METHODS AND TECHNIQUES FOR FRANCHISE APPRAISAL

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Introduction

Franchise system is as old as the mark. In fact, the word *franchise* was known from the Middle Ages signified both in English and French to grant a privilege, a license or exemption. The term has acquired meaning today in 1840 when beer manufacturers in Germany to increase sales you have set up a licensing system that beer distributors, food retailers, restaurant owners receive the right to sell exclusively the beverages. Industrial production machine system has been perfected in 1851 by the company that manufactured the famous Singer Sewing Machines Singer sewing machines. U.S. Franchise System has spread because of its qualities in terms of developing businesses based on the commercial success of others. Fime as General Motors, Coca Cola and Ford Motors Company have developed some work to unprecedented levels due to franchise. Today the franchise is running huge amounts, hundreds of billions of dollars. Some authors showed that during 1960-1995 franchise in the U.S. increased 6 times in 30 years there from 3300 to franchisors and franchisees 550,000. Areas where the franchise is used are different as are eg the eating of fast food with representatives as Mc Donald, Pizza Hut, KFC, Marriott hotel industry, Hilton, Sofitel, Intercontinental, etc., Car rental companies Rent A Car, Avis, etc. MiniPrix neighborhood stores, La Fourmi, Mega Image, Billa, super and hyper marketuri such as Carrefour, Praktiker, Cora, pastries Fornetti, service stations OMV, Shell, Agip, etc. and also medical services especially in dental offices, specialty clinics different. And franchise system in Romania has taken off, local companies as La Mama (food), Petrom and Rompetrol (petrol stations), The muffin Enraged (pastries), etc.. being themselves in the position of the franchise.

But what does it mean franchise?

Franchise [1] *is a trading system based on continuous collaboration between natural or legal person, independent financially, that a person called the franchisor, grants to another person named beneficiary, the right to operate a business or a product, technology or service.*

Classification of franchise contract

Franchise shall be classified shall be subject to the agreement:

1. *Industrial franchise agreements* that cover the production of goods. This type of contract the franchisor (who has the mark, patent or know-how) allows franchisee (who wants to use the system developed by the first) to produce and sell under the brand first in compliance with its quality. Franchisor will provide management consulting, technical assistance and staff training, advertising, etc.. Instead franchisee franchisor promote markets for which the mark has acquired rights under the contract. Franchise industry is particularly prevalent in soft drinks industry by transnational corporations as Pepsi Cola,

[1] Legea 79/ 1998 pentru aprobarea Ordonanței 52 / 1997

Coca Cola, Nestle, etc., Alcoholic beverages Carslberg beer, Tuborg, Stella Artois, Becks, etc. clothing industry Levi's jeans, Lacoste, Armani etc.

2. *Distribution franchise contract* through which the franchisor allows the distribution of products under its brand with quality standards and specific means of distribution. Examples are companies Augsburg International (spare parts), Nescafe (coffee), chains (Aldi, Carrefour, Billa, Mega Image, Mini Prix, etc.) etc.

3. *Franchise contracts for services* such as those in the field of hotel, catering, car rentals, travel, barber shops, dentist offices, car service, laundry, sanitation services, cable and internet services, amusement and entertainment, etc. and the list is continuously widening as new areas of activity are developed based on successful models. This type of contract franchisor shall authorize the franchisee to use the same methods, techniques, standards, management models with its. McDonald, Burger King, Pizza Hut, are just some examples of success in the field.

4. *Main franchise contract* which called mainly franchisor allows the emergence of local intermediaries called sub-franchisors that in turn can develop more business through franchisees.

The franchise can transmit rights in intellectual property objects such as patents, trademarks, industrial models and drawings but also non-proprietary solutions, methods, production systems, management or technology (know-how) by assignment or license. The transfer is the main feature franchise and license others.

Methods of assessing franchise

Methods of assessment of franchise contracts are similar to those used in assessing intangible or tangible assets or income that is, by cost and market comparison. Mainly used for income-based methods such as conventional methods of direct capitalization of income or discounted cash flow (DCF) which examines the impact fees are appropriate on increasing profits (if the franchisor) the contribution of income brought by using the franchise (if franchisee).

If the cost approach and specific methods may be used as the comparison with and without franchise business feasibility (if franchisee) or the new replacement cost if the franchisor is thinking to change the mark, trade name, the use of patents, recipes, solutions, etc.

Opportunity cost method

Opportunity cost method is based on criteria the opportunity cost of capital. Under this principle, an investor will choose the same investment that will bring maximum profit to capital invested. Therefore, an investor interested in a branded print over a franchise agreement will review the situation in terms of its business and conduct its business without a franchise contract to see the direct contribution of the acquisitions to develop its enterprise activity and increased profitability.

Relationship calculation is:

$$V_F = V_{cuF} - V_{faraF} \quad (1)$$

$$P_{datF} = P_{cuF} - P_{faraF} \quad (2)$$

Where: V_F = franchise value

V_{cuF}= business value / business including franchise

V_{faraF}= business value / business excluding franchise

P_{cuF}= Profit realized by using the franchise

$P_{f\breve{a}r\breve{a}F}$= Profit realized by not using the franchise

Method of assessment based on franchise fee revenues

Fees called royal or regular payments on annuities is the beneficiary of a license, transfer, franchise rights holder pays (in this case, the franchisor) on intangible assets that the contract in exchange for their use.

Calculation of franchise fees to take into account the following:

1. Franchise value of the holding time ownership of intangible assets (trademark, patent, design or industrial design, know-how, contracts, etc.).
2. Franchise value of the acquisition date total or partial ownership of the intangible asset contracted,
3. Franchise fee income received for leasing rights,
4. Income from use of the intangible asset received by the franchisee,
5. Cost of franchise fee,
6. Characteristic capitalization rate product / service that the contract of franchise

Consequently, relations for the determination of royalty income are:

$$V_t = V_F + V_f \qquad (3)$$

Where: V_t= total business transaction related to property rights in the franchise intangible asset,
V_F= Franchiseur value intangible assets,
V_f= Franchise value intangible assets,

and
$$V_F = \frac{v_{ep} + R_{primita}}{r_c} \qquad (4)$$

and
$$V_f = \frac{v_{ef} - R_{plăţi}}{r_c} \qquad (5)$$

Since $R_{payed}=R_{received}$ (6),

$$V_t = \frac{v_{ep} + v_{ef}}{r_c} \qquad (7)$$

where v_{ep}= operating income own brand (intangible assets)
v_{ef}= operating income franchise by franchise
and for R we have relations:

$$R_{primita} = V_F \times r_c - v_{ep} \qquad (8)$$

or

$$R_{platita} = V_f \times r_c - v_{ef} \qquad (9)$$

Where R = total fee paid or received

The total fee may be a sum of discounted annual fees taking into account two cases:

Case 1: The annual fees are monies transferred or received, which have different values because they were negotiated or as a percentage of annual turnover, or as a percentage increase or decrease the turnover considered a constant (taken as a reference) where

$$R = R_1 \times \frac{1}{(1+r_a)} + R_2 \times \frac{1}{(1+r_a)^2} + R_3 \times \frac{1}{(1+r_a)^3} + ...R_n \times \frac{1}{(1+r_a)^n} \qquad (10)$$

Case 2: Fees are considered fixed annual amount paid or received, in which case the relationship of calculation is:

$$R = R_{ct} \sum_{h=1}^{n} \frac{1}{(1+r_a)^h} \qquad (11)$$

or

$$R = R_{ct} \times \frac{(1+r_a)^h - 1}{(1+r_a)^h r_a} \qquad (12)$$

If fee payments are constant on a monthly basis, then,

$$R = R_{ct} \times \frac{\left(1 + r_a \frac{1}{12}\right)^h - 1}{\left(1 + r_a \frac{1}{12}\right)^h r_a \frac{1}{12}} \qquad (13)$$

If fee payments are constant on a quarterly basis then,

$$R = R_{ct} \times \frac{\left(1 + r_a \frac{1}{4}\right)^h - 1}{\left(1 + r_a \frac{1}{4}\right)^h r_a \frac{1}{4}} \qquad (14)$$

If fee payments are constant on a biannual basis when:

$$R = R_{ct} \times \frac{\left(1 + r_a \frac{1}{2}\right)^h - 1}{\left(1 + r_a \frac{1}{2}\right)^h r_a \frac{1}{2}} \qquad (15)$$

Conclusions

In the category of intangible assets within an enterprise is an important intangible assets derived rights.

In fact many successful business based franchise. Franchise, license, transfer, etc. are in fact vehicles that can turn an intangible element in an intangible asset able to form, support and develop businesses.

Valuation methods contracts relate mainly to the benefits they can bring to business development and therefore for tests will be compared to a character (compare the solution with the contract without the contract) be quantified by estimating the contribution to profit influence the turnover contribution fees or profit.

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