Although the Pipe Dreams probably can not be considered widely known and long-established brand, it should already have gained popularity within its target market audience. Therefore, Ralph can capitalize on brand equity of Pipe Dreams trademark and use the franchisor's name as a drawing card for his own newly established tobacco shop. The reason stems out of the fact that people are often more aware of the product or service offered by a franchise and prefer it to those offered by lesser-known outlets.

Another benefit of signing the franchising agreement is that the franchisor has already proved that the operations in this market conducted in this particular manner can be successful. As the Pipe Dreams has been around for eight years and has established a network of franchisees, of which it is known that they have had a high success rate in the past, one can be certain the franchisor has proved that the chosen layout and location of the tobacco shops, the developed pricing policy and assortment of the tobacco goods offered are successful.

Moreover, for Ralph Emerson to be able to run his tobacco shop effectively he needs the knowledge and feeling of the goods' peculiarities and the consumer preferences. Probably, in his previous career as a librarian he may have accumulated some knowledge about the tobacco and cigars, most probably through the hobby, but it can not be compared to the expertise of the well-known tobacconist whose ideas have proven their validity during the <https://assignbuster.com/tobacco-shop-franchising/>

eight-year period. Therefore, the training and guidance in the assortment choice and the shop decoration is of high importance in this case. In general, the likelihood of success is much greater for the franchisees who have received such kind of assistance than for small-business owners overall. For example, it has been reported that the ratio of failure for small enterprises in general to franchised businesses may be as high as four or five to one (Kuratko & Hodgetts, 2004, p. 441).

Last but not the least, the financial assistance from the franchisor's side in the form of financing the initial inventory purchase and the required fixtures for the next ten years will allow Ralph Emerson investing more effectively his own capital into growth-contributing activities.

Among the disadvantages of franchising usually name franchise fees, control exercised by the franchisor and the possibility of the unfulfilled promises by the franchisor. In case of Dream Pipes shop the obligation to contribute 1.5% of gross revenue to a national advertising campaign is a quite high fee. However, it does not simply go to the franchisor but is invested into the advertising, thus popularizing the brand and can be considered to some extent an advertising expense.

The unfulfilled promised by the franchisor taking into account its quite significant track record can not be considered an overwhelming risk in this particular case. And the amount of control exercised by the Dream Pipes is quite fair and overlaps with guidance in the very specific retail market.

Conclusively, even if Ralph has an adequate amount of financial resources available without signing the franchising agreement, it would be advisable for him to become a Dream Pipes franchisee instead of opening his own tobacco shop because, as shown above, the advantages of the agreement in <https://assignbuster.com/tobacco-shop-franchising/>

Ralph's situation outweigh its disadvantages.

#### References

Kuratko, D., & R. Hodgetts. (2004). *Entrepreneurship: theory, process, practice*. Taunton: South-Western.