



Brickley, James A., 2002, **'Royalty Rates and Upfront Fees in Share Contracts : Evidence from Franchising,'**

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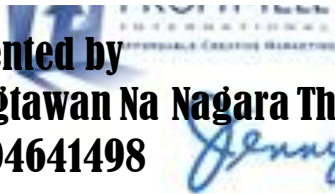




## DEFINITION

“A franchise contract grants the rights to use the parent’s brand name and business format at a specific location to an independent businessperson for some specific term. In return the investor or manager pays an up-front fee and an ongoing sales royalty to the parent. The franchisor agrees to provide training to the franchisee as well as ongoing services to maintain and enhance the brand name. the franchisee agrees to follow the company procedures that are detailed in the operating manuals and franchise contract”

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# HOW FRANCHISE INCURRED ?

## From franchisor's point of view

Cost of expanding by themselves

>

Cost of giving away Franchise contract

## From franchisee's point of view

Cost of investing by themselves

>

Cost of taking Franchise contract

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## EXAMPLE



- During the first period, 1988, Seven-eleven don't give any franchise contract. CP all company controlling all shops

“Cost of expanding by themselves

<

Cost of giving away Franchise contract

- After that, they started to give away franchise contract

“Cost of expanding by themselves

>

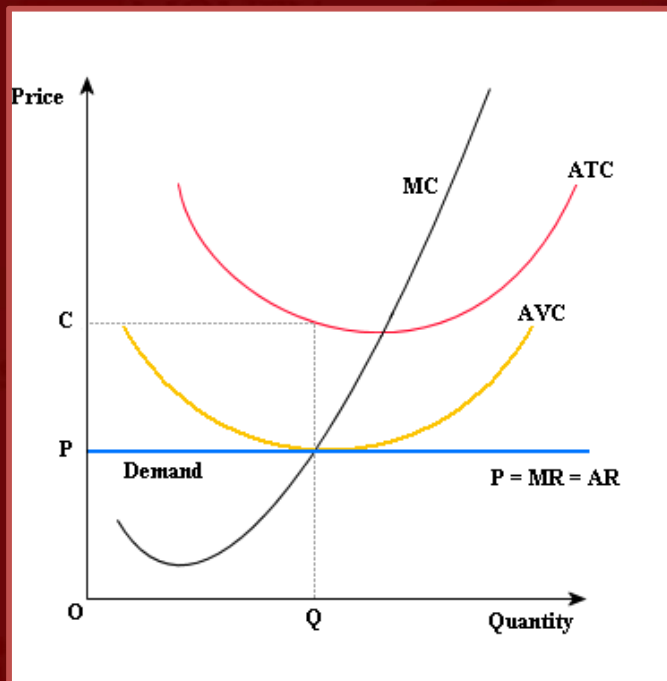
Cost of giving away Franchise contract

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**“The franchisee will keep operating as long as they can cover their average variable cost”**



*\*The franchise contract cannot be change unless with ‘good causes’ of the franchisors.\**

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**TWO MEN  
AND A  
TRUCK.**  
“Movers Who Care.”



**ALL AMERICAN FOOD**





## The franchise which are not franchise in Thailand.



There stores found here in Thailand are not Thai owners, there stores here are headquarter control from the original country

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TWO MEN  
AND A  
TRUCK  
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## Determinants of contract duration

- ☐ Relationship-Specific Investment
- ☐ Uncertainty
- ☐ Re-contracting Cost
- ☐ Exogenous VS Endogenous Variable





## Relationship-Specific Investment

[Often be called as Franchise fee]

- Physical

“ The duration of franchise contract will increase with the franchise’s INITIAL INVESTMENT requirement.”

EXAMPLE : Seven-eleven convenience store

| Contract duration | Initial investment (Baht) |
|-------------------|---------------------------|
| 6 years           | ฿ 1,480,000               |
| 10 years          | ฿ 2,630,000               |







## Relationship-Specific Investment

[Often be called as Franchise fee]

- Human capital investment

“ The duration of franchise contract will increase with the required amount of OFFSITE TRAINING. ”

EXAMPLE : Seven-eleven convenience store VS Amazon Cafe

| company      | Contract duration | Initial payment (Baht) |
|--------------|-------------------|------------------------|
| Amazon Cafe  | 6 years           | ฿ 2,869,000            |
| Seven-eleven | 6 years           | ฿ 2,630,000            |

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## Uncertainty

### ○ Experiences

“ The duration of franchise contract will increase as the franchisor gains EXPERIENCE in franchising. ”

- ✓ Can be decreasing
- ✓ Can be increasing
- ✓ Can be constant



Depends on provided contract duration  
&  
Optimal contract duration

### ○ “Optimal contract duration”



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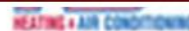
## Re-contracting cost

- Number and Diversity of units

“The duration of franchise contract will increase with the NUMBER AND DIVERSITY OF UNITS within the franchise system.”

“Number and diversity of units & experience & opportunities are positively related”

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## Re-contracting cost

- Franchise's right not to renew franchise contract

“ The duration of franchise contract will be longer with a high concentration of units in states with laws that restrict the **FRANCHISE'S RIGHT NOT TO RENEW FRANCHISE CONTRACTS.** ”

Forcing franchisor to seek profit from lengthening contract duration instead.

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## Endogenous VS Exogenous variables

- Exogenous variables

Assuming to be UP-FRONT PAYMENT. ( initial payment / franchise fee )

- Exogenous variables

Assuming to be ROYALTY FEE, which is monthly payment.

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Jenny Craig

LONG JOHN  
SILVER'S





## Endogenous VS Exogenous variables

**ENDOGENOUS > EXOGENOUS**

“Implying more royalty fee paid monthly comparing to initial payment”

**ENDOGENOUS < EXOGENOUS**

“Implying less royalty fee paid monthly comparing to initial payment”

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## The median information

- ❑ the median contract duration is 10 years with the renewal right of another 10 years, which 90 percent of the contract duration sample author found are mostly 5 multiplier that are 5, 10, 15, 20 and over 50 percent of the contract duration is 10 years contract duration.
- ❑ The median for upfront payment is 112,500 dollars which is 3,375,000 baht with the royalty fee of 5 percent and 2 percent of advertising fee.
- ❑ The median of offsite training is 2 weeks with 60 percent of outside training of it's primary state of operation.

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## CONCLUSION

- ✓ Most of Thai Franchise has 10 years contract duration as well, but the upfront investment depends on each parental franchise, and business sector.
- ✓ The differences of Thai franchise, food stall franchise industry with a less than 500,000 baht of relationship-specific investment, the franchisors usually don't stated specific contract duration, the contract duration will be over when the franchisee cannot reach the amount of supply buying from the franchisee implying that when the franchisee buying less amount of supply more than what franchisor stated the contract will be over.
- ✓ Franchise contract will be incurred only when franchisor's cost of providing is less than not to and franchisee's cost of taking is less than not to either.
- ✓ The longer-term contract would benefit the franchisee more due to the longer period to recover from sunken initial payment, while the shorter-term contract would benefit the franchisor more due to larger number of contract can be sold in the market.

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THANK YOU

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