

QUIZ QUESTIONS and SOLUTIONS for FRANCHISING 4E

CHAPTER 1 QUIZ QUESTIONS

1. The number of franchised business establishments has continued to growth in the U.S. Today there are approximately () franchise businesses in operation.

- A. 150,000
- B. less than 1,000
- C. approximately 800,000
- D. Over 2,500,000

EASY

Answer: C. There are approximately 800,000 franchised business units in operation in the USA in 2007.

2. A major reason for success of franchising is that the franchisor can use all of the following from the franchisee EXCEPT for the franchisee's:

- A. financial equity
- B. personal drive and motivation
- C. community goodwill
- D. proven methods of operation

EASY

Answer: D. Proven methods of operation are supplied by the franchisor, not the franchisee.

3. In the franchise industry, the person or business providing the rights to an individual for the local distribution and/or sales of a specified product or service is called the:

- A. franchisee
- B. district developer
- C. franchisor
- D. city council

EASY

Answer: C. The franchisor.

4. The business arrangement, otherwise called a franchise opportunity, has three major components that constitute the essence of what is generally referred to as a franchise. Which one of the following is not part of a franchise business arrangement?

- A. use of product or service
- B. use of private labels to brand or trademark product or service
- C. a franchisor's trademark and/or logo
- D. payment of a royalty fee

EASY

Answer: B. Private branding is not allowed in conjunction with the franchisor's own trademarks, logo, and/or copyrights on the franchisor's products or services.

5. A dealer who distributes product from a product line supplied by a franchisor is considered to be engaged in:

- A. product- and trade-name franchising
- B. business format franchising
- C. an independent business venture
- D. none of the above

EASY

Answer: A. Product-and trade-name franchising is where a dealer (franchisee) identifies with the supplier (franchisor) through a specified product line. For example, General Motors Corporation is the supplier/franchisor and Bob's Buick Agency is the franchisee.

6. The approach to be used by a franchisee in providing the franchisor's products or services to the customer is called:

- A. business licensing
- B. free-form business opportunity
- C. business format franchising
- D. an open business opportunity

EASY

Answer: C. See definition and description of business format franchising in the text.

7. Probably the earliest example of franchising in the United States is most likely to be:

- A. Kentucky Fried Chicken
- B. McDonald's
- C. Western Auto
- D. McCormick Harvesting Machine Company

EASY

Answer: D. In 1850, McCormick Harvesting Company commissioned exclusive local agents to sell and service its farm machinery.

8. Which of the following industries provides the earliest and lasting example of franchising in the U.S. economy?

- A. beverage industry
- B. retail fast-food industry
- C. automotive industry
- D. steel industry

EASY

Answer: C. The automotive industry initiated the franchising concept as a lasting arrangement for auto distribution and sales in the early 20th century.

9. In 1979, the Federal Trade Commission established Rule 436.1, also known as the Franchise Disclosure Act, for the purpose of:

- A. encouraging expansion of franchise systems

- B. diminishing illegal and unethical practices
- C. recruiting independent businesses to become franchisees
- D. none of the above

MODERATE

Answer: B. This Rule established 23 requirements that any franchise disclosure document must have to provide guidelines and policies for persons engaged in franchising. Prior to this rule, there were no specific guidelines or regulations on the franchise industry.

10. Composite data about the franchise industry itself suggests which approach to franchising continues to experience strong growth:

- A. product- and trade-name franchising
- B. business format franchising
- C. co version franchising
- D. all of the above are growing about equally

MODERATE

Answer: B. Business format franchising may be the strongest growth engine of the U.S. economy since the 1950's, particularly in the retail sector.