Dual Nation

- is the restaurant suited for franchising?

Bachelor Thesis Within Business Administration

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Jönköping December 2005

INTERNATIONELLA HANDELSHÖGSKOLAN
HÖGSKOLAN I JÖNKÖPING

Dual Nation

Kan restaurangen anpassas till franchise?

Filosofie Kandidatuppsats Inom Företagsekonomi

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Title:	**Dual Nation – is the restaurant suited for franchise?**
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Date:	**2005-12-21**
Subject terms:	**franchise, restaurant, expansion**

Abstract

Problem   Dual Nation is a local restaurant and pub located in the centre of Helsingborg. The seven year old business has grown fast and established itself as a successful restaurant in the city. After a initial growth period, the restaurant has now reached a point where a change in its structure, strategy or system must be performed in order to witness renewed growth. A popular business system for expanding restaurants is the concept of franchise. Is the restaurant suitable for such an expansion?

Purpose   The main purpose of the thesis is to investigate if Dual Nation is conformable for franchise expansion and how Dual Nation must be developed in order to be able to go franchise. The thesis will also provide suggestions of improvements to the owner Karin Svensson.

Method   A qualitative method has been used in this thesis. Empirical findings have been gathered from interviews with the owner and employees of Dual Nation. These findings has thereafter been analyzed with known franchise theory.

Result   The main conclusion of this thesis is that Dual Nation shall start to take actions towards a franchise development. The company will during the process find out whether they are suitable for franchising or not. None of the initial actions will be unnecessary since they are not franchise unique and therefore they will contribute to the overall efficiency of the restaurant. Examples of such actions is to nursing the brand, to try to delegate responsibility and work among the employees so the well being of the business is not dependent on a single individual, to create an environment where efforts of the employees are acknowledged and rewarded and to simplify the concept to make it transferable to other cities.

Kandidatuppsats inom företagsekonomi

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Sammanfattning

Problem Dual Nation är en restaurang och pub i centrala Helsingborg. Det sju år gamla företaget har haft en snabb tillväxt och är nu etablerad som en av de mest framgångsrika uteställerna i staden. Efter uppstartsperioden så har restaurangen nu kommit till en punkt där förändringar i struktur, strategi eller struktur måste genomföras för att tillväxten skall kunna fortsätta. Ett populärt tillvägagångsätt för att expandera restaurangverksamheter är att använda sig av franchise. Kan restaurangen anpassas till franchise?

Syfte Det främsta syftet med uppsatsen är att undersöka om Dual Nation är anpassningsbar till en franchise expansion och vad som då eventuellt måste utvecklas. Uppsatsen kommer även att ge förslag för förbättringar till ägaren Karin Svensson.

Metod En kvalitativ metod används i den här uppsatsen. Empiriska fakta har inhämtats från intervjuer med ägaren till Dual Nation och dess anställda. Den empiriska datan har sedan blivit analyserad med känd franchise teori.

Resultat Den huvudsakliga slutsatsen från uppsatsen är att Dual Nation skall börja arbeta i riktning mot en utveckling av franchise. Företaget kommer under processens gång få reda på om franchise anpassning är möjligt eller inte. Ingen av de initiala åtgärderna kommer vara förgäves då dessa inte är franchise-unika utan kommer bidra till en allmän effektivisering av bolaget. Exempel på sådana åtgärder är att vårda sitt varumärke, att försöka fördela arbetsuppgifter på olika befattningshavare så att inte företagets fortlevnad hänger på en person, att skapa en arbetsmiljö för de anställda där deras insatser uppmärksammas och belönas samt att förenkla konceptets möjlighet att kopieras och upprättas i andra städer.

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1 Introduction

The introduction part will explain why the thesis is written and what further will be discussed. It will also give a short background to the problem followed by the research questions. This chapter ends with a disposition that will explain how the thesis is built up to make it easier for the reader to follow.

1.1 Background

Since a couple of years, the Swedish restaurant industry has experienced a steady growth. The same goes for the restaurant and pub Dual Nation located in Helsingborg. Traces from the economic recessions during the beginning of the 1990's are almost gone and the industry expects a continuous growth during the upcoming decade. Though the late economic upswing has played a great role in this recent development, the industry has also been positively affected by the urbanization and an ongoing cultural change. Swedish citizens tend to be adapting to more of an urban lifestyle, investing more time and money in recreations than previous generations. The increase in demand has reflected in the restaurant industry's turn-over. The annual turn-over has increased steady over the last four years (Swedens' Hotel and Restaurant Association, 2005). The number of restaurants have increased by 5000 units and the number of employees with 15 000 over the last ten years (Lina Gustafsson, SCB, personal communication 2005-11-30).

As mentioned, the industry has positive expectations of the future and the growth is expected to continue. While the market demand expands, every new restaurant that opens up creates an even more competitive environment. In order to create a successful and enduring restaurant at present time, managers must deal with a wide range of problems. A start-up venture faces market barriers in its establishment phase as the ongoing restaurant is challenged by how to keep its customers coming back. These managerial issues are not an easy task as they must be solved in an industry situated in a rapidly changing environment, where conditions can change in a matter of months.

When a restaurant has managed the initial phase of growth and started to operate as functional businesses, it is unavoidable forced towards a critical decision point. Sooner or later, the business will be in need of a change in the structure, strategy or system in order to attain higher levels of growth (Wood, 1999). These management conditions could be compared to the life cycle of the human race; parenting strategies used for a baby can not be applied on a teenager (About Inc, 2005). After a rapid growth, companies tend to get to a declining phase where three outcomes are possible; contraction, unchanged situation or expansion. To create a renewed growth, nothing is for certain except the fact that the progress demands changes. Since the environment and internal factors creates unique situations for every single restaurant, decisions must be made according to own conditions and goals (Wood, 1999).

A possible expansion for a functional restaurant is to use the concept of franchise to create further growth. The method is used to gain the benefits of a successful venture by providing the business concept to other managers in other places in return of a periodically paid fee. It allow businesses to exist as separate firms while sharing a uniform concept, both tangible and intangible. The underlying assumption is that a winning concept will work just as good in any other city. By choosing franchise, organizations can gain growth by increased geographical coverage and market access as well as joint administration and marketing. This alternative of expansion is used by many companies in the restaurant industry

such as McDonald's, Pizza Hut, Harry's and Max (Engström, Fernlund, Ottosson, Edvardsson & Brodén, 2005).

1.2   Problem discussion

Dual Nation is a local restaurant and pub located in the centre of Helsingborg. The seven year old business has grown fast and established itself as a successful restaurant in the city. The business idea is to provide the customers with a combined cuisine of Swedish and Danish food at reasonable prices served in a friendly environment. At evenings, the restaurant opens up its pub and at weekends, Dual Nation turns into a nightclub. The owner of the restaurant, Karin Svensson, employs a total of about 50 persons and the restaurant shows an annual turnover of about 20 million SEK (Kerstin Myrenfeldt, accounting assistant, personal communication, 2005-11-21). The whole concept of the restaurant is thoroughly planned; everything from customer relations to furnishing has been created with the intention to form a specific Dual Nation atmosphere with a friendly environment.

After a start-up phase, the restaurant is now established and has reached a decline in growth. This decline is seen as an indication that a critical decision point is approaching. According to the owner, the present decline in growth is partly due to structural imperfections. The initial years have been characterized by entrepreneurial thinking and a centralized management, methods that now need to be refined to a more professional and decentralized system. Dual Nation does not have a spoken goal to aim towards and an overall concept refinement is also needed to be recognized. The future development relies exclusively on the, right now, existing conditions. If opportunities towards expansion arise, Karin Svensson is ready to follow them up just as well as maintaining the present extension of the business if that would be more suitable.

Dual Nation has an internal strength, a strength that could mean a great opportunity for expansion. This strength is the business concept of the restaurant. A mixture of restaurant and pub with a clear profile has proven by others to be a successful combination in both small and larger cities. As it presently successfully competes with both independent restaurants as well as restaurant chains on a local level, potential exists for launching the concept in other cities.

Dual Nation is interested in expanding and to use a franchise concept may create further growth. There are other franchise organizations, such as Harry's and O'Leary's, within the pub and restaurant industry that have proven to be thriving. But a franchise organization demands a lot, the concept must be successful and transferable, both administrative and economic conditions must be fulfilled. The local restaurant and pub Dual Nation wants to expand and franchise might be a beneficial way of doing so.

1.2.1   Research questions

As mentioned, a change is unavoidable to attain further growth and the fact that franchise is proved to be successful on business concepts similar to the one of Dual Nation, this report will discuss the following questions:

- To which extent is franchise applicable on the concept of Dual Nation?

- In what ways can the organization be developed and improved to be able to do this?

1.3 Purpose

The main purpose of the thesis is to investigate if Dual Nation is conformable for franchise expansion and how Dual Nation must be developed in order to be able to go franchise. The thesis will also provide suggestions of improvements to the owner Karin Svensson.

1.4 Delimitations

As mentioned, this thesis will only check the conformability of Dual Nation to the expansion method of franchise. The thesis will not create a plan on how to develop the company into a franchise organization. No investigation will be conducted on whether Dual Nation can afford an expansion or not.

Please notice that the name of the company, its owner and location is invented by the authors in order to provide secrecy to the commissioner. This brings that some of the numbers and names presented in the thesis are consciously wrong.

1.5 Structure of the Thesis

The first chapter – **Introduction** – will explain the aim of the study, what will be investigated and why the subject is chosen. Next chapter - **Frame of reference** - contains theories about how to define a business in a franchise context. These theories will be used when creating a base for the empirical data gathering. This chapter also includes theories of franchising that will be used when analyzing the empirical data. The third chapter – **Method** – explains why certain methods are chosen and how they are used in the investigation. In the fourth chapter – **Empirical findings** – the empirical data is presented under a list of headings originating from "Definition of a business" from the Frame of reference (2.3). In next chapter – **Analysis** – the data will be analyzed in the light of the theories presented in the theory chapter "To build a franchise" (2.4), "The pilot" (2.5) and "Other significant aspects" (2.6). The final chapter – **Conclusion and Discussion** – will present a dialogue around the problem statement. Suggestions on further studies will be exhibited here.

2

Frame of reference

Since the purpose is to evaluate Dual Nation's ability and opportunity to become a franchising organiza-
tion, this chapter will initially present the underlying concept of franchising, then continue to discuss theories
of how to define an organization which will be used to create questions to the interviews. Finally, a presenta-
tion of conditions that a business needs to fulfil in order to become a franchise will be given. This will be
used to analyse the empirical study in the Analysis.

2.1   Definitions

To avoid misunderstandings, the authors will initially start off by clarifying some expressions that will arise many times in the thesis.

Franchisee	The one who rents the concept and runs a franchise entity (Mendelsohn, 2005).
Franchisor	The one who owns the concept, let it to franchisees and is responsible for the overall organization (Mendelsohn, 2005).
SME	Small- and medium sized enterprises. Companies that occupy less than 250 employees with an annual turnover less than 50 million Euro or a result that do not exceed 43 million Euro a year (The European Union's official newspaper, 2003).
Business concept	Everything from the largest questions concerning such as decisions on company policies and strategies to every little detail such as how a certain product or service should be exposed (Axberg, 1993).

2.2   Franchise

This part of the Frame of reference describes the basics of franchise to provide a preunderstanding to the subject.

> " *A business form essentially consisting of an organisation (the franchisor) with a market-*
> *tested business package centred on a product or service, entering into a continuing relationship*
> *with franchisees, typically self-financed and independently owner-managed small firms, operat-*
> *ing under the franchisors trade name to produce and/or market goods or services according to*
> *a format specified by the franchisor."*
>
> (Curran & Stanworth, p 19, 2004)

The quote concludes the essence of franchise; a company or individual rents a business concept to others. The underlying idea is a system that can quickly replicate successful business concepts to markets in new regions. For a layman, the word franchise is commonly connected with hamburgers and french fries but the fact is that franchise is applicable on several other business activities; a reason why there exist several ideas of how it is going to be defined.

There are three different types of franchise that are dominant in the theory according to Norton (2004), Engström et al. (2005) and Ericsson, Idelström, Pàsse & Trygg (2001). When the layman referred to hamburgers and french fries, he or she probably meant business format franchise as this type is the most commonly used. Business format franchise is an overarching, continuous system where all franchisee firms have the same business con-

cept as the franchisor; the same public profile, standardized supply to end customers, continuous development, cooperation and transformation of know-how. The franchisee makes the investment and owns the entity, but the franchisor owns the concept and there are contracts that regulate rights and responsibilities. This type of franchise is used in a wide range of markets such as fast-food, gas station, car rental, hotels and real estate. The second type of franchising; franchise confederations, also known as product distribution franchise, refers to the agreement when several businesses carry out joint performances of product or service development and their distributions. In this type of relationship, the bounds are more loose and the different companies are more independent than in the former (Norton, 2004). The last type is trade name franchise or also known as authorized franchised system. A parent company that holds the legal rights to a certain trade name, product or service allows separate companies to produce and sell under a license. A practical example of this type is the Swedish brewery Pripps which is allowed to produce and sell Coca Cola (Engström et al., 2005).

Though the franchise might differentiate among industries, the common denominator of all types is the focus on details. The success of the global giant McDonald's is not the idea of selling hamburgers nor is Avis the only company that offers car rental. Their success is found in the way they conduct their businesses. Franchise is all about conceptualization or as franchise theorist popular put it, retail in detail. Everything from comprehensive rules and policies down to operational manuals for single employees must be exact. A detail, insignificant at first sight, could determine success or failure while being observed in a comprehensive view. Detailed conceptualization is gained by the ability to collect, store and use important information. When nothing is left to chance, the conceptualization will create uniformity throughout the organization and the franchisees can benefit from the advantages of large scale operation though they exist as separate entities (Engström et al., 2005).

Since Dual Nation is a restaurant and its new entities would demand exactly the same concept and structure, the discussion of franchise expansion will naturally be performed in the perspective of business format franchise. The definitions of business format franchise highlights the importance of the actual business concept and relationship between the franchisor and the franchisees.

Forward & Fulop (1995) define business format franchise as a cooperation that not only involves a license for the franchise to sell the franchisors branded products and services but also both an initial support and an ongoing relationship where the franchisor provides support, education and marketing services. The franchisee shall pay the initial fee and thereafter an ongoing fee and a marketing/advertising fee. Mendelsohn (2005) agrees and further stresses the importance of unity in business format franchise. His definition follows below, where blueprint refers to the total business package from company logo to support.

> "*The business format franchise involves not merely the exploitation of goods identified by trademark or services identified by service mark, but the preparations of a blueprint for a successful way of carrying on a business in all its aspects. The blueprint must have been carefully prepared to minimize the risks inherent in opening any new business.*"

(Mendelsohn, p 3, 2005)

Henceforth, when the expression franchise is used in the context of Dual Nation, it will be in the sense of business format franchise according to the two above mentioned definitions.

2.2.1 The development of franchising

The type of franchising used today is a relatively young business format and has experienced a rapid development during the last decades. There are no doubts that it has become popular since it is presently represented in some form all over the world (Norton, 2004). So how did this type of business format emerge?

The concept of franchise originates from the USA and was developed in the mid 19th century when Singer Sewing Machine Company developed a new distribution system with detached salesmen which had sole rights on different districts. This way of organizing businesses was developed over time and the first traces of what we presently call business format franchise began to emerge during the late 1940s and early 1950s. After the World War II, the USA experienced a baby boom that created a new drive and growth to the economy. It resulted in an overwhelming demand for all kind of products and thereby a creation of new business opportunities. The system was perfect for this era as franchise had the potential of rapid expansion and regional coverage (Bassuk, 2000). The popularity continued during the 1960's when many large American companies, among others McDonalds and Avis, used the strategy to expand fast (Forward & Fulop, 1995). The popularity had an obvious connection to the "American dream" of making it big which made franchise become somewhat of a fashion (Hunt, 2003). Franchise was acknowledged in Sweden by 1972 when the Swedish Franchise Association was founded, an association with the mission to spread the new distribution form and to become a meeting place for existing and potential franchisors and franchisees (Engström et al., 2005).

In the USA, where franchise business is more developed than elsewhere, the format is presently found in almost every industry (Forward & Fulop, 1995). Engström et al. (2005) says that Sweden has a similar situation and further states that Swedish franchise distributes with a concentration within the retail industry. This statement is proved by a study of two hundred Swedish franchise businesses from 2002, developed on commission of the Swedish Franchise Association and the Swedish Trade Federation, in Engström et al. (2005). The study concluded that 44% of the franchisors in Sweden operated within the retail industry and 7% worked within the restaurant business (See Figure 2.1). Swedish franchise comprise thus more than hamburgers and french fries.
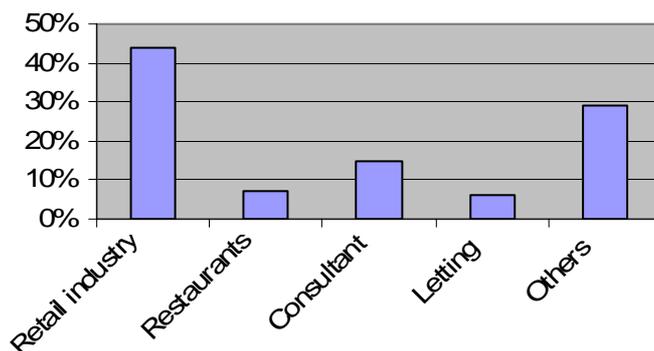

Figure 2-1 Swedish Franchise divided by sector, Engström et Al. (2005)

Swedish franchise experiences a continuous growth and the number of newly founded franchise companies have further increased during the recent years. Statistics show that 40% of the presently existing franchise companies were founded during the 1990´s and

29% were founded during 2000-2003. Except for the many advantages a franchise format brings, an additional reason for its popularity could be the survival rate. Studies shows better survival rates for franchise companies compared to other business forms. For example, in 2002, 0,4% of all franchise companies in Sweden went bankrupt in relation to the general level of bankruptcies of 0,9% (Engström et al., 2005).

2.2.2   Franchise in the restaurant business

Restaurants tend to be well suited for franchise and the use of business format franchise has increased in the industry during the last couple of years (Forward & Fulop, 1995). As a franchise organisation quickly becomes very large if successful, franchised businesses dominate the list of companies with the highest turn-over in the restaurant industry (Swedens' Hotel and Restaurant Association, 2003).

A study of the restaurant industry in Sweden, Swedens' Hotel and Restaurant Association (2003) showed that McDonald's was the company with the highest turn-over, Burger King finished sixth slightly before Max at the seventh position. All three of them are fast-food restaurants. However, other franchise restaurants were proved to be advancing. Harry's and O'Leary's finished 9th respectively 11th.

What is interesting is that these two restaurants have a similar approach as Dual Nation and are established throughout Sweden. O'Leary's has 38 restaurants in 32 different cities in Sweden with a focus on sports and American food in a more pub like environment (O'Leary's Trademark AB, 2005). Harry's has a broader approach and offers more of a night club along with its restaurant of English and American influences. Harry's is presently represented in 28 restaurants in 27 different cities (Harry's Pubar AB, 2005). O'Leary's and Harrys' have shown that is not only fast-food that can be franchised.

2.3   Definition of a business

In order to see if Dual Nation is suitable for franchise, the organization and its concept must be defined. The theories presented in this section serve as the basis for the gathering of empirical data. Initially, theory concerning the business life cycle will be presented. The interview questions for that section can be found in Appendix 1.

2.3.1   The business life cycle

Wickham (2001) states that a business undergoes a pattern of growth that could be compared with a metaphor of an organism's life cycle. Just as an organism, a business develops through different stages in its growth.

According to Kazajain, cited in Young (1996), this business life cycle is divided into four stages. The first stage is called the conception and development phase, and concerns the resource allocation and technology development. The next step is the commercialization phase which equals to the start-up. The third stage is the growth stage, this is when the market share of the company is growing. The last stage in this model is stability (Young, 1996). Wood (1999) developed this model and stressed that the company, when it has reached the stage of stability, creates a new life cycle in order to continue to grow.

Pre-programmed and unavoidable, every company that wants to grow will come to a critical point where changes are required (Wickham, 2001). When companies reach this critical

point, a need of change in the structure, strategy and systems are needed in order to witness new levels of growth. However, growth companies will face challenges along the road to success. Different barriers like financial needs, human resources and technological alteration will appear (Wood, 1999). The authors will use the S-curve, by Wood (1999), as a tool when positioning the company and describing the unstable patterns that can occur within a business life cycle.
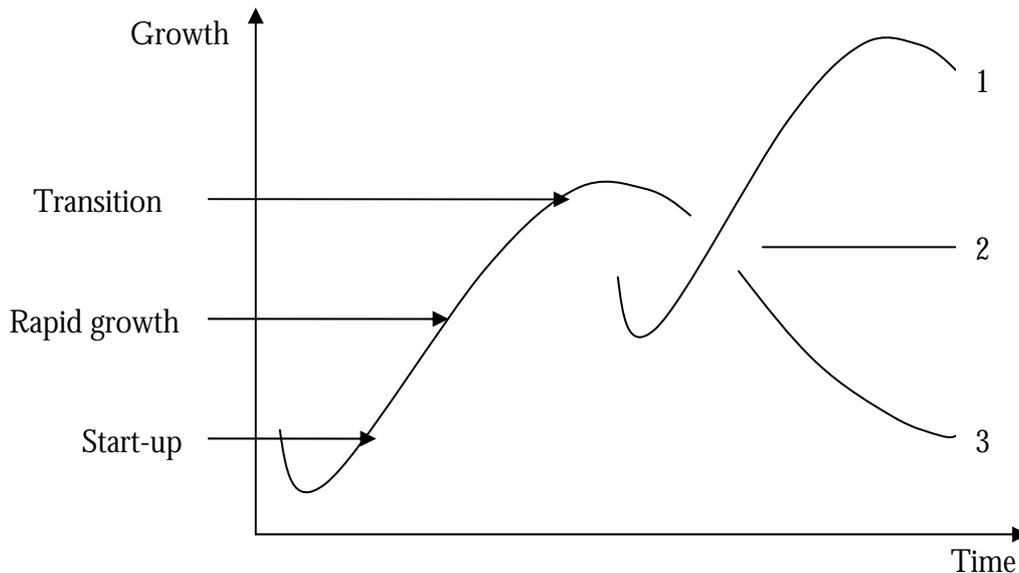
Figure 2-2 S-curve, Wood (1999)

The S-curve has been used by scientists and theorists for decades. It is an effective tool to use when describing the turbulent situations that may occur during the different growth stages. The S-curve is divided up into three periods; start-up, rapid growth and transition. To be able to grow and survive one must break away from the old period and begin a new growth period (Wood, 1999).

Three alternatives will appear if the company is located in the transition period; 1 – The first and the most preferable result is the expansion outcome where the renewal recreates the growth; 2 – The business will continue as before, but with minor changes that will keep the business running, an unchanged situation is often due to internal factors that limit growth as the business does not hold the competences and resources needed 3 – Detoriation will occur if managers fails to act and the past patterns does not fulfil new market demands (Wood, 1999).

Start-up   The first phase starts with an idea that turns into reality. Start-up companies often struggles with financial problems and the organiza-

tion is small and flexible. The structure and systems seems to be very loose, e.g. the employees have no job description. Formal planning during the start-up phase is often irrelevant. Many entrepreneurs do not look at the business plan when the business is in operation. The reason is that in a new business with an entrepreneurial approach, new opportunities often emerge quickly which makes the business plan out of date. The entrepreneur often has to reshape the business concept in the start-up period. Problems will appear and opportunities must be seized. The most important issue is to find buyers and increase the sales (Wood, 1999).

Rapid growth   Companies will enter stage 2, rapid growth, when the business' sales and customer base reaches a critical mass. During the rapid growth stage, companies must understand the patterns that make them successful. The focus in the rapid growth phase is on the internal workings and how to organize the organization. Companies should be able to know what they are actually selling, who the buyers are and how to deliver the services. Since the number of customers, employees and transactions increases the management and the structure of the organization must be improved. The most common problems are the internal structure and the lack of financial management (Wood, 1999).

Transition   The organizational structure that worked during the second phase is suddenly not working anymore. At this stage the assumptions that were the foundation of the organization can all be questioned. The business are now located in phase three. Three things could happen in this phase: the business platform is not sufficient enough and therefore the internal factors will limit further growth; or the company will deteriorate due to the past patterns; or the company will renew its structure or strategy and will experience a breakthrough. In order to survive phase three a company could employ professional managers rather than promote people internally. The reason for that is that the internal managers often do not have the skills necessary for a company that is in the third phase. With the same management team as before the company will face the same problems over and over again (Wood, 1999).

Sometimes companies are unable to move from one phase to another. The different growth barriers are often a consequence of internal problems. As Dual Nation for the moment is struggling with declining growth, a diagnosis could help the company to focus on the right problems and hopefully overcome the obstacles of getting from one phase to another. Different potential growth problems, stated by Wood (1999) are shown below.

A traditional problem is that everybody within a company is focused on working harder but nobody is analyzing what needs to be done. Old patterns have to be broken and new strategies and structure must be introduced to overcome this problem. A company which has no clear direction is probably working in the start-up phase since big ideas are often the start of a success. However, in a later stage the company must select the best ideas and focus on them. Without a focus the company will consist of many small entities pulling at different directions and not work as a team striving for the same goal. Since there will be changes in the demographics, the customer demands will shift and new trends will appear. A company can never rely on past successes. Instead of focusing on the past, the company

should look at marketplace trends, investigate how they can make use of opportunities and look into what their competitors are doing. Many companies do not have their plan written down. The manager often knows the company's direction but there is no written plan. The manager should not take for granted that the employees know the direction. Due to this the employees may feel confused and there is no clear communication which may lead to misunderstandings. Many business leaders have to improve their communication skills so that they can translate their vision of the company to their employees. Some companies are too attached with their products/services, and therefore lose contact with the environment. When it is too late they notice that the trends have shifted and their winning ideas are out of date. The companies have to be more externally focused and ask themselves what the market demands.

2.3.2 The business concept

Besides positioning the business in the life cycle, Dual Nation and its activities must be defined in order to gain sufficient knowledge to perform analysis of possible franchise expansion. Several theories exist concerning how to define a business but since the question at issue is to check the conformability to franchise, this investigation will use theory focusing on the business concept. The point of departure is Engström et al. (2005), Sherman (1999), Shane (2005) and Mendelssohn's (2005) reasoning. The authors have chosen relevant issues from these theories and combined them below in nine different categories. The interview questions for respective category can be found in Appendix 1.

Business idea	The business idea of the company. What it produce, how and for whom. The uniqueness and core values of the business.
Goals	Goals regarding growth and development. What goals have been shifting as the business has matured. The extent of planning. Future expectations.
Need of Resources	What resources the business needs to operate. An approximate understanding about what the initial investment cost of another unit would be, including the assumed cost of premises, interior, equipment, staff, etc.
Assortment	Define what products or services there are in the assortment. Specialities. Future intentions of assortment.
Marketing	Ranges from target group, buying pattern and sales concept to how to handle reclamations, availability and opening activities. The marketing efforts of the business.
Economy Administration	Economy system, accounting methods, business form, budgeting, financial reports, follow-up, openness, salary system, handling of taxes and fees, payment of notes to suppliers, cashier routines, handling of invoices, payment of franchisee fees and control systems are example of areas that need to be considered.
Education Communication	How and when education takes place and how the internal communication within the system works.

Quality controls	Divided into three subgroups: Commercial (how the concept and quality is followed), Economic (profitability and economic development) and Technical (who is in charge of what).
Management	The manager's role in the company and his or her importance. Influence of middle managers. Responsibilities.

When the business is defined according to the above-mentioned categories, the next step is to obtain theory to prove business conformability to franchise.

2.4   To build a franchise

Forward & Fulop (1995) states that all business is suitable for introduction of the franchise format, but there are some specific criteria that must be taken into consideration before going into franchising. The process to create a franchise business concept could be referred to as the construction of a building (see figure 2.3). Just as a roof needs a foundation and a main body, the franchise concept is dependent on a step by step development. The base of the franchise construction consists of the business' core concept, in other words the actual products and services that are offered and how these are sold to the customers. The main body concerns the administrative matters of creating a business plan and to refine the base into a business concept that could be franchised. This section does also contain the organizational issues of how the franchise organization will work in practice, concerning everything from establishment and recruitment of franchisees to ongoing communications between headquarter and the branches. The last step in the development is the creation of a contract between the franchisor and the franchisees. Rights and responsibilities for both parts are structured to ease management and to avoid misunderstandings (Engström et al., 2005).
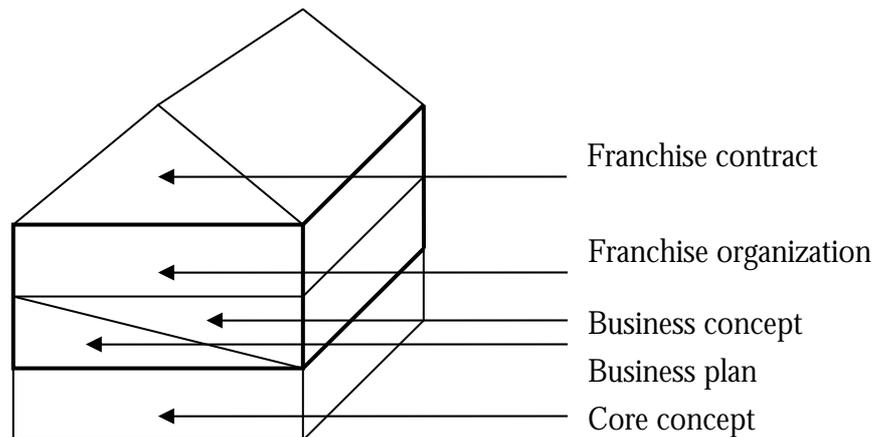

Figure 2-3 Franchise business concept, Engström et Al. (2005)

If a business contains all fundamental needs and thereby shows potential for franchise, the next step is to climb up a level and explore the features of the so called main body (Figure 2.3). The main body focuses on the creation of a business plan, the refinement of the core

concept and the organizational conditions that will frame the work of both franchisor and franchisees (Engström et al., 2005).

No matter what services or products are offered, the model visualizes the challenges a franchisor must face in order to build a working organization. As previously mentioned, the construction is a step to step model, implying that there are certain characteristics that needs to be fulfilled in every phase of the process before moving on. Since Dual Nation is in the very beginning, the theoretical framework will start up in the first phase. What characteristics and features must the core concept have to fulfill the fundamental needs?

2.4.1 Fundamental conditions

The authors of the thesis combines the theory of Wood (1999), who state that a company preferably should be in the transition stage before taking actions towards an expansion, with the theories of Engström et al. (2005), Shane (2005), Mendelsohn (2005) and Forward & Fulop (1995) which implies that a concept must be proven in practice. These two aspects is seen as the fundamental conditions of franchise.

2.4.1.1 The business life cycle

As previously mentioned, every stage of the business life cycle has its own characteristics and therefore also different issues that management should focus upon. As a result of this, it is of great importance for managers to correctly position their own businesses. By a positioning in the business life cycle, Karin Svensson can see whether Dual Nation is mature enough to initiate a franchise expansion.

If a company is situated in the start-up phase, a franchise expansion is not to recommend. The company is under construction and the concept is not fully developed and tested. During the rapid growth phase the company could start thinking of an expansion, but it may be too early since it should instead focus on to improve their existing business. The same problems occur over and over again during the transition phase. Therefore, an expansion could help companies since something has to be done. If the restaurant is in the third phase in the business life cycle, the transition phase, it is time for a change (Wood, 1999). That change might be to go franchising. This section is showing different components necessary to have in mind when creating a new franchise organization.

2.4.1.2 Successfully proved concept

The business concept must have been practiced in real life. A great business idea is not enough; the business must have been executed and by that, proved its functionality (Sherman, 1999). It is preferred that this test period last more than a year in order to prove the concepts sustainability (Engström et al., 2001). Except from proving functionality and sustainability, an operating company will create possibilities for standardization of the business system. Not only rules and procedures can be adjusted but understanding of the own venture and its business environment could be achieved (Shane, 2005).

The business concept must be successful. If a business can not generate money in a small context, growth by franchise is not the answer. Success must be proven by financial documents and the business concept must be unique in some sense. An image, method or similar is needed to create a competitive advantage (Mendelsohn, 2005). The more unique a franchise is the less is the risk for copy-cats. The business concept must create a reasonable yield, both for the franchisor and the franchisee. Work effort must be in line with profits

(Engström et al., 2001). The future franchise organization must provide such good economic conditions that the franchisees choose to stay within it (Shane, 2005).

2.4.2 Transferable concept

When the business concept is proved to be successful, the next step is to check whether it is easily replicable. There are several issues that have to be taken into consideration before one can tell the level of transferability. All routines and policies must be written down, the operation system must be easy to teach, the brand name must be protected and the organization must not be dependent on one single person. If the business concept fails to be easily replicable, the future franchise organization will not be able to produce the same products and services on more than one location (Mendelsohn, 2005; Engström et al., 2005).

2.4.2.1 Possibility to write the concept down

The operational system can not be too complex if it should be transferable. All every day routines must be written down in manuals. Documents must be written concerning the core values and the core message of the firm. A plan must be developed on how the education for the employees and managers within the franchisee entity should look like. It is impossible to create a transferable business concept if there are no transparency and routines on writing down the whole process. If it is possible to write everything down, the next step is to ask oneself whether it is teachable or not. It is essential to have a concept that is easy for the franchisees and employees to learn (Shane, 2005; Engström et al., 2005).

2.4.2.2 Simplicity

It is preferable to franchise a concept which is clear and simple. Since franchising is all about conceptualization every part must be written down, as mentioned above. This is impossible to accomplish when the system is too complex. If there are plenty of details in all parts of the operation system, or too large range of products, it is harder to document everything. A system is also too complex if it is depending on the knowledge of employees that is not possible to write down (Engström et al., 2005).

2.4.2.3 Independence

A business concept must be solid in itself and not dependent on a certain person or a small group of persons. It is impossible to transfer such a concept to franchisees since the person/persons can not be transferred. The role of the founder is often central in small entrepreneurial businesses (Engström et al., 2005). Sarasvathy (2001) has written an article on what makes entrepreneurs entrepreneurial. She claims that there are two types of reasoning of an entrepreneur - effectual reasoning and causal rationality. An entrepreneur that uses effectual reasoning does not start with stating a goal. He/she instead begins with the means he/she obsess and with respect to them a goal is tried to be reached. The effectual reasoners ask themselves who they are, what they know and whom they know. The inverse of this is the causal rationality where the entrepreneur do set a goal at first and then take all necessary actions to reach that goal. The differences between the two types of entrepreneurs is that while the causal reasoner focus on expected return, the effectual reasoner put emphasis on how large loss he/she might afford. When the causal reasoner makes competitive analyses, the effectual reasoner creates strategic partnership. While the causal reasoner go through pre-existing knowledge the effectual reasoner put emphasize on unforeseen events (Sarasvathy, 2001).

The burden on the owner increases as the company grows. It is hard for the owner to have control over the whole business if the company occupies approximately 20 employees or more, especially if a geographical expansion is to happen. Every question will be more complex which in turn demands a broader and deeper competence to lead the company. During this phase it could be appropriate to recruit at least one external member to the group. A person with experience of managing a company through the transition phase is to prefer. The person can explain how the work procedure could be changed and prepare the owner of pitfalls and mistakes that are common during the process of taking the company to the next step (Nielsen & Lekvall, 1999). McCann (1991) agrees and says that the company management group could be supplemented with one or more experienced member in order to better take advantage of the opportunities that may arise during the growth stage. An organization might benefit from having a board of directors as Mattsson (1994) suggests. A company management group can consist of a small number of persons which meet to discuss management questions. They are persons inside the organization, including the director, which in a planned way works as a group in order to make the management more efficient.

2.4.2.4 Transferable brand name

When choosing the name of the franchising company several aspects must be considered. The brand name must be easily pronounceable, memorable and short. The founder must also consider the expansion goals when choosing a name; if the goal is to become a global organisation, the name must work also abroad. Invented words tend to be easier to register as trademarks (Mendelsohn, 2005). All rights concerning the brand name must be legally protected before doing anything else. The brand name is automatically legally protected in the region where the company presently operates if it is generally recognized by the public (Agell & Malmström, 2005). It is essential to protect the rights if the company wants to expand, a national or even an international trademark protection might be useful to avoid potential future conflicts (Sherman, 1999).

2.5 The 'pilot'

When the fundamental conditions are fulfilled and if it is found that the concept is transferable, the next step is to see if it works on a new location. The test entity is called a pilot and it is necessary to use at least one in order to test the concept. It is important that this pilot entity is built and run exactly after the franchise concept since this can help the franchisor detect problems and to see if the concept becomes a success or not, before going on with the process (Forward & Fulop, 1995; Mendelsohn, 2005). Engström et al. (2005) argues that the point of departure can be a well functioning already existing entity that is to be further developed. Forward & Fulop (1995) states that three to four is the optimal number of pilot entities to run before starting the franchise project, but one is enough. The authors further state that the definition of the concept of the initial company is the most important preparation when creating a franchising network.

2.6 Other significant aspects

When a decision on going into franchising is taken, the first step in the process is taken. This section is covering some important areas that further needs to be considered before launching the business into franchise. These components, concerning the main body of the franchise house, are presented below.

Business form	One of the corner stones in franchising is the structure of the organization. The most common organizational solution is to create a parental company that holds all the rights to the business concept and its trademark. This parental company is then used to manage the relationships to the franchisees. The franchisees start their restaurants as own firms with own capital, making them work as both legal and economic separate entities. The parent company and its entities are connected by the business concept as the entities pays a franchise fee to the parent company in exchange for continuous support, comprehensive marketing and the right to use the concept on the local market. This payment is determined with respect to the division of the rights and obligations. Except from offering the concept to external franchisees, the structure of the parent company should be created so it can easily open up own entities within the organization (Engström, et al., 2005; Mendelsohn, 2005).
Franchise documents	The franchise documents is divided into three categories; economical, legal and operating manuals. All documents frame the work of both franchisor and franchisees.

The economical documents refer to economic analysis of the parent company and an approximation of economic development of an entity. The franchisor must convince the franchisees that the business concept can generate good profits as well as the parental company and its organization has a good economical situation. These economical analysis must also provide information of how the relationship between franchisor and franchisee in terms of franchise fee. An economical analysis is needed because it is important to know where break-even is and how many franchisees that is required to reach a critical mass (Forward & Fulop, 1995).

The legal documents should include the rights and obligations between the franchisor and the franchisees. The franchisor has to determine the type and quantity of ongoing support. This support usually includes education, manuals, and tutoring. It must also contain how protection of rights looks like within the company. A franchising agreement is usually a long term relationship, the shortest contracts is 3-5 years (Engström et al., 2005). The most important aspects of the contract are the balance of power and to define the formal relationship between the different parts (Forward & Fulop, 1995).

The operating manuals are important documents in the franchising relationship. The manuals shall describe the business and its policies in detail. Everything from the employee's dress code and the interior of the restaurant to job descriptions should be included. The manuals should work as guidelines and advices to the franchisees. However, it is important that the franchisees do not diverge from them too much since then the different businesses will not form an entity (Forward & Fulop, 1995).

Marketing the package	Mendelsohn (2005) argues the importance of marketing the concept in a good way. The best way is to base the marketing on the success of the company. He stress that no matter how fancy the franchise package look like, it will be hard to sell if it is not proven successful. Some franchisors just waits until a franchisee shows up and offers his/her services while other place advertisement in local and national newspapers to find franchisees. Mendelsohn (2005) further state that it is crucial that the data provided is truthful, accurate and presented in a positive manner.
Potential franchisees	There must be several alternative franchisees to choose between because the franchisor shall not pick the first that comes. The franchisor must be rather patient to find the right franchisee (Mendelsohn, 2005). It is of great importance that the franchisee has a large interest in running that type of business and that he/she has enough money and knowledge within the area (Shane, 2005; Engström et al., 2005; Forward & Fulop, 1995). It is very important to find a suitable franchisee if the company shall be successful. But there are different things that the franchisor can undertake to improve the process of finding the appropriate franchisee. The franchisor can draw up a profile of the 'ideal' franchisees and in the long run the franchisor will learn from experience which attributes they are looking for. It is also important to consider if and where to advertise for franchise applicants (Shane, 2005).
Ongoing support	Even if the franchisees have guidelines from the manuals to follow, additional support along the way may be necessary. The franchisor and the franchisees have to determine the type and quantity of ongoing support. The franchisor may need field staff that can assist the different franchisees during the establishment and the franchisees need to have continues education. System and process development is needed and also the manuals need to be updated on a regular basis (Shane, 2005).

2.7   Benefits and drawbacks on franchising

The franchise literature does often take a rather positive view on franchising but the authors of this thesis will by this section highlight that there are also plenty possible pitfalls and drawbacks with this expansion method.

To begin with the positive sides, an important motive for a franchise concept is the franchisors opportunity to expand his or her business while dividing the risks and costs with the franchisees (Engström et al., 2005). Forward & Fulop (1995) add other factors that make franchise business to a preferable choice; the potential for rapid growth increases as new markets are explored, the expansion can be performed with a higher rate as franchisee themselves make the greater part of the initial investments. Mendelsohn (2005) argues that the franchisees not only work for the parent company but also to their own ambition to make profits, which brings a higher motivation. The perfect franchise businesses work as a combination of small and large companies and can thereby benefit from their respective advantages (Stanworth & Curran, 1999). Sherman (1999) argues that one more benefit is

that the customer return to a known concept when visiting a new place and therefore creates a synergy effect.

As mentioned, pitfalls and drawbacks exists. To begin with, the start-up of a franchising company requires a heavy work load and it does not use to generate large amounts of money during the first couple of years (Swedish Franchise Association, 2005).

The fact that the business will be run as separate entities with somewhat different goals might bring conflicts. The complexity of the arrangement and the high risk of upcoming disagreements has sometimes become the reason of a franchise company not to succeed (Shane, 2005). Forward & Fulop (1995) stress that a large challenge for the franchisor is to manage successfully the relationship to the franchisee. Decision made at the headquarter will be harder to implement on a franchise entity than it would have been in a company owned chain. Some of these problems can be prevented by clear restrictions, rights and obligations in the contract. It might be so that a franchisee lack business knowledge, sufficient motivation or do not play by the rules. This will affect the franchisor and other franchise entities negatively (Mendelsohn, 2005).

The decreased risk a franchise concept brings is at the cost of profitability. The earnings will decrease for the franchisor compared to if he or she had owned all entities since it must be shared with the franchisees (Forward & Fulop, 1995). The franchise concept does by itself bring more costs. Some of the profit will disappear along the way due to increased transaction costs when creating contracts and agreements between the different parts that would not have existed if the franchisor would have been the manager of a whole chain (Shane, 2005).

The most common mistakes made by franchisors are to misjudge the attractiveness of the concept, not to have enough human or economical resources or not to find a suitable franchisee. This is potential pitfalls when using franchising as an expansion strategy as well as all other expansion strategies (Hunt, 1977). The socioeconomic influences are affecting the development of a franchise network. The franchisor must be aware of those and take them into consideration when planning for expansion. Examples of such factors are employment rate, trends in the market and the governmental support for small firms (Forward & Fulop, 1995).

2.8   Summary of the literature

Franchising is an expansion method that was invented in the middle of the 19:th century. The form of franchising used today became popular around 1950 in the United States of America. The expansion form was used in the restaurant industry; among others did McDonalds apply this business form early. Several of the potential competitors to Dual Nation use the format also today, such as O'Leary's and Harry's. Many authors are of the same opinion regarding the purposes for using franchise. Examples are that the risk is divided by the franchisor and franchisee and that the business form brings the advantages of a small and a large organisation together. Dual Nation wants to expand. To be able to do that the company should preferably be located in the third stage in the business life cycle. It must be at a proper level of maturity. If they have reached that stage, the next step is to check whether the company is suitable for franchise or not. The authors of this thesis have summarized different authors' opinions on important areas to take into consideration when defining the business concept. Examples of areas that must be considered are the business idea, the assortment and the comprehensive goals. The model 2.3 is showing how the

house of franchising is built, one have to start with the ground. Not every company have a business concept that is suited for franchising. The authors to the literature did all agree upon that some conditions must be fulfilled; the concept must be proven successful in reality and it is required to be transferable. If it is transferable or not is dependant by a lot of factors, such as if the brand name is protected, if the success is not depending on one single person and if the concept is clear and simple enough to be written down. The franchising literature does often take a rather positive view on the subject but there are also negative aspects of franchising. Presented above are among other that the relationship between franchisor and franchisee might be hard to handle and that the earnings of the franchisor will be lower compared to owning a chain of entities. The literature will further be used to organize the empirical findings and thereafter analyse it.

3

Method

This chapter will explain the thesis' mode of procedure. It will explain which methods are used and why they are chosen. The selection and use of theoretical framework will be discussed followed by an explanation of the analysis and finally, critique to the methods of choice is presented.

3.1 Point of departure

The underlying case of the thesis were presented to the authors during the early fall of 2005. Karin Svensson, owner and operative manager of the restaurant Dual Nation, had contacted Jönköping International Business School in order to receive help by some students to investigate possibilities for her company to transform into a more professional organisation and create further growth. After the authors were assigned to the case, initial discussions began with Karin Svensson and the purpose of the thesis were set to deal with the restaurant conformability to a franchise concept.

3.2 Data gathering

In order to fulfil the purpose of the study, the initial step was to perform a check of what data that were needed to be obtained. Since information regarding Dual Nation's business activity and its concept were a necessity as well as providing a theoretical framework of franchise development, the authors needed to appreciate the characteristics of both primary and secondary data gathering.

Primary data were gathered in form of interviews with staff and management of Dual Nation but also with representatives from the Swedens' Hotel and Restaurant Association. Concerning the information regarding Dual Nation, the interviews were concentrated to the owner Karin Svensson since it early became obvious that the organization were pretty centralized and the employees were limited in their knowledge of the restaurant's business activity. The problem with this narrow approach was the fact that the primary data could turn out to be subjective or biased. To deal with this problem, the authors' choosed to use the employees' primary as verifications of Karin Svensson answers.

The secondary data that were gathered were principally consisting of literature concerning business life cycle, reconstructions of entrepreneurial businesses and franchise development. These resources were used to create the basis for the theoretical framework of the thesis. To complement the gathering of primary data attained through the interviews, secondary data of financial information was also retrieved. Since a problem of secondary data could be its academic value, the selection was permeated with the intention to use information from authors that have practically worked with franchise or resources that could prove a high academic value in order to gain theory with a high level of trustworthiness.

3.3 Interviews

To receive empirical data of Dual Nation, interviews with the owner have been conducted. During the interviews a tape recorder was used. Since the aim of the interviews was to get hold of both objective and subjective information, the method of qualitative interview has been used (Andersson, 2001). The qualitative interviews were semi structured with both predetermined and open questions. This was a conscious choice, because the aim was to get hold of both facts as well as personal values and beliefs of the interviewee.

An advantage with open questions is that the interviewee is not restrained to predetermined answers and that he or she receives space to elaborate and develop the answers. Disadvantages with open question interviews are that the answers may be hard to interpret and compare with other interviews (Andersson, 2001).

The questions to the manager of Dual Nation are built on literature concerning franchising and business life cycle. The interviews were conducted by all three authors and the interviewee was given the questions beforehand. This brings less biased answers since she received time to be able to think through the answers.

The interview method might give somewhat subjective information because of the fact that the authors only use few interviewees. The information gathered is only the interviewees' personal opinions on the subject. The authors believe that this must be the case in this thesis since its purpose is to conduct a definition of the business and its concept and the only holders of information of the company is in fact the management and employees.

The interviews were made in Swedish, since this is the mother tongue of both the authors of this report and the interviewees. The answers were thereafter translated into English by the authors.

3.4   Questionnaire

The owner has filled out one questionnaire and the employees have filled out another one. The purpose of the questions given to the owner was to determine in what stage of the business life cycle the company is. The questionnaire was handed to Karin Svensson during one of the interviews and was collected after a week.

The purpose of asking questions to the employees is to give the reader another perspective of the company than from the owners' point of view. The answers of the questionnaires given to the employees are presented in section 4.2. There are different things that might affect the result of the answers. The fact that the questionnaire was laying all open for everyone to read in the staff room, even though the questionnaires were anonymous, might imply that the employees do not dare to write revolutionary things. The length of employment within the company might also affect the answers. It might also be so that the ones who answered might be the ones which are upset with something and they may have seen the questionnaire as a chance of revenge. The authors have considered this, but decided to use the results anyway, since they are rather open-hearted and give a completely different view of Dual Nation.

3.5   Qualitative approach

Patton (2002) states that it is important that there is a fit between the research question and the method, because the research question will decide which method that is the most appropriate. Since the problem of this thesis focus on interpretations and understanding the qualitative method will be used. A qualitative research starts out like a quantitative; with a selection. Qualitative findings can be gathered through three different kinds of data collection: 1) in-depth interviews; 2) direct observation; and 3) written documents. Interviews give the researchers learning about the interview objects experience, opinions, feelings and knowledge. The observation will yield a description of people's activities and behaviours. Written documents could give a deeper understanding about the research object. Reports, official publications and responses to questionnaires could be interesting documents to

analyze. The qualitative method starts with some interviews or observations, and after that the researcher learns to do new selections and new moments will appear (Patton, 2002). The qualitative findings in this thesis are mostly collected in form of in-depth interviews, because the purpose is to receive the opinions, feeling and knowledge from the owner.

The qualitative method focuses on to dig out a clear picture of a problem while the quantitative method tries to find a numerical relation between measurable capacities. When using the qualitative method the researchers have to interpret people's behaviour, and through interpretations approach their view on the problem (Hartman, 2004).

According to Potter (1996) there are several types of problems to overcome when using a qualitative research technique. There might be a lack of clearness and correctness in defining and using important terms. Therefore the authors of this thesis have a section with definitions. Another problem arises when the authors do not use the method in a correct way and when they do not tell which method they uses and why. The section 'Method' tries to clear out this problems. A third problem is when the arguments might be built on misunderstandings. To overcome this problem, the authors have given the empirical findings to the interviewee for her to read through and correct potential mistakes and misinterpretations. Potter (1996) further stresses the importance of that the theoretical and the empirical part shall be tied together and that it is essential that the authors illustrate the analytical procedure. If the authors do this in a good way it is easier for the reader to follow the thesis and the trustworthiness will increase.

3.6   The selection and use of theory

Selections from researchers, well known in the theoretical field of franchise, have been combined by the authors to supply a framework that contain the most important aspects of building a franchise organisation. In the creation of the combined theory, the authors have also acknowledged the practical relevance of the researchers' theories according to the fact that the thesis concerns a restaurant. To conclude, the authors' overall intention has been to provide a source of relevant theoretical framework for the initial steps of a franchise creation, in particular for a small sized restaurant.

Initially, the frame of reference introduces the concept of franchise and discusses its different sub-categories with a focus on business format franchise as it is the case in point. The introduction is followed by a short presentation of the historical development from the very beginning to the present situation of franchise in the restaurant business. The frame of reference then continues with the theoretical basis for the gathering of empirical data. Since a franchise expansion holds prerequisites of a certain level of maturity, the theory begins with a presentation of the business life cycle model and how it is used. This section continues with a compilation of how to define a business while investigating a possible franchise expansion. The next section is called "To build a franchise" and includes the theory that will be used while analyzing the empirical findings. As the thesis´ center of gravity is the initial step of a franchise development, this theoretical part focuses on the prerequisites and the refinement of the business concept by the discussing the fundamental conditions that needs to be fulfilled as well as the primary steps towards a franchise organisation. This section does also bring up secondary issues that need to be resolved in order to create franchise.

3.7 Analysis of empirical findings

As previously mentioned, the empirical data has been gathered by interviewing the manager and staff of Dual Nation. These findings have been analyzed according to the theory and models that are presented in the "Frame of reference" chapter.. The interviews were conducted with two underlying purposes; first to gain understanding of the business and secondly, to achieve information that could prove or disprove existing conditions for franchise. Since the different parts of the empirical findings serve either the first or the second purpose, the authors have been selective of what findings to analyze. This selection has been based upon the main purpose of the thesis; to investigate Dual Nation's conformability to franchise expansion and what such a direction would demand in the sense of development. In other words, the empirical findings found to be analyzed are the information needed to evaluate the business according to the points within the chapter "To build a franchise", "The pilot" and "Other significant aspects". Within the analyze, the authors have chosen to discuss Dual Nation's conformability through a point by point process; starting with the fundamental conditions that needs to be fulfilled, continue with typical franchise characteristics to finally end the analysis with a discussion of other conceptions that could act as significant roles in a possible franchise expansion. The analysis of the empirical findings has the same disposition as the chapters "To build a franchise", "The pilot" and "Other significant aspects" in order to create a clear and coherent discussion. To correspond with the delimitations within the first chapter, the analysis will only target what needs to be performed, not discuss how to perform it. The analysis chapter serves as the basis for the chapter "Conclusion".

3.8 Validity and Reliability

Scientific research demands a high level of legitimacy. Observations and their results will not achieve a general acceptance if its validity and/or reliability can not be proven (Hartman, 2004).

Validity is defined by how exact an observation is according to the world (Hartman, 2004). The main problem of theoretical studies is the fact that a total validity of an observation does not exist. All observed data is to some extent illusionary and subjective since no experiment can be perfectly controlled (Kirk & Miller, 1987). As few variables in an observation create subjectivity, validity could be gained by choosing a broad selection of relevant variables (Martin, 2005). It is hard to give an exact observation of the real world when using interview as method of gathering empirical data. The fact that the authors mostly use information from one single person might decrease the validity of the thesis. But on the other hand, in this certain thesis, the aim is to investigate the business of which this person is the founder. Since it is Karin Svenssons ideas and business, her truth is rather crucial. If the parts of the provided information are found to be incorrect, it will not affect the goal of the thesis but the possibilities to apply the conclusions in practice.

As validity concerns the correctness of an observation, reliability concentrates more on the actual process of observations. When discussing the level of reliability in a scientific context, the expression is defined as the possibility to render observations and their results (Hartman, 2004). To increase reliability, researchers must try to find the core problem by reducing the variables of testing and then use bias free methods for the observation (Martin, 2005). The authors of this thesis have tried to increase the reliability by decreasing the number of issues to focus on. Instead of looking for different opportunities of developing the enterprise this thesis only focus on franchising as an expansion possibility. Concerning

the purpose of the thesis, the authors have chosen to be selective and focused only on factors that determine the business concept instead of take all aspects into consideration.

With the conception that researchers tries to maximize both reliability and validity to find legitimacy to observations, this strive will eventually render into a trade-off. Since validity requires many variables and reliability few, choices must be made; these choices is decided by the topic of the observation (Martin, 2005).

Theoretical framework used in this research has been selected with a focus on its validity. Selections from authors, well known in their field, have been complemented with literature of case studies. As mentioned, interviews will be used as the main source of attaining empirical data for this research. This type of method decreases validity as it creates a so called key informant bias, the problem of few informants providing most of the empirical data (Maxwell 1996). As there are limited possibilities to increase the number of relevant individuals to interview, the problem of key informant bias has been considered through acknowledgement of subjectivity and relevance testing by comparing the different sources of provided data to one another.

3.9   Method criticism

Using a qualitative method implies that the interviewees express their own feelings and due to that, there lies a responsibility on the authors to interpret these thoughts correctly. The authors have tried to solve this by the fact that all three authors have been present during the interviews and the facts gathered have been interpreted by all three interviewers on their own and later on compared with each other. Follow-up interviews was conducted to discuss misunderstandings and areas that needed to be further developed.

As there are limited possibilities to use relevant individuals with the right knowledge to the interviews, the authors have used mainly one source, the owner, when gathering data about Dual Nation. This and the fact that it was the owner increases the subjectivity of the empirical findings. It has been taken into consideration and tried to be solved, as it is the authors intention to keep the thesis on a objective level, by checking some important questions with the staff (see appendix 3), and testing by comparing the different sources of provided data to one another.

As mentioned, interviews will be used as the main source of attaining empirical data for this research. This type of method decreases validity as it creates a so called key informant bias, the problem of few informants providing most of the empirical data (Maxwell 1996). As there are limited possibilities to increase the number of relevant individuals to interview, the problem of key informant bias has been considered through acknowledgement of subjectivity and relevance testing by comparing the different sources of provided data to one another.

4

Empirical findings

This chapter presents the result of the empirical investigation. If nothing else is mentioned the first section (4.1) contains information gathered from interviews with the owner Karin Svensson, made October 14, 2005 and November 18, 2005. The second section (4.2) contains data collected by a questionnaire from the employees. The empirical data has been collected according to the references in chapter 2.3 concerning "Definition of a business".

4.1 Defining the organization

Dual Nation is a combined restaurant and pub located in Helsingborg and is presently on its fourth year of operation. The restaurant offers traditional Swedish and Danish lunches during the day followed by pub and Swedish and Danish cuisine during evenings. At Friday and Saturday nights, Dual Nation turns into a nightclub offering both music and gambling.

The story began in 1998 when the owner Karin Svensson got hold of a first hand contract to a detached premise perfectly situated in the centre of the city. The premise, that had previously accommodated a café, was the ideal ground for a new restaurant. Together with the landlord, the café were rebuilt and by the summer of 1998, the restaurant Dual Nation opened for business. Dual Nation started to attract customers from the very first day and the business had a steady growth over the summer and the figures turned from red to black in six months. Today, the restaurant has an annual turnover of about 20 million SEK and has showed positive figures every year (Kerstin Myrenfeldt, accounting assistant, personal communication, 2005-11-22). Though the initial growth has declined, the business still attracts a lot of customer, making it a popular meeting ground in Helsingborg.

4.1.1 Contents of the business idea

Dual Nation does not have a written business idea but the founder concludes the essence of the business concept by four cornerstones; Swedish and Danish cuisine, high quality in products and services, reasonable prices and a friendly atmosphere.

The Swedish and Danish cuisine constitute the base of the business activity. The idea is to combine two kitchens in order to attract a broader set of customers. A high quality in products and services refers to the fact that quality make customers come back and therefore becomes a crucial factor for success. Focus on quality must therefore permeate all of the restaurants activity. The third cornerstone, reasonable prices, concerns the idea that it does not have to cost a fortune to have a nice visit at a good restaurant. The restaurant Dual Nation does also strive to uphold a friendly atmosphere; the customers must find a relaxed environment with professional appearance by the staff as they visit the restaurant.

4.1.2 Comprehensive goals

According to the owner, Dual Nation has not a spoken goal to aim towards. The initial years have been characterized by hard work with a one and only focus of getting the restaurant profitable; in other words, there has been no room for any extended planning. But since Dual Nation has matured and a decline in the growth has become obvious, the need for strategic thinking and planning has been acknowledged. Karin Svensson has now realized that the future wellbeing of the restaurant depends on a more long-term strategy. Two issues needs immediate attention.

At first, the structure of the business must match the conditions of both the internal and external environment. Karin Svensson refers to the present structure as too centralized and entrepreneurial. Though the initial years demanded this certain type of leadership, the new conditions of a more mature organization must be met with a more decentralized and professional organization in order to gain a more efficient result of efforts and labour. Secondly, a decision concerning growth must be made. Since the business concept of Dual Nation has been successful so far, Karin Svensson sees the situation as two alternatives are possible; either should the restaurant maintain its current size or to initiate an expansion. The choice between these two alternatives relies exclusively on the existing conditions that the market and the own organization will provide.

The most preferable outcome of the two is said to be the expansion. Not in the sense that Dual Nation are planning to extend its premises in Helsingborg but as an extension of the organization as a whole. Based upon the fact that Dual Nation has successfully competed with both local and national firms in Helsingborg, Karin Svensson believes that the business concept might be suitable to other, in size and population, similar cities. Her vision is to initially turn the existing Dual Nation into a cash cow by maintaining its current size and refine its efficiency to further use the money generated to establish new restaurant entities in cities all over Sweden. Growth would then be created through the new markets.

4.1.3   Need of resources

An expansion by development of Dual Nation entities all over Sweden would of course render in a lot of administrative work. Besides that, financial and other intangible and tangible demand would also come in to play. Further, Karin Svensson explains that the need for resources for an establishment process does not only contain internal issues but external conditions as well. She concludes her vision of an establishment process in four steps.

Initially, the city of establishment must be selected. Dual Nation must find, as Karin Svensson put it, a resource of customers. As mentioned earlier, Karin Svensson stresses the importance of opening up new entities in similar cities as Helsingborg. The fundamental reason for this assumption is that Dual Nation has proven to be successful in its present environment of a middle sized Swedish city as well as the fact that size and population of a city directly affect the restaurant market. This is because middle sized towns can not provide enough customers and larger cities have such intense competition. Spontaneously, cities like Linköping, Norrköping, Örebro, Gävle and Västerås are mentioned.

After mapping the potential cities to which further expansion may come into question, the next step is to look for a good location for the new restaurant. The location of the premise is crucial according to Karin Svensson; "If you can not attract the customers who pass by the restaurant, then you can not make them visit your restaurant by using traditional marketing channels such as advertising in local newspapers". A good location must therefore be in the very centre of the city, with a lot of potential customers passing by at both daytime and evenings.

When a location is set, the establishment process continues with a search for the right premise. A preferable premise must be between 350 to 850 m^2 and has previously accommodated some form of restaurant or bar. Karin Svensson says that the search should be focused on ongoing restaurants on their way to bankruptcy. Managers of such businesses are more eager to sell. If lucky, the premise could also hold kitchen interior with somewhat good standard, interior that could be used for the new entity.

When a premise is finally obtained, the next step is to conclude the costs for the Dual Nation make over of the new location. The cost might differ from location to location dependent on the status of the formerly mentioned kitchen interior and how the premise is in general. To generally appreciate the initial investment, Karin Svensson means that such a cost would approximately sum up around 2-4 million SEK; then including everything from renewed dining room interior to the cost of the premise.

4.1.4 Assortment

An important reason for the successful development of Dual Nation is its assortment of food and drinks. Dual Nation offers every meal of the day except breakfast. During lunch hour the restaurant offers a traditional lunch with seven different dishes, one dish representing each category of meat, pasta, vegetarian food, fish, pizza, hamburgers and salad. The price is set according to the general price level of lunches within the city which makes a lunch cost about 69 SEK. The assortment during lunch hours is decided by the head of the kitchen and does not follow any predetermined patterns. The lunch menu is often determined by the discounted ingredients suppliers are offering.

During the evenings, Dual Nation offers its customer the speciality of Swedish and Danish cuisine. As mentioned, the idea is to offer food from two different kitchens in order to attract a broader set of customers. Dual Nation visitors can then enjoy a variety of 100 different meals. At evenings, the price level increases a bit as one dish costs between 80 and 200 SEK.

Dual Nation does also offer its customers a wide variety of drinks and wine. The restaurant has chosen to provide a more specialized assortment of wine with a more common variety in the bar. The wine list has been tailor made according to the menu and the goal is to be able to extend it so the restaurant can offer its customer one wine from each of the more important wine district in the world. Dual Nation also imports an own Italian red and a white wine. The bar assortment consist of the usual beer, cider and liquor but it does also provide its guests with a special niche. This speciality consists of 20-30 more spectacular drinks, many built on fresh fruit. The intention of the owner is to make customer perceive the bar as more of a drink than beer oriented bar.

4.1.5 Marketing and sales

The target group which Dual Nation tries to reach is different during lunch time and evenings. During the lunches all lunch guests and dinner guests in the city centre of Helsingborg are seen as potential customers. At the weekend evenings the target group is 22-30 year olds.

There exists no marketing plan. No long term strategy is written down, the main strategy is decided beforehand though. The owner uses her own judgement when taking strategic and marketing decisions. According to Karin "there are no rules to follow in the restaurant business, you have to trust your intuition" when it comes to strategy and to solve both short and long term problems. Dual Nation does not use marketing channels such as magazines, papers, television or radio. Instead of paying such advertisement the firm is paying more rent. The location of the restaurant is the key; it is their most important way of marketing. The restaurant does have a website, it is mainly in English, but some things are also written in Swedish. The page is updated each week and contains the weekly lunch guide, contact info, pictures, dinner guide, wine guide and so on (Dual Nation, 2005).

Dual Nation does not arrange any special events, such as clubs with a certain type of music attracting a certain group of people. "That is a way of destroying the brand", says Karin Svensson, "it is a short term solution for a pub or restaurant that are at the way down in the business cycle". Dual Nation is open for the public each night and a company or private persons are only allowed to book table as Karin does not want to close the place for the public. The restaurant is always open until 2 pm. It is a way to make it easier for the customer to remember the opening hours and to increase the feeling that it always is a place to go to.

The aim of the company is to create a pleasant and calm atmosphere for the customers. This shows in many ways and is a part of the business concept. One example is that Dual Nation does not use guards in the entrance to prevent disturbance. Karin Svensson believes it is wrong to use guards since it is increasing the hostile mood among the customers. Since it is legal not to use guards when running a restaurant she has chosen not to. Karin has made a conscious choice to use entrance hostesses instead because it gives a more friendly first impression. Another example is that the song 'New York, New York' by Frank Sinatra is played every night before closing. This is a friendly signal to the guests which implies that it is time to go home. These are a couple of many small pieces of a puzzle that creates the Dual Nation feeling.

The interior is carefully chosen and certain clothing for the staff is used; each department is wearing a certain type of outfit. This is because Dual Nation wants to mediate a clear and simple message to the customers.

The competition is rather hard in Helsingborg and differs from the lunches to the evenings. Some of the previously mentioned franchising companies within the industry, Max, Harry's and McDonald's have restaurants in Helsingborg. They, as well as all other lunch restaurants in the city centre, are competitors to Dual Nation when it comes to lunch guests. O'Leary's and Harry's are two franchise restaurants which have similar approaches and can be seen as direct competitors to Dual Nation, both during lunch time and the evenings. Except for these restaurants, TanzFest pub can be seen as one of the competitors to Dual Nation, during the evenings TanzFest pub is a restaurant and bar located at a central location of Helsingborg. They have a similar concept as Dual Nation and somewhat also the same target group. The restaurant industry is in general sensitive for fluctuations in the market. Karin states, regarding the restaurant industry in Helsingborg, that even if the competition is getting tougher, there is still a sufficient large customer basis to keep most of the restaurants going.

Dual Nation tries to reach all lunch guests and dinner guests in the city centre of Helsingborg. Today the number of guests during the lunch time is 100-150 guests during winter time and 400 guests during summer time. In the evenings there use to be 100-250 dinner guests. At weekend nights the number of guests differs from 200 to 700.

According to the owner the brand name is made up and refers to the two connected cities in different nations; Helsingborg and Helsingör. The idea of the name is originating from her time in El Paso. That city is connected to the city Juarez and is often referred to as the bridge between the dual nations; The US and Mexico. The authors of this thesis remarks that the webpage of Dual Nation tells a bit different story. The reader gets the impression that Dual Nation is a part of a chain of restaurants that establish only in different "dual nations" around the world. A story is given on how the two founders, which were brothers, got separated after their birth and met again as grown ups. They got the idea to start up a restaurant.

Economy and administration

Dual Nation is a limited company since one year. The founder, Karin Svensson, owns 100% of the shares both in the holding company and Dual Nation Helsingborg. The brand name Dual Nation is not yet protected. Karin Svensson also runs a restaurant and pub located in Örebro; Smoky AB. This business is not as successful as Dual Nation, partly because of the fact that she put the most emphasis on the Helsingborg restaurant.

No budgeting is used, since Karin Svensson is the one taking the decisions and having all the information. Since there is a lack of budgeting there is also no following-up. As the company is newly conformed to a limited company there has been no official financial statements previously, but the numbers will now be public. The employees have no knowledge about the economical state of the company. The owner believes that since the work force is relative large and the operation area is a medium-sized town, the numbers would become public too easy. The company uses a book-keeping agency and an accountant to keep track on the economy. They are handling the salary pay outs, the payment of taxes and fees and the handling of invoices. Dual Nation has built up cashier routines that they use in the every day work. The one responsible for the restaurant for the evening has the responsibility of the money and to report the result to the owner the next day. The mark-up is the purchase price times three. There is no other type of pricing system. The ordering is made by a standard list and is delivered the day after ordering.

The number of employees is around 50, from which 20-25 are fulltime employees. Salaries are decided by collective pay agreement. Dual Nation demands that all new employees have reached the age of 22 and that they have at least two years of experience within the restaurant business. In Helsingborg it is hard to find persons with the right qualifications. If they do not find a person with the right qualifications they highly value the level of service mindedness, social competence and willingness to learn and the level of enthusiasm for the work tasks. The owner believes that it is hard to get hold of competent staff and a high staff turn-over makes the organization more vulnerable. The salvation to this problem is to bring in uneducated staff and then teach them what they need. This brings the benefit that they are more conformable.

The owner states that two of the main strengths of the company is that the attitude of the personnel is highly appreciated by the customers and that the restaurant can handle a large amount of guests at the same time and still keep a high level of quality of the dishes. The employees are important but there is no one in the staff force that is irreplaceable. The organization will feel the loss, but there are others that can step in and do the work tasks of the lost person until they will find someone new. The business concept is the core; the service and the food is the foundation, it is not the staff. They are important, but replaceable.

Structure of the organization

The figure below shows how the restaurant is organized. The owner, Karin Svensson, is the main manager. The head of the bar is in charge of hiring new staff, laying the schedule and running operations of this part of the organization. The head of the kitchen is responsible for ordering raw material, laying the schedule and hiring staff to that department. The head of Pizza production are running this department and is in charge of the employees that bakes pizza. The head of music and pleasure are booking DJ's, bands, decides when to buy new mp3's and data. The head of services are in charge of all waiters and waitresses, the hiring, the schedules and the education involved. Schedules are set by the responsible persons but the owner is the one deciding how many that should work each day/night.

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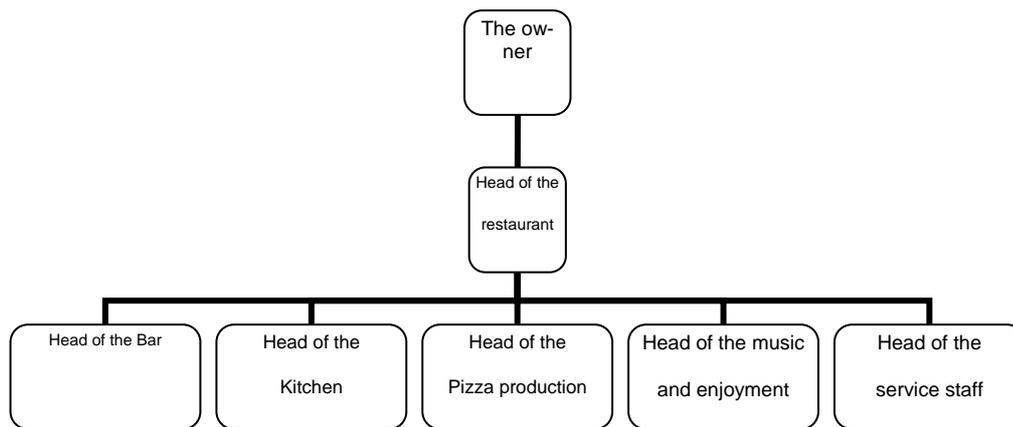
Figure 4-1 Management organisation of Dual Nation

These are the key persons of the organization. The restaurant manager is very important for the operations of Dual Nation. The head of the bar is a potential person that can replace the manager of Dual Nation. The owner finds that a potential manager of a Dual Nation entity must obsess some certain characteristics; the person must be self secure, charismatic and be able to lead people (both staff and guests). Karin prefers to promote someone from within the organization instead of recruit someone externally. It is of great importance that the leader has the same values and believes.

Ordering is handled from the top; Karin through the restaurant manager is deciding what to buy. The level of service, price and quality and whether the raw material is produced in the region is factors that decide which suppliers to choose. It is also necessary that supplies are working well. Beer provider is Carlsberg, Food raw material supplier are local companies and Vin & Sprit is the supplier of wine, liquor and spirits.

4.1.6   Internal education and communication

Dual Nation pursues both internal and external education for its employees, according to Karin Svensson. New employees are trained up from the ground within the field where they are going to work. Internal education is given within certain areas a couple of times each year. Employees at higher levels in the organization are sent away for courses to Stockholm or Gothenburg where they are trained by wine and food experts. Some of the employees are also visiting other restaurants in order to get inspiration and to learn new tricks that could improve the restaurant.

The internal communication is not well developed within the organization and is seen as a problem. The owner is often situated at her office and when a situation arises the personnel do not always handle it correct or in the most efficient way. Some years ago the personnel and Karin used to have regular meetings. The meetings were not well structured. Due to that it was not profitable comparing to the time spend. Karin has thought of starting to have a weekly meeting with the middle managers. The problem with the internal communication is something that she wants to solve but do not have the right knowledge to do.

4.1.7 Quality controls

Commercial quality controls are checking whether the business concept is followed or not. Dual Nation uses such controls today when the responsible person of the evening is evaluating the working day. After each evening the one in charge of the whole operation writes a report of what has happened during the evening. The report includes comments on different areas such as if there were any complains, if the kitchen has run out of any ingredients, the quality level of the food, the mood in the pub, the type of guests that visited the restaurant and so on. These forms are given to and followed up by the owner.

According to Karin Svensson, crucial quality controls are missing. It is essential to have the same level of quality of all dishes, Karin states, but it is hard to control. Dual Nation needs to control the inventory better. Karin wants to avoid shrinkage connected to mistakes in the ordering system.

Economic controls contain control mechanisms of profitability and economic development. Dual Nation do not use that kind of controls today mainly because of the size of the company and the central position that the owner has today. A system which includes reporting the result of the evening does exist. This brings that the owner becomes aware of what happens every day.

Technical quality control is determining who is in charge of what and how these employees manage their commissions. There are no such controls at Dual Nation today, but there are a clear structure and hierarchy of the organization. The work tasks for each employee at all position are clear. This is attained because of the structure of the organization and the information, manuals and education given to all new employees.

Dual Nation policies and routines

Dual Nation has written down a document for the staff that is given to all newly hired employees. All the obligations and rights, rules and demands are stated.

The company does also have a policy of how to handle internal complains. The one responsible for the area shall solve the problem immediately and Karin takes care of the problem if it remaines unsolved.

External complains are also handled according to predetermined policies. The customers of Dual Nation shall always walk out of the restaurant satisfied. If they are not pleased with the food, the personnel or have other complaints, the problem is taken care of in six different stages. If the guests are not satisfied after the first action taken, the personnel go to the next level and so on. Firstly the waitress or the waiter shall apologize and offer the customers compensation in form of cappuccino, espresso or latte. After that the one responsible for the area is trying to take care of the problem and offer the guests a dessert or a coffee drink. If they still are dissatisfied the guests are asked if they could offer a new meal of food. If yes, a new meal is served. If no, a price reduction is offered. The customers receive the dinner for free if it is a problem of importance and if the customers are not satisfied with the price reduction. The last effort to keep the customer satisfied is that the owner writes a personal letter with apologies and includes a gift voucher.

Incentive System

An incentive system is present. The longer a person has been employed at Dual Nation the higher the salary is. This was invented when the problem with high staff turn-over was found a couple of years ago. Other incentives offered at Dual Nation are; a possibility to

climb in the organization; free education and staff activities, which includes two trips a year where the employees decide by themselves what to do, can be a Christmas party, a trip to Stockholm or a spa-treatment for example; personal help from Karin.

4.2   Result of the questionnaires to the employees

A questionnaire has been given to the employees. The answers will be presented to give the reader another perspective of the company than from the owners' point of view. The answers are summarized below.

A majority of the answers did imply that the hierarchy within the organisation is not clear at all and statements like "the areas of responsibility are rather diffusing", shows up. Many did also add that employees that had been within the organisation for a longer period do often see themselves as supervisors over the ones which are more newly employed, even though they are not at a higher level in the hierarchy.

The employees disagree somewhat on whether the work tasks and the expectations on each and every one are clearly defined. Some people state that they know what is expected of them. The most of the staff does answer negatively, with answers ranging from clearly "no" to "It can be hard for a newly employed to know what is expected".

All except one is stating that they do not know what the long term and short term goals of Dual Nation are. The one, who answered that he/she knew, did not add what the goals are. The other ones did either say plain no or wrongly stated the goals.

The employees stress that nothing particular would happen if the owner would go for a vacation for one year. They believe that there are other persons that can take over her work tasks.

Newly employed members of the staff force do not go through any kind of education. If they do, it is rather bounded. There is also no type of incentives system within Dual Nation, according to the employees. Many of them answer that they feel that it is needed.

5

Analysis

In this section the authors will discuss the concept of Dual Nation and how it can be interpreted in the light of franchising literature. A set of important areas will be investigated and discussed, originating from the frame of references.

5.1 The business life cycle

The owner of Dual Nation has answered to the questions in a questionnaire in order to help the authors to determine at what stage of growth the company is (see Appendix 2). Dual Nation is according to the test in the second stage, rapid growth phase. However, the authors do not agree with some of the answers to the questions. In question number 3 Karin Svensson agrees with answer B, which says that the "competition is beginning to emerge because of the growth potential of the market". The authors argue that answer C – "there are several significant competitors" is more appropriate considering the result of the interview and information from SCB and Swedish Franchise Association. There are many competitors to Dual Nation, and several significant rivals. TanzFest Pub and Harry's are the most direct, but there are several others competing over the customers. The other question which the owner and the authors disagree upon is number 5. The question concerned the company's risk tolerance. The owner said that the company is less attractive to take risks nowadays. The authors could agree with this to some extent. If the owner is unwilling to take risks, the best suggestion is to keep current model of the organization and not change the restaurant Dual Nation, since it obviously work. However, the owner would not have thought of an expansion if she was unwilling to take risks. Dual Nation must take risks in order to renew the business and the authors believe that answer C is the most accurate. The third and last answer that the authors felt was full of contradiction involved the communication aspect (question number 10). The owner has the opinion that the internal communication is better than it actual is, and answered therefore B. The fact that the internal communication does not work accurate is proved when reading the answers from the questionnaire that the employees conducted and a C would fit better. All this together with the discussions during the interviews that gave us information about the business, for example the declining growth, indicates that Dual Nation is located in the third phase, transition.

This means that the organization that worked fine when the company was smaller is not working anymore. Dual Nation is forced to re-evaluate the existing strategies to find new ways for growth and profitability. If they succeed they can start a new growth cycle, or else Dual Nation will not evolve and it might stagnate instead of grow. As Dual Nation right now is at its peak it might be difficult to develop the organization further without taking chances and launch the business into new areas. The franchise concept might be used to help Dual Nation to climb to the next level. The company is then forced to renew its business and new strategies have to be considered.

The operative efficiency is a problem for Dual Nation. Both the owner and the employees are working hard but the company is not able to take the next step. This is a typical symptom of a growth barrier. Dual Nation must stop doing more of the same and instead analysing the situation and develop a plan. Dual Nation has also experienced problems with the internal communication; no clear plan has been written down. The owner has a clear picture, but it is also important that the employees are aware of the direction. This growth barrier will hopefully disappear if Dual Nation chooses to use the franchise concept. Dual Nation will have to write down everything about its business; the concept, routines, policies

etc. If this is done the employees will have a clear picture of what the owner expects of them and the goals with it.

A company management group consisting of experienced and skilled persons could be a solution for Dual Nation. Since Dual Nation for the moment is treading water, the group could help to move the organization forward and take advantage of the opportunity that the franchise concept is offering.

5.2   Successfully proved concept

The concept of Dual Nation has been tested in reality since the restaurant in Helsingborg has been run for more than one year. It has been successful according to the manager and it has been double-checked by talking to the accounting assistant. The fact that the business and its concept have been tested for more than one year, with good results, is a good indication that both the functionality and sustainability is good. This proves that the concept could be appropriate for a franchise expansion. It would be difficult for Dual Nation to use a business idea that is not tested in reality when creating a franchise organization.

The business idea may be difficult to sell because of the fact that the brand name is not nationally known today. Hopefully the potential franchisees that are interested in the concept either already know about the brand Dual Nation or could visit the restaurant and thereby get to know the idea.

As mentioned earlier, the concept has proven to be successful in Helsingborg. If it is successful in a small context, it is possible that it also could be a success in a bigger context. The business idea should preferably be unique. Dual Nation's mission statement is not unique, but it is clear and focused. A business idea does not have to be exclusive, but it is important that Dual Nation's management team works even harder with the perfectionism and to create a well-known brand name. The authors believes that it would be favourable for Dual Nation to have something that is unique that could easily be used in the marketing; something that customers understand is unique. One thing that already exists is that Dual Nation uses only female hosts instead of guards. This fits well with the idea of having a friendly atmosphere. The ability to combine a successful restaurant with a successful nightclub or the fact that Dual Nation is combining Danish and Swedish cuisine is also kind of unique, but not distinctive enough. This is nothing that the customers reflect upon. The uniqueness of the business idea could be improved by finding some sort of niche. Dual Nation has already tried to broaden their wine list and connect it to the different dishes that are offered. This could be further developed by importing rare foreign wines which would give the restaurant a more exclusive touch, and help Dual Nation to profile itself in a new town.

The competition might be too big in cities like Stockholm, Göteborg and Malmö since the business idea is not very unique. The owner could instead try to find cities which are similar to Helsingborg, compared to the size and population. In order to find the right city and location, a market investigation must be conducted to see whether there is a demand and a potential gap in the market for this kind of restaurant and pub in different cities. The strengths have to be used in the best ways. The strengths might be the most important success factors to survive in a competitive environment. Dual Nation must in all situations, whether they go franchise or not, keep their employees satisfied so that their attitude towards the customers remains good. One strength mentioned by Karin Svensson is parts of

the business concept; they shall keep a high quality of the dishes relative to the prices, served in a friendly environment.

5.3 Transferable concept

To be able to sell the concept to franchisees it must be transferable. This brings a lot of things; all routines and policies must be written down, the operation system must be easy to teach, the brand name must be protected and the organization must not be dependent on one single person.

5.3.1 Possibility to write the concept down

All every day routines must be written down in manuals. Documents must be written concerning the core values and the core message of the firm. The authors believe that this is possible for Dual Nation to do. The company has already started to write some parts down according to the owner, such as manuals for new employees. It will take a lot of work, time and great effort of the management and employees to manage this. One way of accomplish this mission is to create some kind of routine for the employees in writing the work tasks and procedures down each day. If Dual Nation pays each employee to write their daily routines down it will be taken as a serious mission. The manager must write down procedures on how fixed situations preferably should be handled. The manager must also clearly write the mission statement, the vision and the policies down.

When creating all manuals and routines the authors suggest that the pricing system also must be investigated to find an ultimate way of setting prices. Right now a method of taking the purchasing price times three is used. A model on how to do this each time a new product or service enters the assortment must be developed. The mark-up must be on an appropriate level so that the margins generate enough profit. The consequences of setting the wrong prices will increase as the organization enlarges.

If the owner does not have enough time to make plans for how to create all these documents the authors suggests that she brings in help from an external consultant.

5.3.2 Simplicity

The whole concept must be clear and simple. This is a requirement for the ability to transfer it to other entities. Dual Nation do not have a simple enough concept today. The range of dishes is large. If the concept should be easy to transfer, one suggestion is to decrease the number of dishes. But this has to be considered carefully. If it is so that none of the servings can be taken away without interfere with the basic concept another way has to be found. The menu must, in either way, be standardized since it should be easily replicable. The chefs must write down every detail in the recipe to be sure that each dish tastes the same on every entity.

When all areas are documented the manager will see if the concept is possible to transfer. The operational system can not be too complex if it should be transferable. If it is impossible to write everything down, it means that it is too complex. The owner then has two alternatives; decide not to go franchise or try to make the concept less complex. If it is possible to write everything down, the next step is to ask oneself whether it is teachable or not. It is essential to have a concept that is easy to teach. This has not been done yet by Dual Nation, but has to be done before taking the decision on whether to go franchise or not.

5.3.3   Independence

It is crucial that the business does not heavily rely on one single person. It is impossible to transfer such a concept since the person can not be transferred. Many of the managerial decisions are taken by the owner Karin Svensson at the moment. One example is that Dual Nation does not use budgets nor following-up or economical control systems. The owner make own judgements when needed. This implies that she is a key person and no one from outside can be able to take over if the concept and the work tasks of the CEO are not clearly defined. It is impossible to create a transferable business concept if there are no transparency and routines on writing down the whole process. One good start could be to begin with using budgets and following-ups. It is also important that the owner takes one step back so that the business is not fully dependent on her. It is crucial that this is done before deciding to use franchise. If this is not done, it might be the case that Dual Nation is not unique without its owner and than it would not work to create new entities with new managers. The employees are not of the same opinion regarding the importance of the owner since many did answer that they would have accomplished to run the entity without her. The authors admits that it is hard to know what is the truth, but the owner may be working on a lot of things that the ordinary employee are not aware of.

It might be the case that the owner is the success factor of Dual Nation. Karin uses a typical effectual reasoning. She will act on the opportunity when it comes, not search for different ways to reach to a certain goal. This way of reason may cause problems when leading a large organization. If Karin Svensson can not set up the goals beforehand, it may be an idea to recruit someone externally who has the ability to do that. Creating a board of advisors is another way of getting a more objective view of the company and at the same time increase the level of knowledge and experience within the company.

One must consider the fact that the company can not rely on the geographical location if it should be possible to start up new entities. This is not the case with Dual Nation. They are not relying on the location in the sense of suppliers, that the business idea is only locally connected or the population of Helsingborg demands something special. One aspect that needs to be discussed is the brand name Dual Nation.

5.3.4   Transferable brand name

All rights concerning the brand name must be protected before doing anything else. This is not presently the case in Dual Nation, but can easily be done by contacting Patent- och Registreringsverket in Sweden. The brand name is automatically legally protected due to that it is generally recognized by the public in the region of Helsingborg. If the plan is to expand in other geographical regions in Sweden, it is crucial to protect the name because it would automatically not be protected in the new cities. The name Dual Nation is already used in other places around the world according to a quick search on the internet, so Karin must be aware that protecting the brand name while launching the concept internationally might cause problem. But irrespective of that, the authors believe that the name of a restuarant is a good choice since it is easy to pronounce and it is catchy, short and memorable.

The brand name is chosen because of the fact that Helsingborg and Helsingör are cities close to each other in dual nations. The idea is originating from El Paso and Juarez, which officially are a natural bridge between the dual nations, the US and Mexico, where Karin Svensson lived for a couple of years. If the expansion plan is to create more entities mainly in Sweden one has to consider if the name would work in another town. The authors believe that even though the name refers to the relationship between Helsingborg and

Helsingör it might work also in other cities since there is a story behind it. The authors suggest that the true story of the entrepreneur who lived in the US and came to a new city which is a bridge between two nations and started up a business, shall be the one spoken on the webpage. The story can then be used as a fairytale that shall be connected to the brand name. It will be easier for customers to remember the name if they know about the story. Right now there is a made up story on the web page. The authors stress that it is dangerous to use the made up story, if it is kept in the same version as now. If people find out that this is not true, they may start to wonder what kind of business Dual Nation really is. The potential franchisees might be scared that the brand name looses value because of this. Lying to the public does not go hand in hand with the aim to create a friendly environment for the customers and the present story does not generate any positive effect to the business as the authors sees it.

The website is both written in English and in Swedish. The authors believe that one must be consistent and use the same language through the whole site and all other marketing material and written documents of the company concerning the customers. To choose a language is important of two reasons. Firstly it is crucial for the fact that it will look unprofessional mixing two languages. Secondly, the language used speaks a certain message to the reader. The reason for using only English might be to increase the feeling of that this company has its roots in the US. Since the business has an international touch, English might be preferrable. The other side of the coin is that, when using English the reader might believe that this is a multinational organisation while using Swedish will give the reader a feeling of that this is something invented in Sweden. If also the story is presented in a good way the reader might get another kind of trust for the company. Max versus McDonalds is a good example; most people know that Max is a Swedish organisation and that McDonalds are a multinational one. Max is more close to our hearts than the giant enterprise McDonalds. Karin Svensson has to take these aspects into consideration and then choose which language to use. The most important aspect is the use of consistency.

5.4   The Pilot

The authors believe that Karin Svensson has a great opportunity when it comes to the pilot entity. Instead of acquire new premises, she can use the restaurant in Örebro as a pilot entity. The theories presented in the frame of references shows that it is good to test the concept on at least one more entity before going on with the franchising procedure. It could be a good idea to test and see if the concept succeeds or whether Dual Nation in Helsingborg is dependant on success factors that can not be replicable. It is important that this entity is run exactly as a franchise entity would have. As mentioned earlier, all manuals, rules and policies must be written down in advance. A new manager should preferably be in charge of the new entity, this is important since Karin Svensson is a key person within the Helsingborg entity. The concept must be tried without her in charge.

5.5   Implementation

When a business has been refined into a transferable business concept and tested by the conditions of the pilot project section, the more organizational issues comes into question. Since Dual Nation is situated in the very beginning of a possible franchise expansion, the analyze concerning the organizational issues of the implementation is somewhat dependent on the outcome of the process of making the business concept transferable. Therefore, this analyze must be made in the sense of measures that can directly be related to Dual Nation's

present activity. In other words, actions that can be performed in light of franchise expansion and at the same time favour the present business activity. As a result of the need for a refined business concept, some of the points presented in the theoretical framework of the implementation can not fully be elaborated.

The business form of the parental company and the franchise entities works as the foundation of the organizational structure. As Dual Nation is presently a limited company and is situated in Karin Svenssons own holding company, DN AB, the basic structure already exist. With the present organisation, Karin Svensson can let her new franchisees into the organization by connecting them to the holding company while having the own entity as a separate unit. Though Karin Svensson owns both the limited company Dual Nation and DN AB, it is of great importance to decide where the rights and trademarks of the business concept are placed. It is preferable to use the holding company as the centralized unit as it is ought to be. In other words, the challenge is to create a structure where the limited company Dual Nation works as just another franchise entity while making the holding company the primary unit. Besides creating a clear and more easily managed structure, such an organization would also make all units separate legal entities which are preferable if bankruptcies would occur.

As previously stated in the frame of reference, franchise is commonly referred to as "retail in detail"; a saying that becomes especially important while discussing franchise documents. As discussed in the analysis of making a business concept transferable, everything must be written down. The same goes for the documents that will frame the work of the franchisor and the franchisees. Since Dual Nation has not yet shaped a transferable concept, the creation of these documents must await.

In order to start up the franchise and find franchisees, Karin Svensson must be able to present the venture in conceptual, operative, legal and economic terms. A marketing package must be created along with a plan of how to attract potential franchisees. Since these issues are also dependent on the outcome of a more refined business concept, they can not be elaborated in the analysis and must therefore be postponed. The same goes for the parental company's obligations concerning ongoing support.

As mentioned, actions in addition to the creation of a transferable concept can be made both in the sense of franchise development and to develop the present Dual Nation. Since the success of a franchise business system partly lies in its ability to create uniformity, it is of great importance that the work of the managers is permeated with an ambition to create a team feeling. The challenge is to develop the internal communication and making the employees feel that their efforts are important to the outcome. If the employees know what goals the company strives for and that there exist incentives when those goals are fulfilled, efforts and initiatives will come naturally. By appointing an employee of the month or to create profit goals which leads to rewards for the workers. It does not have to cost a lot of money as it could be simple ways of increasing both team feeling and efficiency.

An additional issue concerning the use of qualifications of employees is the importance of holding on to the key-persons. As mentioned in the discussion of how to create a transferable business, the concept must be independent of individuals and provide strength within itself. This have to be the case but certain positions must still be appointed with persons of the right potential and qualifications. As the restaurant presently holds such characters, Karin Svensson must make sure that they stay by creating some form of special incentives for them, especially if a franchise expansion would become reality since it is time consum-

ing for top managers. To make them small share part owners or raising salaries could be the key to ensure their corporation for a couple of years ahead.

The issues presented in the implementation phase must be considered secondary to the creation of the transferable concept. As Engström et al. (2005) states by their model of a franchise creation, a roof needs a foundation and a main body. If a franchise is considered, focus should be upon a refinement of the business concept.

6

Conclusion and Discussion

This chapter contains the author´s conclusions according to the purpose of the thesis.

6.1   Is Dual Nation suitable for franchise?

Franchise might very well be applicable to the concept of Dual Nation. They are in the right phase and has a proven successful concept. But before taking the decision to go franchise the owner must be aware of what it means and what it will bring in terms of extra work and perhaps a change of the business concept, to make it possible to replicate it. Franchise could be compared to simplicity. It might bring that the business idea in some sense must be changed to be more distinctive, this might for example lead to that the dishes on the menu declines or that the hierarchy within the organisation might be restructured with clear lines of authority. Karin Svensson has to consider if that is what Dual Nation want. Dual Nation is successful in Helsingborg, but one can not be sure that it would be the case in another city. The business idea must be enough unique. Dual Nation must be really clear, both for themselves and for the public, what their niche looks like and have something extraordinary to offer the market.

Dual Nation should start to develop the business concept into a transferable one. If Karin Svensson decides to start working towards a franchise concept, the following issues is seen as the most critical factors from the authors' point of view.

A franchisor sells an idea to a franchisee, but mostly the franchisor sells a brand. Therefore it is of great importance that the brand is treated right. A strong brand is the essence of a profitable franchise business and if the name is destroyed it is equal to suicide in the franchise industry. Customers must be sure of what the brand stands for; therefore it is fundamental to be clear and consistent with the message. One example of where Dual Nation must create consistency is the web page where only one language at a time should be used and the story presented must reflect the truth. If this is not done, the brand name might very well be destroyed. The authors stress that the brand name, Dual Nation, might be used also in other cities because the true story behind the name can be used in marketing. The name must be legally protected before creating more entities.

Since Karin Svensson owns one more restaurant in Örebro she has got a great opportunity, which should be seized. This entity could be used as a pilot entity. It is essential that exactly the same concept as Dual Nation uses is tried when testing the concept on this restaurant. The concept can be tested in order to see if it is transferable on another location and with another manager. The result of the pilot entity gives indications if it is possible with a further expansion.

At the moment Karin Svensson takes most of the important decisions regarding the company. Whether she has as large role as it seems or not, it is important to be aware of that delegation is crucial within franchising. The authors conclude that the employees and the owner disagree on some essential areas. Therefore is a concrete incentive system together with a sufficient level of responsibility one solution on how to make the employees more involved. Another important aspect is to improve the internal communication within the organization. If everyone is aware of what to strive for and what efforts that is expected of them, they will hopefully take an active interest and be more engaged in the company.

When a large change like this takes place within a company, the manager must put a lot of time and emphasis on the change of management. Therefore it is essential to keep the key

persons within the organisation. Some solutions are suggested above on how to keep them. It is dangerous to have the opinion that all of them are easy to replace.

If the owner decides to go franchise some day and she finds out that she do not have sufficient time or knowledge to do the research and take strategic decisions regarding a franchise expansion, the authors suggest that she shall bring in an external party who possess this knowledge. This consultant shall be a professional with knowledge and experience from the field of franchising that are able to see the organisation from a new perspective.

The final conclusion of this thesis is that Dual Nation should start taking the actions suggested toward a franchise expansion. If it is found out that it will not work, none of the efforts are unnecessary. Many of the actions taken in a franchise direction will help Karin Svensson to improve the already existing entity. It would be good to improve the internal communication, to have spoken goals to aim at, clear work tasks and a pleased staff force even if the company do not expand. The organisation would hopefully by that become more efficient and easy to control.

Since this thesis only investigates one single company on the local level many of the conclusions drawn can not be generalised on the whole industry. But the discussion around the essential components of franchising in general can be used on other companies who want to go franchise.

6.2 Suggestions on further studies

Next step would be to create an external analysis containing market research, to see whether there is market potential for another restaurant and pub franchisor in the cities where Dual Nation would like to establish.

A study on a local firm which goes all the way to a launch of a franchisee package and an in depth explanation on each step of the way would be an interesting contribution to the academic world.

6.3 Thanks

The authors would in this section like to acknowledge and thank some people that have been important for the outcome of the thesis.

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Appendix 1 – Interview with the owner

Contents of the business idea

1. Why is Dual Nation unique?

2. Do you have a mission statement?

3. Do you have a business policy?

4. Do you have the legal rights to the brand name?

5. What product and services does the company produce?

Comprehensive goals

6. What is your goal with a future expansion?

7. Do you believe that the company can handle a future expansion – economically and with respect to time?

8. How does the goals look like – turn-over? Profit? Geographically?

9. Do you know how the restaurant industry works in the rest of the country or do you have knowledge of how to receive that kind of information?

Need of resources

10. How much is Dual Nation worth today – including premises, interior, equipment, IT-solution, staff and so on?

11. Is it realistically to see this value as equal to a required initial investment when creating a new entity? If not – can you value the cost of starting a new entity?

Assortment

12. Please define the assortment of Dual Nation:
- How many types of dishes do you serve for lunch each day?
- How do you decide which type of dishes to provide?
- How does the menu look at the evenings?
- How is the price level at the lunches and in the evenings?
- What is provided in the bar: what are you specialities?
- Do the customers receive information about wine assortment?

Marketing and sales

13. What is your target group?

14. How does the buying pattern of the target group look like?

15. How do you handle reclamations?

16. What are your thoughts of being available and what opening activities do you use?

17. Do you have a plan for the interior in the restaurant?

18. Do the employees wear certain outfits?

19. Describe the industry and the situation of competition.

20. Which are the most important local competitors?

21. What strategic possibilities does Dual Nation have?

22. How does their situation look like?

23. Describe the long term plans for the company.

24. Is the sales dependent on season?

Economy and Administration;

25. What economy system and accounting methods are used?

26. What business form does Dual Nation use?

27. How does Dual Nation use budgets, the financial reports and follow-ups?

28. How do your solidity, liquidity and profitability measurements look like?

29. What important types of ratios and trends exist?

30. What types of financial reports exists today and how are they used?

31. What system is used when pricing services?

32. When is ordering made? How long before the deliveries?

33. Does the accounting agency handle the payments of salaries, handling of invoices and payments?

34. Is any of the employees' part of any type of labour union?

35. What type of costs may by an unbeneficial development threaten the growth of the enterprise? Other risk factors?

36. Who owns Dual Nation?

37. Is there a board of advisors in the top management?

38. Is there a need of external board members?

39. Who are the key persons in the organization?

40. Is there a risk for key persons dropping off?

41. Does it exist a written down work order?

42. Is there a need (or does it already exist) a written down description of work tasks?

43. How employees do Dual Nation have?

44. Can you divide the employees into different categories?

45. How does the level of salary look like?

46. Which are the largest suppliers?

47. How does the financial situation look like?

48. Could you explain the routines during a day at Dual Nation?

49. Is the work of the employees evaluated independently?

50. Are the employees aware of what is expected from them?

Education and communication

51. How is the internal communication working?

52. What types of education and development plans for each employee exist?

53. Are the newly employed going troughs some sort of education?

Quality controls

54. Is it any type of controls you are missing today?

55. Is there a need of written down reports from employees to management? Or does it already exist?

Management

56. Describe the history of the company.

57. Describe the history of the entrepreneur (you self).

58. Is the manager involved in the every day decisions?

59. Is the hierarchy clear so that the employees know to whom to report?

Appendix 2 – Questionnaire to the owner

1. Strategies for growth

☐ A. Since our niche has not yet been established, we are exploring several markets to determine our most effective growth strategy.

☒ B. We have tapped into a market that is expanding, and we are riding the wave of demand as we grow.

☐ C. With a very competitive and mature market, we constantly are looking for new strategies to grow.

☐ D. The market is declining and we have lost many windows of opportunity; we are trying to gain market share by increasing our sales efforts.

2. Market conditions

☐ A. The market is brand-new, and the technology/service we provide is also relatively new.

☒ B. The market is growing at a strong pace, and opportunities abound.

☐ C. The market has stabilized, and growth opportunities will soon peak.

☐ D. The market is declining and is being replaced with new concepts/technologies.

3. Competitive environment

☐ A. There is a little or no competition.
☒ B. The competition is beginning to emerge because of the growth potential in the market.
☐ C. There are many competitors, several of which are significant rivals.
☐ D. There are just a few competitors who dominate the market.

4. Corporate focus

☐ A. We are focused on generating new sales above everything else; survival is a big concern.
☒ B. We are focused on stabilizing operations so that we can accommodate and capitalize on growth opportunities.
☐ C. We are focused on figuring out where new growth will come from, and how to reorganize to best position ourselves for the future.
☐ D. We are focused on doing our best to squeeze out every last opportunity that is left in the market.

5. Risk tolerance

☐ A. Risks are taken every day by everyone in the company; it is the only way we will survive.

☒ B. Risks are less attractive now – we have figured out what works and will continue to refine it.

☐ C. We are at a point where we need to begin taking more risks than we used to in order to discover new growth opportunities.

☐ D. The company is extremely risk-averse; we stick to what we have always known best and will not diverge from that.

6. Agility and flexibility

☐ A. The company moves aggressively and quickly to seize new opportunities.

☒ B. The company is somewhat agile and flexible, but we try to balance it out with an operational structure.

☐ C. The company has lost some of its agility and flexibility because of operational demands.

☐ D. The company is very slow to move and is locked into certain behaviours.

7. Structures and systems

☐ A. There are very few structures or systems. That is not a priority.

☒ B. We are spending a lot of time establishing structures and systems to become more efficient.

☐ C. We have outgrown the existing structures and systems which used to work fine.

☐ D. The structures and systems have not changed much over the years; they are so entrenched in the company that it will be difficult to make any changes.

8. Work environment

☐ A. Our company is like a family. We are all very close and everyone tries to chip in to do whatever needs to get done.

☒ B. The employees are close-knit and work well together, but we are also trying to "professionalize" the business environment by introducing policies, procedures, and job descriptions.

☐ C. We operate as a professionally managed company, with clear roles, responsibilities, and lines of management authority.

☐ D. The company is very bureaucratic, with lots of politics, power struggles, and turf wars.

9. Customer interaction

☐ A. We are intimate with customers, because we are desperate to find out what they need and then deliver whatever products or services they want.

☒ B. We have good relationships with customers and work hard to deliver consistently high levels of quality and service.

☐ C. We operate mostly on assumptions about our customers that are based on our experience with them from the past.

☐ D. We have lost our touch with customers and are losing client accounts because their needs and preferences have changed.

10. Communication

☐ A. Communication is not an issue – everyone knows everything that is going on.

☒ B. We are getting more organized about how to communicate internally and are for the first time developing clear channels of communication

☐ C. Our existing channels of communication are breaking down, both between departments and from leaders to employees.

☐ D. Lines of communication have become more like walls that keep people in different departments and at different management levels apart from each other.

11. Operational management/performance

☐ A. Operations are a low priority in the company compared to generating sales.

☐ B. Operations are becoming a high priority. Each new operational improvement enhances the overall performance and productivity of the company.

☒ C. Operational effectiveness is a key issue – we can not figure out why we are not getting more results from our efforts.

☐ D. Operations are well established and would be difficult to change.

12. Proactive/Reactive

☐ A. The company is extremely aggressive and proactive, seizing every opportunity that comes along.

☒ B. The company is proactive and aggressive, but focused

☐ C. The company is facing many new changes, both from the external market and internally, which force us into a reactive stance.

☐ D. The company is operating from a totally reactive stance; we are even passive at times.

Appendix 3 - Questionnaire to the employees

1. Is the hierarchy among the employees clear? Is everyone aware of whom that is responsible for what? Comment.

2. Are all employees aware of their responsibility and what is expected from everyone? Comment.

3. Do you know what the short term and long term goals for Dual Nation are?

4. What do you believe would happen with Dual Nation if Karin Svensson go for a vacation for one year?

5. Is the newly employed going through some kind of training program?

6. Does it exist an incentive system for employees that work hard?