FRANCHISING OPPORTUNITIES FOR NORTH-EASTERN THAI CUISINE

by

Mr. Sunya Treeyachart

A Final Report of the Three-Credit Course
CE 6998 Project

Submitted in Partial Fulfillment
of the Requirements for the Degree of
Master of Science
in Computer and Engineering Management
Assumption University

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Project Title	Franchising Opportunities for North-Eastern Thai Cuisine
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The Graduate School of Assumption University has approved this final report of the three-credit course, CE 6998 PROJECT, submitted in partial fulfillment of the requirements for the degree of Master of Science in Computer and Engineering Management.

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ABSTRACT

This project concentrates on investigating the opportunities of setting up a northeastern Thai Cuisine restaurant franchises and learning how to apply the franchise system for that.

The success of small business is not limitted to only innovative and spectacular products. There are many times that success comes from recognizing a need and providing ordinary product to customers through appropriate marketing strategies. Therefore, this project aimed at analyzing the existing business and evaluating the business plan in order to find the opportunities of a decision making to expand the other branches by using a franchise system. The existing business explains that investment on the northeastern Thai cuisine restaurant gives the investor faster return on investment than other business when compared to the same size of the investment. The information of the existing business is obtained from the real business that is still operating. Business plan is a plan for both the franchise owner and franchise buyer to study the possibility of making an agreement of a franchise system. Business plan consists of an important subject that will be used in considering setting up a restaurant business for the investor.

The overall results from the study, it is possible to make a decision on a franchise system of the northeastern. The return on investment trends to be higher while the cost is still stable and the franchise owner will support the operation system to the franchise buyer. This project will explain the detail of the franchise business that makes the investor understand and consider how to apply the business plan in order to run an efficient franchise restaurant.

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I. INTRODUCTION

1.1 Background of Study

According to the economic crisis in 1997, most of the people are suffering from the downturn situation which causes a lot of problems in all business such as business failure (bank, financial institution, insurance company, hospital, hotel and etc), employees are laid off and companies closed down. People lost their jobs, their salaries were cut down, and their bonuses were cut off, some were fired and finally a company was permanently closed. We are one of the economic crisis victims, we lost our jobs and we have much time to journey and we found that people still consume products and goods with small amount and they normally eat the same amount as they have done before. Then, we got an idea to run a small business rather than to find a new job because there is a high competition in getting a job and we will be the one of all applicants a company will select. A restaurant is our choice to run on and we intend to open an Esan restaurant (Esan restaurant is the restaurant that serves a menu that its taste is spicy and strong for example spicy, sour, salty and sweet) with air-conditioned room. People like to eat spicy food in an air-conditioned room, they feel comfortable to have their meals and be back to work at their office or go home.

Kai-yang Khao Suan Kwang Restaurant was established in 1999 at Muang Thong Thani Village is a Northeastern Thai Cuisine or Esan Style (A Northeastern Thai Cuisine is the local food of Northeastern area of Thailand that is cooked from spices and herbs). The main dish of the restaurant is Kai-yang (Grilled Chicken) and other menus consist of Somtum, Larb, Esan sausage, sticky rice, etc. Our chicken is different from other Esan restaurant because it is a homegrown chicken and it comes from Amphur Khao Suan Kwang (Khon-kaen Province). Amphur Khao Suan Kwang is the

famous place for homegrown chicken. The good point of the chicken is it is low fat **and** low in cholesterol.

Customers are satisfied with all menu dishes, especially, Kai yang. They come from any way far from the restaurant such as Rungsit, Thonburi, Saim, Bangna. They usually come to have lunch and dinner at the restaurant. Most of them suggest to open other branches near their home. Then we intend to open other branches by using the franchising system.

1.2 Significance of the Study

Franchising is the way to expand any branch by using low investment. It uses a lot of management system to operate the whole system. Franchising is an interesting choice because it does no need to invest a lot of money in the business and it could expand the business at the same time. But the key difference between a completely independent small business owner and a franchise lies in the degree of influence and control. Business owner has his own plans and strategies to manage and operate his own business but a franchisee has only business because they must follow the franchiser's plans and strategies. The independent small business controls over site selection, architectural style, hiring and a training of employees, general business practices, accounting systems, marketing, advertising, hours of operations, pricing, and kinds of the products or services to be sold. In other words, the owner is responsible for all aspects of business operations. For Franchising, the franchisees are the persons who buy the right to use the franchiser's methods of marketing, operational systems, logos, trademarks, architectural styles and other features. The franchiser will dictate many of the details of the business such as prices, quality, product and equipment specifications, and the methods and hours of operations. The franchiser derives income from up-front fees, royalties, percentages of gross sales, and advertising pools.

Significance of this research is as follows:

(a) To use the findings in establishing an Esan Restaurant on any area of Bangkok.

(b) To use the findings in improving and developing the quality of the Esan Restaurant.

(c) To use the findings disseminating the procedure for any Restaurant.

1.3 Objectives of the Study

Esan restaurants are located anywhere around Bangkok that it is easy to find Esan cuisine from any place where you want. It ranges from an expensive menu till a cheap one. There are many kinds of them such as restaurant, mini moving cart and etc. Most of them normally establish only one branch and some have a few branches and operate their restaurant by using their own strategies. Therefore, any owner can hardly expand another branch to anywhere because they know that it is too hard to open a new branch and no one dares take risk for high investment and low return in this economic situation.

We realize that no one expects to open a franchise system for Esan cuisine restaurant. I don't know why, but may be Esan cuisine does not have a good brand name as Mc Donald's, KFC, Pizza Hut, Chester's grill which are franchised fast food from international companies. Then, we do this project to find a solution in order to make a decision.

Objectives of this research are as follows:

(a) To investigate feasibility of setting up a northeastern Thai Cuisine restaurant franchise.

(b) To learn how to apply the franchise system for northern Thai Cuisine restaurant.

1.4 Scope of the Study

The study concentrates on data analyses and evaluation of opportunities for a northeastern Thai cuisine restaurant franchise.(Kai-yang Khao Suan Kwang Restaurant). Results from the study will be used as a guideline for preparing detailed franchise agreements.

1.5 Definition of Terms

Kai yang Khao Suan Kwang: The name of restaurant.

Franchise: Permits or requires the franchisee to carry on during the period of the franchise a particular business under or using a specified name belonging to or associated with the franchisers.

Franchiser: is the party who owns the rights to the franchise which he assigns to the franchisee under a franchise contract.

Franchisee: is the person who operates the franchise.

Esan cuisine: which is a Northeastern Thai cuisine, has spicy and strong taste.

Entrepreneur: a person who starts up and / or operates a business

II. LITERATURE REVIEW

2.1 Franchising Overview

A franchising business generally is an organization consisting of supporting units, created and administered by the franchiser, designed to expand the distribution of products or services of uniform quality, format, and technique. The remarkable thing about franchising is that it is probably the only form of business entity that, by its very nature, contributes to the creation of new business units.

Franchising, a major force in the economy of the United States continues its steady growth in sales, employment, units, and international expansion. It offers tremendous opportunities to individuals seeking their own businesses and to companies looking for wider distribution of their products, systems, and services. Franchising has become so powerful partly because economic factors have made growth through company-owned units difficult for many businesses. In addition, franchisees are enjoying a competitive edge over other small business entrepreneurs through the use of trade names, marketing expertise, acquisition of a distinctive business appearance, standardization of products and services, training, and advertising support from the parent organization.

Franchising represents the small entrepreneur's best chance to compete with giant companies that dominate the marketplace. With franchising, thousands of business people would never have had the opportunity to own their own businesses and would never have felt the immense satisfaction of being a part of the free enterprise system (Mark 1990).

Longenecker, Moore and Petty (1994) stated that the choice of franchising over alternative methods of starting your own business ultimately is based on adding up the

pluses and minuses of franchising after considering the entrepreneur's personal goals and aspirations. Franchising obviously will not be the choice for all prospective entrepreneurs, because each consideration will carry different weight for different individuals. However, in their particular circumstances, many people find the franchise form of business to be the best choice.

A franchise is attractive for many reasons. Three advantages in particular warrant further analysis. A franchise can offer the entrepreneur (1) formal training, (2) financial assistance, and (3) marketing and management benefits. Naturally, all franchises may not be equally strong on all these points, but it is these advantages, which motivate many persons to consider the franchise arrangement.

(1) Formal Training

The importance of formal training received from the franchiser is underlined by the managerial weakness of many small entrepreneurs. To the extent that this weakness can be overcome, there, the training program offered by the franchiser constitutes a major benefit.

(2) Financial Assistance

The costs of starting an independent business are often high and the prospective entrepreneur's sources of capital quite limited. The entrepreneur's standing as a prospective borrower is weakest at this point. By teaming up with a franchising organization, the aspiring franchisee may enhance the likelihood of obtaining financial assistance.

(3) Marketing and Management Benefits

Most franchised products and services are widely known and accepted. Thus, franchising offers both a proven successful lines of business and product or service identification. The entrepreneur who enters a

franchising agreement acquires the right to use the franchiser's nationally advertised trademark or brand name. This serves to identify the local enterprise with the widely recognized product or service.

Franchising is like a coin-it has two sides. We have examined the positive side of franchising, but we must look on the other side of the coin and examine its negative side. In particular, three shortcomings permeate the franchise form of business. These are (1) the cost of a franchise, (2) the restrictions on growth that can accompany a franchise contract, and (3) the loss of absolute independence on the part of the franchisee.

(1) Cost of a Franchise

The total franchise cost consists of several components. Only after all of these cost components have been examined can a realistic picture be drawn. The cost of a franchise begins with the franchise fee. Generally speaking, higher fees will be required be the well-known franchisers. Other costs include royalty payments, promotion costs, inventory and supplies costs, and building and equipment cost. When these costs are considered with the franchise fee, the total investment may look surprisingly large.

(2) Restrictions on Growth

A basic way to achieve business growth is to expand the existing sales territory. However, many franchise contracts restrict the franchisee to a defined sales territory, thereby eliminating this form of growth. Usually, the franchiser agrees not to grant another franchise to operate within the same territory. The potential franchisee, therefore, should weigh territorial limitation against the advantages cited earlier.

(3) Loss of Absolute Independence

Frequently, individuals leave salaried employment for entrepreneurship because they dislike working under the direct supervision and control of other. By entering into a franchise relationship, such individuals may simply find that a different pattern of close control over personal endeavors has taken over. The franchisee does surrender a considerable amount of independence upon signing a franchise agreement.

2.2 Meaning of Franchising

Franchising is a system or method of marketing a product or service. The franchiser develops a special product, service, or system and gains national recognition. The franchiser then grants a right or license to small, independent businessmen throughout the country to merchandise this service or product under the national trademark and in accordance with a proven, successful format. This increases the franchiser's exposure for more national business and gives the franchisee a greater chance for success in a given field with a smaller amount of capital investment.

The system, obviously, is not limited to food or to just retail sales but can be applied to a wide range of products and services. For instance, the idea of a franchised real estate operation began with Red Carpet Realty in the 1960s, which demonstrated the advantage of wide scale advertising, training, and referrals of buyers and sellers within a nationwide network. Art Bartlett followed the same system when he founded Century 21 in the 1970s, a franchised operation for real estate brokers and agents nationwide that can out-compete local brokerage firms by virtue of the trade mane, the national advertising, and the system.

Franchising is perhaps the greatest business invention since the concept of a corporation as an entity separate from individuals was invented by the Romans more than 2000 years ago.

Jerome L. Fels, in his booklet Investigate before investing, prepared for the International Franchise Association, summed it up. "Franchising today is one of the most innovative, dynamic, and effective systems for distribution of goods and services the world has ever known. Well-informed, satisfied franchisees are the backbone of this system, which combines the experience and expertise of a large company with the entrepreneurial drive and ambition of the small independent businessman."

Franchising has become a major force in the American economy. Its very success, by the nature of the concept, feeds upon itself to create new business units by reason of the growth of existing units (Mark 1990).

Franchising is a form of distribution or marketing, nothing more. It is not a particular industry or a way of doing business or a series of voodoo gestures. It isn't a great mystery, although it has come to carry with it a great mystique of inevitable success (Meg 1993).

Interestingly, the word franchising literally means to be free. In this sense, franchising offers people the freedom to own, manage, and direct their own business. The appeal of owning a franchise attracts Americans in all walks of life. Above all, owning your own business is the epitome of the American dream itself. It represents the opportunity to attain financial security and, for the most successful, the accumulation of wealth. Then too, to many, it provides independence- the freedom to be your own boss (Robert and Carrie 1993).

Not withstanding these impressive figures, franchising as a method of marketing and distributing products and services is really appropriate only for certain kinds of

companies. Despite the favorable media attention that franchising has received over the past few years as a method of business growth, it is not for everyone. There are a host of legal and business prerequisites that must be satisfied before may company can seriously consider franchising as an alternative for rapid expansion (Andrew 1999).

The term franchise covers a wide variety of arrangements under which the owner of a product, a process, a service or even just a name having certain connotations licenses another to make or use something in exchange for some form of payment. This can be either direct, in the form of a fee and/ or a royalty, or indirect in the shape of an obligation to buy a service or product in which the license holder has some kind of commercial interest (Colin and Godfrey 1993).

A formal definition of a franchise is set out by the British Franchise Association, as follows: A contractual license granted by one person (the franchiser) to another (the franchisee) which:

(a) Permits or requires the franchisee to carry on during the period of the franchise a particular business under or using a specified name belonging to or associated with the franchiser; and

(b) Entitles the franchiser to exercise continuing control during the period of the franchise over the manner in which the franchisee carries on the business which is the subject of the franchise; and

(c) Obliges the franchiser to provide the franchisee with assistance in carrying on the business which is the subject of the franchise (in relation to the organization of the franchisee's business, the training of staff, merchandising management or otherwise); and

(d) Requires the franchisee periodically during the period of the franchise to pay to the franchisers sums of money in consideration for the franchise or for goods or services provided by the franchiser to the franchisee; and

(e) Which is not a transaction between a holding company and its subsidiary (as defined in Section 154 of the Companies act 1948) or between subsidiaries of the same holding company or between an individual and a company controlled by him.

2.3 Business Format Franchising

Business format franchising is characterized by an ongoing business relationship between franchiser and franchisee that includes not only the product, service, and trademark, but the entire business concept itself: a marketing strategy and plan, operating manuals and standards, quality control, and a continuing process of assistance and guidance. Restaurants, nonfood retailers, personal and business services, rental services, real estate services and a long list of other service businesses fall into this category. Business format franchising has been responsible for much of the growth of franchising in the United States since 1950 and will continue to offer opportunities for those individuals seeking their own businesses (Mark 1990).

Colin and Godfrey (1993) said that Business format franchising incorporates elements from all these earlier ideas and combines them in a way that is particularly suited to current circumstances and economic conditions. Its main features are:

(1) It is a license for a specific period of time to trade in a defined geographic area under the franchiser's name and to use any associated trademark or logo. In 1989 EC regulation No 40 87/88, commonly known as the Franchise Block Exemption, came into force, This allows qualifying franchisers to include in their agreements provisions that would normally

fall foul of Article 85 of the Treaty of Rome. That article covers restricted trade, price fixing and creating exclusive territories.

(2) What is franchised is an activity, usually some form of service, which has already been tried and tested to produce a formula of operating that has been found to work elsewhere.

(3) The franchiser provides the entire business concept of that formula (usually called the "blueprint") for the conduct of operations. This must be followed by the franchisee. In fast food for instance, the ingredients of any "secret" recipes for the type of food being offered are strictly laid down, as are the specifications for the surroundings in which it is served. The blueprint is generally set out in an operating manual, which is given to the franchisee when negotiations are completed.

(4) The franchiser educates the franchisee in how to conduct the business according to the method laid down in the blueprint.

(5) The franchiser also provides back-up services in order to ensure that the franchise operates successfully. This should certainly cover advertising and promotion of the franchise's name in general and may also cover promotion of the particular franchise in its locality. It can cover many other aspect: ongoing business advice including help in raising finance, market research into the viability of a particular location for trading purposes, assistance with negotiating leases and obtaining planning permissions, site development, the provision of building plans and specifications, a standard accounting system virtually anything connected with setting up a new business.

(6) In exchange for the business blueprint and the services the franchiser provides, the franchisee is expected to make an initial investment in the business and to pay a weekly or monthly royalty to the franchiser thereafter, normally based on turnover. There may also be an obligation on the franchisee to buy some or all goods and equipment from sources nominated by the franchiser. When the franchiser benefits financially from such an arrangement, acting in effect in the role of a wholesaler, the royalty will be lower. In fact, there may be none at all.

(7) The participation of the franchiser in setting up the business does not mean that he owns it. It belongs to the franchisee and he is free to dispose of it, though he will probably have to give the franchiser first refusal and obtain his approval of the person the business is sold to, if the franchiser does not want to take it off his hands.

The franchisee in the business format franchise must do business according to the format laid down by the franchiser. Business franchising prescribes how the business will be run, right down to color choices, signage, location and so on. The contact between the franchiser and the franchisee lay down certain rules for the business relationship. The franchisee gains a workable, tested business format that considerably reduces the risks involved in starting a new business. The franchiser avoids the considerable risk putting up its own money for every outlet of the business. However, there are also limits imposed by the relationship (Meg 1993).

2.4 The Key Element of Franchise Agreement

The franchise agreement is the basic contract governing the relationship between the franchisee and franchiser. This agreement should confirm in detail the statements

made in the disclosure document, and any differences should brought to attention of your attorney and the franchiser before any ongoing commitment is made.

Franchising agreements will differ in content and format from industry to industry; most will contain the following elements (Kirk and Kent 1993):

(1) The Recital

(2) Initial Fees

(3) Ongoing Fees

(4) Grants by the Franchiser

(5) Term of the Agreement

(6) Services Furnished by Franchiser

(7) Agreements by the Franchisee

(8) Franchiser's Right to Terminate the Franchise Agreement

(9) Obligations of the Franchisee on Termination

(10) Sale, Transfer, and Assignment

(11) Miscellaneous Provisions

(12) Riders, Amendment, and Addenda

Regardless of size, stage of growth, industry dynamics, or specific trends in the marketplace, all basic franchise agreements should address the key topics discussed below (Andrew 1999):

Key element of the basic franchise agreement are include:

(1) Recital

(2) Grant, Term, and Renewal

(3) Legal Status of Franchisee

(4) Right Granted

(5) Territory

(6) Site Selection

(7) Services to be Provided by the Franchiser

(8) Supplying of the Products

(9) Franchise, Royalty, and Related Fee Payable to the Franchiser and Reporting

(10) Quality Control

(11) Insurance Record Keeping and Other Related Obligations of the Franchisee

(12) Protection of Intellectual Property and Covenants Against Competition

(13) Termination of the Franchise Agreement

(14) Miscellaneous Provisions

2.5 The Key Components of the Relationship

Responsible franchising is the only way that franchisers and franchisees will be able to coexist harmoniously in the twenty-first century. Responsible franchising requires a secure foundation from which the franchising program is launched. In short, the more secure the foundation, the better the chance that the system will be successful. Any company considering franchising, as a method of growth and distribution or any individual considering franchising as a method of getting into business must understand the key components of this foundation (Andrew 1999):

(1) A proven prototype location that serves as a basis for the franchising program. The store or stores must have been tested, refined, and operated successfully and be consistently profitable.

(2) A strong management team made up of internal officers and directors who understand both the particular industry in which the company operates and the legal and business aspects of franchising as a method of expansion.

(3) Sufficient capitalization to launch and sustain the franchising program to ensure that capital is available for the franchiser to provide both initial as well as ongoing support and assistance to franchisees.

(4) A distinctive and protected trade identity that includes federal and state registered trademarks as well we a uniform trade appearance, signage, slogans, trade dress, and overall image.

(5) Proprietary and proven methods of operation and management that can be reduced to writing in a comprehensive operations manual, cannot be too easily duplicated by competitors, can maintain their value to the franchisee's over an extended period of time, and can be enforce through clearly drafted and objective quality control standards.

(6) Comprehensive and structured training programs for franchisees that integrate all of the latest education and training technologies and that take place both at the company headquarters and on-site at the franchisee's proposed location, at the outset of the relationship and on an ongoing basis.

(7) Field supports staffs who are skilled trainers and communicators and must be available to visit and assist franchisees periodically as well as monitor quality control standards.

(8) A set of comprehensive legal documents that reflect the company's business strategies and operating policies.

(9) A demonstrated market demand for the products and services developed by the franchiser that will be distributed through the franchisees.

(10) A set of carefully developed uniform site selection criteria and architectural standards that can be readily and affordably secured in today's competitive real estate market.

(11) A genuine understanding of the competitive that the franchiser will face in marketing and selling franchises to prospective franchisees, ad well as the competition the franchisee will face when marketing products and services.

(12) Relationships with suppliers, lenders, real estate developers, and related key resources as part of the operations manual and system.

(13) A franchisee profile and screening system in order to identify the minimum financial qualifications, business acumen, and understanding of the industry that will required by a successful franchisee.

(14) An effective system of reporting and record keeping to maintain the performance of the franchisees and ensure that royalties are reported accurately and paid promptly, and that all other critical sales, marketing, and consumer data are submitted and analyzed on a regular and timely basis.

(15) Research and development capabilities for the introduction of new products and services on an ongoing basis to consumers through the franchised network.

(16) A communications system that facilitates a continuing and open dialogue with the franchises and as a result reduces the chances for conflict and litigation within the franchise network.

(17) National, regional, and local advertising, marketing, and public relations programs designed to recruit prospective franchisees as well as consumers to the sites operated by franchisees.

2.6 Marketing Plan

Entrepreneurs need formal marketing plans not only to convince potential investors of the worth of the venture, but also to guide in initial days and months of

operation. Unfortunately, many entrepreneurs will work on the cart and neglect the horse- develop the product but neglect the marketing plan that will pull the product into the market (Longenecker, Moore and Petty 1994).

The study of marketing will make you aware that many marketing activities are necessary to provide people with satisfying goods and services. Marketing encompasses many more activities that most people think. Remember, though, that any definition is merely an abstract description of a broad concept. No definition perfectly describes the concept to which it refers (Pride and Ferrell 1985).

However, there is many professionals give the definition of marketing. The examples are as follows:

The American Marketing Association thus has recently defined marketing as the performance of all activities necessary for the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objective (Mason and Ezell 1987).

Marketing is a total system of business activities designed to plan, price, promote, and distribute want-satisfying products and services to present and potential customers (Stanton 1984).

Marketing consists of the performance of the business activities that direct the flow of goods and services from producer to consumer or user (Committee on definition 1960).

Marketing defined as an aggregate of people who, as individuals or as organizations, have needs for products in a product class and who have the ability, willingness, and authority to purchase such products. There are three types of markets: consumer markets, industrial markets, and reseller markets. A consumer market consists of purchasers and/or individual in their households who intend to consume or to benefit

from the purchased product. An industrial market consists of individuals, groups, or organizations that purchase a specific kind of product for direct use in producing other products or for use in day-to-day operations. Reseller markets consist of intermediaries who buy finished products and resell them for the purpose of making a profit (Pride and Ferrell 1985).

A well-prepared market analysis and a discussion of competition are important to the formal marketing plan. There are some critical questions to be answered in the section of the marketing plan that are shown as Table 2.1.

Table 2.1. The Marketing Plan Questions (Longenecker, Moore and Petty 1994).

Marketing Analysis	Marketing Strategy
1. What is your target market? 2. What is the size of your target market? 3. What market segments exist? 4. What is the profile of your target customer? 5. How will customers benefit by using your product or service? 6. How will your location benefit your customers? 7. What are market trends and market potential? 8. What are the reactions of prospective customers? 9. What are the share markets you expect?	1. How will you attract the customers? 2. How will you identify prospective customers? 3. What type of selling effort will you use? 4. In what geographic areas will you use? 5. What type of sale force will you employ? 6. What special selling skills will be required? 7. What selling procedures will be used? 8. What type of sale promotion and advertising will you use? 9. What pricing policy will you follow?

This section-covering marketing strategy is the most detailed, and in many respects, subjects to the closest scrutiny by potential investors. Strategy plots the course of marketing action that will activate the entrepreneur's venture. There are four areas of marketing strategy that should be addressed within the marketing plan. First, the plan includes marketing decisions that transform the basic product to service idea onto a

"total product." Second, the plan includes promotional decisions that will communicate the necessary information to target markets. Third, there are decisions regarding the distribution of a product to customers. Finally, there are pricing decisions that will set an acceptable on the total product or service (Pride and Ferrell 1985)(Longenecker, Moore and Petty 1994)(Kotler and Armstrong 1987)(Murphy and Enis 1985)(Russ and Ki.rkpatrick 1982)(Mason and Ezell 1987).

(1) Product / Service

Products are among the firm's most important and most visible contacts with buyers. A product is much more than a physical object or a service rendered. It includes everything that a customer receives in an exchange (both favorable and unfavorable); it is a complex of tangible and intangible attributes including functional, social, and psychological utilities or benefit. Functional utilities include ideas, services, and performance, as well as a product's physical properties and attributes. When buyers purchase a product, they actually are buying the benefits and satisfaction they think the product will provide.

Pride and Ferrell (1985) separated products into two categories as follows:

(a) Consumer Product

Consumer products are products purchased to satisfy personal and family needs.

(b) Industrial Product

Industrial products are products bought for use in a firm's operations or to make other products.

Kotler and Armstrong (1987) stated that products could be classified into three groups according to their durability or tangibility. There are as follows:

(a) Non-durable Goods

There are tangible goods normally consumed in one or a few uses such as soap, beer, and salt.

(b) Durable Goods.

There are tangible goods that normally survive many uses such as refrigerator, machine tools, and clothes.

(c) Service

There are activities, benefits or satisfactions that are offered for sale such as haircuts and repairs.

Murphy and Enis (1985) classified products into 2 categories. The classification is based on end usage. There are following:

(a) Consumer Products

There are generally classified into:

(1) Convenience Products

(2) Preference Products

(3) Shopping Products

(4) Specialty Products

(b) Industrial Products

(2) Promotional Plans

Promotion consists of communications that inform potential consumers of the existence of the products and persuade them that those products have need-satisfying capabilities. This section should cover the

entrepreneur's approach to creating customer awareness of the product or service and motivating customers to buy.

Because communication is necessary condition for exchange activity, we focus now on improving the effectiveness and or efficiency of organization communication. Effective communication occurs only when individuals understand and respond to message sent.

Promotional activities or promotion mix can be divided into:

(a) Personal Selling

Personal selling is characterized by a two-way flow of communication between marketer(s) and consumer(s) for the purpose of marking an exchange. The role of personal selling is to close the sale after awareness has been created by advertising and sale promotion.

(b) Advertising

Advertising is any paid form of non-personal communication by an identified sponsor. It includes the use of radio, television, newspaper, magazine, outdoor billboards, catalogs, directories, posters, and similar form of communication.

Advertising offers several benefits. It can be extremely cost-efficient promotional method because it can reach a vast number of people at low cost per person. In addition, advertising allows the user to repeat the message a number of times.

Advertising also has several disadvantages. Even though its cost per person reached may be low, its absolute dollar outlay can be

extremely high. Moreover, when compared with personal selling, advertising ordinarily has less persuasive impact on customers.

(c) Sales Promotion

Sale promotion is an activity and/or material that acts as a direct inducement, offering added value or incentive for the product, to reseller, sales persons, or consumers.

Sales promotion consists of those other marketing activities that stimulate consumer purchasing and middleman effectiveness that are not in the ordinary routine. Sales promotion is all promotional activities other than advertising, personal selling, and publicity. Such activities include trade show and exhibitions, demonstrations, displays, free sample, coupons and contest.

(d) Publicity and Public Relation

(1) Publicity

Publicity is any news item or editorial comment concerning products, services, business activities, or marketing institutions communicated publicly through mass media.

Publicity offers unique qualities. It is very believable; news stories and features seem more real and believable to readers than ads. Publicity can reach many prospects who may avoid salesperson and advertisements, the message gets to the buyers as news rather than as a sales-directed communication.

(2) Public relation

Public relation is an organizational communication program with various groups including customers, employees, stockholders, government, and society at large.

(3) Place / Distribution Plans

Marketing channels, or channel of distribution, is a group of intermediaries who direct products to customers. A distribution channel is the sequence of firms that sell, buy, or hold products move from manufacturers and producers to end buyers. Members of traditional distribution channels were totally independent

Channel can be viewed as social systems with each member trying to gain as much power as possible. Power is important because it directly affects each member's ability to attain its goals. Therefore, the selection of marketing channels is the one of the most critical decisions in developing a marketing strategy. There are two major types of marketing intermediary or middlemen are:

(a) Merchants take title to merchandise and resell it.

(b) Agents and brokers receive a commission or fee for expediting.

Additionally, inventory planning and control is physical distribution activities that aid developing and maintaining adequate assortments of products for the target markets. It is necessary to control the costs of obtaining and maintaining inventory in order to achieve profit goals.

(4) Pricing Plans

Price is one of the most potent weapons available to management in developing marketing strategy. Price is value agreed upon by the members

in the exchange process. A pricing is the systematic determination of the right price for product. It might seem logical that the pricing objective would be to maximize profits, in practice firms are rarely able to collect the information about costs, demand, and competitors' activities needed to maximize profit.

A price must reflect the costs of bringing a product or service to the customer. Therefore, this section of the plan must include a schedule of both production and marketing costs. It is advisable to label each of these costs as either fixed or variable so that break-even computations can be generated for alternative prices. The sales figures from the market analysis in this section should be consistent with the forecasting methods of the market analysis section.

In successful business, price must be sufficient to cover total cost plus some margin of profit.

(a) Total cost is cost of goods sold, selling expenses, and general administrative expenses. Total cost includes total fixed cost and total variable costs.

(b) Total variable cost is costs that vary with the quantity marketed.

(c) Total fixed cost is costs that remain constant as the quantity sold.

There are several pricing strategies that reflect market considerations. The example of pricing strategies are discussed in the following:

(a) Penetration Price

A penetration price is a lower price designed to penetrate the market and produce larger unit sales volume. When introducing a

product, a marketer sometimes uses a penetration price to gain a large market share quickly.

This approach places the marketer in a less flexible position than price skimming, because it is more difficult to raise a penetration price than it is lower or discount a skimming price.

(b) Skimming Price

Price skimming is charging the highest position possible price that buyers who most desire the product will pay. Price skimming can provide several benefits, especially when a product is in the introductory stage of its life cycle.

(c) Follow the Leader Pricing

The probable reaction of competitors is a critical factor in determining whether to cut prices below a prevailing level.

(d) Psychological Price

Psychological price is designed to encourage purchases that are based on emotional reactions rather than on rational responses. It is used most often at retail level such as odd-even pricing, customary pricing, and prestige pricing.

(e) Variable Pricing

In some line of business, the selling firm makes price concessions to individual customers even though it advertises a uniform price. Concessions are made for various reasons, one of which is the customer's knowledge and bargaining strength.

(0 Price Lining

A price line is a range of several distinct prices at which merchandise is offered for sale. For example, men's suits might be sold at $250, $300, and $600.

(g) Break-even Analysis in Price

The objective of the cost break-even stage is to determine the quantity at which the product, with an assume price, will generate enough revenue to start earning a profit.

The basic relationships of the break-even concept are shown as Figure 2.1:

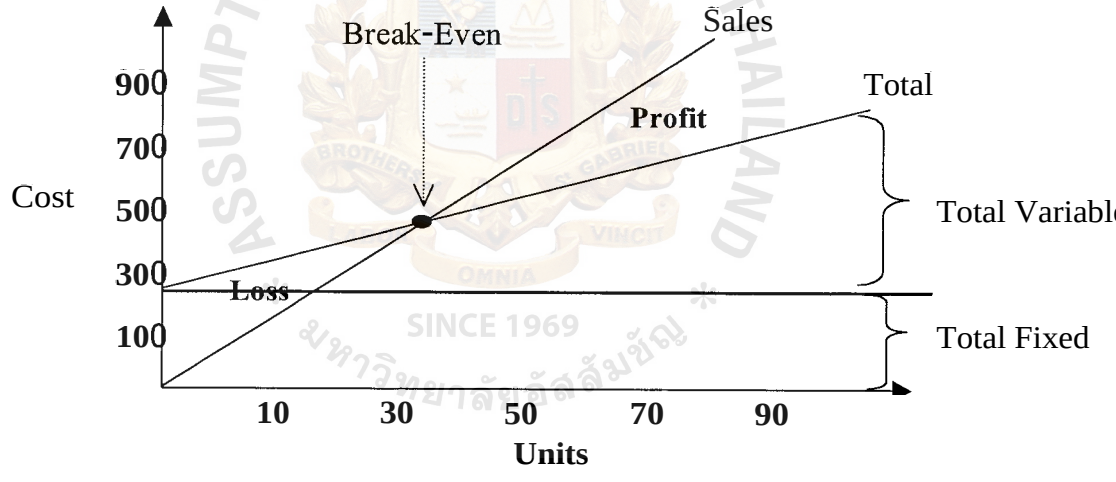

Figure 2.1. Break-Even Chart of Pricing (Longenecker, Moore and Petty 1994).

From Figure 2.1, presents a simple cost break-even chart. Total fixed costs are portrayed as a horizontal section in view of the fact that they do not change with volume of production. The variable cost section slants upward, however, because of the direct relationship of total variable costs to output. The area between the slanting total cost

line and the horizontal base line thus presents the combination of fixed and variable costs. The area between the revenue and total cost lines reveals the profit and loss position of the company at the level of sales. The intersection of these two lines is called the break-even point because sales revenue equal total cost at this point. Additional revenue lines at other prices can be charted on the break-even graph to evaluate new break-even points.

(h) Markups

The basic approach to the cost-oriented of pricing is to add a certain percentage to the cost of the product. (Hence, this is sometimes called the cost-plus approach.) This percentage is called the markup. Markup pricing has the important advantages of (1) simplicity of operation and (2) ease of understanding.

2.7 Financial Plan

Financial plan specifies financial needs and contemplated sources of financing. The financial plan consists of costs, revenues and profits that are important to do a business (Longenecker, Moore and Petty 1994).

(1) Profitability and Financing a New Venture

A key question for anyone starting a new business should be, "How profitable is the opportunity?." A company's profit is a primary source for financing future growth. The more profitable a company, the more funds it will have for growing the firm. Thus, we need to know the factors that drive profits, so that we may make the need profit projection. In this regard, a company's net income or net profit depends on four variables as following:

(a) Amount of Sales

Much that we project about a company's financial future is driven by the assumptions we make regarding future sales. The foregoing assumption, we may forecast the profits, as shown in Table 2.2.

Table 2.2. Projected Income Statement (Longenecker, Moore and Petty 1994).

	Year 1	Year 2
Sales	$250,000	$400,000
Cost of goods sold		
Fixed cost	$100,000	$100,000
Variable costs (20% of sales)	50,000	80,000
Total cost of goods sold	$150,000	$180,000
Gross profits	$100,000	$220,000
Operating expenses		
Fixed expenses	$50,000	$50,000
Variable expenses (30% of sales)	75,000	120,000
Total operating expenses	$125,000	$170,000
Operating profits	-$25,000	$50,000
Interest expenses (interest ratel2%)	12,000	12,000
Earning before tax	-$37,000	$38,000
Taxes (25% of earning before tax)	0	9,500
Net income	-$37,000	$28,500

(b) Operating Expenses

Operating expenses include such expenses as the cost of good sold and the expenses related to marketing and distributing the product. We will want, as best we can, to classify these expenses according to those that do not vary as sales increase or decrease (fixed operating expenses) versus those that change proportionally with sales (variable operating expenses).

(c) Interest Expenses

When we borrow money, we agree to pay interest on the loan principal. For instance, if we borrow Bht 25,000 for a full year and commit to pay 12 percent interest, our interest expense would be Bht 3,000 for the year (12% Bht 25,000).

(d) Taxation

The firm's taxes are, for the most part, a percentage of taxable income. The rate increases as the amount of income increase.

(2) Determination of the Financial Requirements

The specific needs of a proposal business venture govern the nature of its initial financial requirements. If the firm is food store financial planning must provide for the store building, cash registers, shopping carts, shelving inventory, office equipment, and other items required in this type of operation. An analysis of capital requirements for this or any other type of business must consider how to finance (a) the needed investments and expenses incurred to start and grow the company, (b) any personal expenses if the owner does not have other income for living purposes.

(a) Startup Investment

To understand the financing requirements for a new company, visualize a balance sheet as shown in Figure 2.2. The left side of balance sheet shows the assets owned by company, such as cash, account receivable, and equipment. The right side tells us who has provided the needed capital for the business.

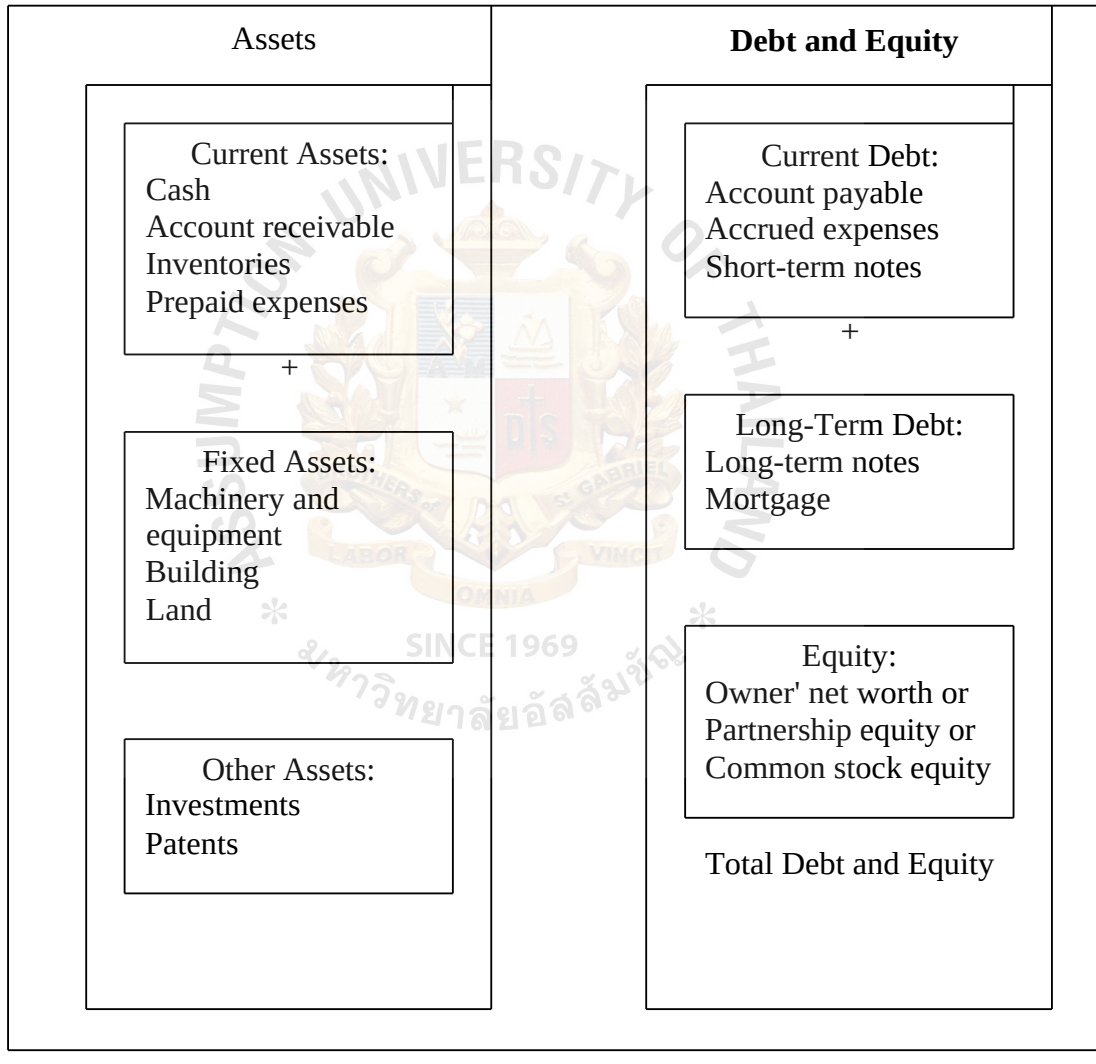

Figure 2.2. Balance Sheet Components (Longenecker, Moore and Petty 1994).

A firm's assets are generally classified into one of three categories or types as follows:

(1) Currents Assets

(2) Fixed Assets

(3) Others Assets

(b) Funds for Personal Living Expenses

In many startup businesses, provision must also be made for the owner's personal living expenses during the initial period of operation. Whether or not these expenses are recognized as a part of the business capitalization, they must be considered in the business financial plan. Inadequate provision for personal expenses will inevitably lead to a diversion of business assets and a departure from the financial plan. Thus, failure to incorporate these expenses into the plan raises a red flag to any prospective lender or investor in the firm.

III. EXISTING BUSINESS ANALYSIS

Before starting the business, the entrepreneurs must have a plan and strategies to run a business. The plan that consists of a business plan, marketing plan, and financial plan is more important to make a successful business. The business plan is a document containing the basic business idea and all the elated considerations in starting a new business. Marketing plan is viewed only as the performance of business activities that affect the flow of goods and services from producer to consumer or user. Financial plan specifies financial needs and contemplated sources of financing and presents projections of revenues, costs, and profits. In this chapter, we concern on financial plan and marketing plan of the existing business.

3.1 Analysis of the Financial Plan

The financial plan consists of costs, revenues and profits that are important to do a business. Most companies succeed in their business because they have a good financial plan. They can run their business without shortage. Then we should concentrate on these are as follows:

(1) Initial Cost

The initial cost is a first investment on the business. The costs of starting an independent business are often high and prospective entrepreneur's sources of capital quite limited. Additionally, the entrepreneurs who stand as a prospective borrower are weakest at this point.

Therefore, the entrepreneurs must concern on the initial cost before running a business. This is an important thing because suppliers normally do not give anyone the credit term in the first contact because they do not trust anyone whom they do not know well. So the restaurant should have much

money to run the business and cover the business in the long run also. And the restaurant that the author studies has the initial costs as follows:

(a) Cash

Cash means money and any medium of exchanges that bank accepts such as check, bank account balance, and etc. Cash is very important on investment, without cash the business cannot be established and even though it can be run whenever the entrepreneur does not have adequate source of money to keep going the business, it would be closed. There are many business failures resulting from shortage of cash. The minimum requirement of cash that the entrepreneur should prepare for the business is Baht 500,000. This amount seemed high for opening a new restaurant. But it is not much to manage and prepare everything before opening and running the business.

(b) Equipment

The equipment means office equipment and store equipment. There are many types of equipment necessary in the restaurant. In the restaurant, the equipments that should be prepared are furniture, kitchen tools, kitchenware, cash register, refrigerator, cutlery, crockery, and etc. All equipments must be prepared before the restaurant opens. The entrepreneur spends a lot of money to buy these and select an A grade equipment for the customers.

(c) Land and Building

Normally an entrepreneur likes to rent any place for opening the restaurant because an entrepreneur does not have much money to buy

a land and build the restaurant. It means that the entrepreneur should get profit in the long term from investment. The entrepreneur rent a building that located in the Muang Thong Thani village. This location is good to open the restaurant although there are many restaurants in the village. Because there is no Esan restaurant in the village and this is the first Esan restaurant that has a good decoration with air condition. The entrepreneur has a contact year by year and needs to deposit for 3 months. It means that the entrepreneur has to use cash for 3 months deposit.

(d) Car

The entrepreneur has a car that is very useful and convenient to buy the thing that is necessary for the restaurant and staffs. The entrepreneur invests to buy a car for these purposes. The main purpose is to buy a raw material (such as vegetable, beef, pork, and chicken, seasoning and etc.) from the market instead of ordering the raw material from any supplier. It means that the entrepreneur can save cost from the margin between the market price and the supplier price. The entrepreneur can reduce cost that means the entrepreneur will get more profit from that margin. The second purpose, the car is use for transport the staffs from their resident to the restaurant. And the other purpose is occurred when there is an order from the customers who want the restaurant to deliver the things to their place in a large amount.

(e) The Resident of Staff

Although the residence of staff is not quite necessary for restaurant, there are some reasons to provide the residence for our staffs. The reasons are to save cost and to control our staff. The first reason is the entrepreneur can pay less salary for them by providing them a residence. This means that the staffs do not pay for the rent. And the other reason is the entrepreneur can control the staffs by using the car to pick them up to the restaurant and check their working time from their roommate.

(f) Interior Design

It is necessary for the entrepreneur to spend a lot of money to decorate an interior and exterior of the restaurant. Because of the decoration is one important factor that attracts and invites the customers to the restaurant. The interior design of the restaurant consists of table, chair, wallpaper, real tree and plants, air condition, counter, etc. An interior design is more important for the customers to have lunch or dinner that it can make them feel better when they have their own food in the place that has a good atmosphere. The exterior design consists of painting the building, advertising board, four big stoves, tree and plants and etc.

(g) Utilities

Utilities that are most important for the restaurant are the electricity and water. Before starting anything, the entrepreneur needs electricity and water to use in a decoration of the restaurant so the entrepreneur must contact the building owner to ask them about the

utilities that they must provide. And other utilities are parking lot, security, restaurant cleaner, and etc. These utilities are provided for the customers who should consume our products and services in the restaurant.

However, the initial cost of the restaurant depends on the size and location of the restaurant. The initial cost may be larger or smaller than the restaurant that the author studied. It depends on a new entrepreneur whether he has his own thing that is necessary to invest to the business. For example, some investors have their own building, then they are not to pay the rent, or other investors may have their own car, they should not invest on their car.

(2) Income Statement

Income statement is a financial statement that shows the profit or loss from the restaurant's operations over a period of time. The examples of income statement of the North Eastern Thai Cuisine Restaurant are shown as in Figure 3.1 and Figure 3.2.

Income Statement	January	October	September	August	June	P.	4,	December	November	01 H	(Profit after tax
N	88,812	[illegible]	63,582	[illegible]	[illegible]	86,542	82,182	116,324	[illegible]	[illegible]	[illegible]

The Monthly Income Statement of North Eastern Thai Cuisine Restaurant.

The North Eastern Thai Cuisine Restaurant

Income Statement

For the Year Ending December 31, 2000.

		Baht
Sales		5,896,450
Cost of goods sold		(2,948,204)
Gross profit		2,948,246
Operating expenses:		
Marketing expense	25,000	
Rent expense	360,000	
Salary expense	1,185,400	
Utilities expense	258,000	
Depreciation	84,000	
Miscellaneous	120,000	
Total operating expenses		(2,032,400)
Profit before tax		915,846
Income tax		(120,000)
Profit after tax		795,846

Figure 3.2. The Income Statement of North Eastern Thai Cuisine Restaurant.

Figure 3.2. shows the income statement of the year ending December 31, 2000. The total sale of the year is 5,896,450 Baths it means that a total sale per day is around 16,000 Baths. And gross profit is around 50 percent of the total sales. After deduction of the expenses and tax, the entrepreneur should get the profit around 60,000 Baths/ month. This amount is quite good for doing a business at this time (economic crisis).

3.2 Analysis of the Marketing Plan

To be successful in small business is not limitted to only innovative and spectacular products. There are many times that success comes from the recognizing a need and providing ordinary product to customers through appropriate marketing plan and marketing strategies such as Seven-Eleven, Mc Donald's, and etc.

Marketing plan is an important factor in running a new business because there are many competitors in the market. In addition, each business has different strategies, therefore each marketing plan will be unique. When there is a product on hand, we have to think of how to launch it to the market and how to attract the customers to buy it. These are major problems for a new entrepreneur. Marketing plan views only a performance of the business and a thing that does a business is a marketing strategy.

There are four areas of marketing strategy that should be addressed within the marketing plan. There are product, price, place, and promotion. The marketing strategy of this restaurant is described as follows:

(1) Product Strategy

Products are Esan cuisine or northeastern Thai cuisine that are spicy foods with a strong taste. Spicy food is unique for Thai food and popular in Thailand. Menus of the restaurant are mostly like an Esan style cuisine that is spicy and herbal. The menus consist of a main dish and a normal dish. A main dish is a grilled chicken cooked with pepper, ginger, garlic, sauce, salt, and etc. This seasoning is useful for customer's health and especially for people who like to take care of their health, so it is a good point to attract the customer to have their lunch and/ or dinner. The other dishes consist of Som Turn (Papaya salad), Tom Yom Kai (chicken Tom Yom), and deep-

fried pork chops, Lab Kai (Lab chicken), grilled pork, sticky rice, and etc. These dishes mostly consist of Thai herbs and are spicy.

Products are not only a product but also a service too. The entrepreneur emphasizes on customer because customer is the most important thing in any kind of business; if there is no customer buying a product or service, the business exactly cannot exist, even though, he/she is a great businessman and get a large salary or he/she is an employee and get a low salary. Anyone has their right to have their food if they have their money, so the entrepreneur is pleased to welcome all of them in the restaurant. The restaurant has six waitresses and three waiters to serve and take care of the customers in the restaurant. This amount is enough for serving the customers of 14 tables. All of them should be well trained before doing their duties. So they have abilities to serve and take care of their customers.

Additionally, grilled chicken is the popular dish that the customers ordered and the following is example of SWOT analysis of the product of the restaurant. The SWOT analysis will tell us why the feasibility of setting up a northeastern Thai Cuisine restaurant franchise is one of the interesting choices. The SWOT of analysis of grilled chicken is as follows:

(a) Strengths

The strength of the home grown chicken is with lower cholesterol and fat than the ordinary chicken. Herbal seasonings are good for the consumer's health. The example of the seasoning is ginger, pepper, garlic and etc. As we know consumers are more

concerned with their health than before. Then this will be the good point for our products.

(b) Weakness

High price is one of the major constraints for our restaurant. The cost of home-raised chicken is higher when compared with the ordinary chicken. Most competitors set the selling price per 1 chicken (0.9 kilograms) approximately at 69 — 109 bahts. The cost depends on the ability to contract supplier.

The factors which make the meat have high price are limitted supplier and demand level are also greater than the supply. The reason of limited supplier is feeding chickens is time consuming.

(c) Opportunities

The opportunity of the restaurant is that no one considers setting the franchise of Esan restaurant. The menus are north eastern food that the seasoning consists of herbs that are useful and good for health.

(d) Threats

The consumer perceptions are the one that effects our restaurant. Although the majority of consumers have a good attitude toward the grilled chicken and they perceived that grilled chicken is better for consumption than the ordinary chickens, the ownership still worry about them because the consumer's perception cannot be controlled.

(2) Price Strategy

Price setting is a factor that invites people to get in the restaurant and whether they will come back again or not. People usually think that a restaurant with air-conditions mostly set up a high price. This is not true

because the restaurant that the author studies set the price a little bit higher than the other restaurants. The entrepreneur sets a price from average price of the other restaurants around there. Price that people around Muang Thong Thani Village can accept to buy their food. Higher and lower price has effected the demand of consummation. When a price is high, the customer should come and get a service at once because people in the village mostly are group B. When a price is low, the entrepreneur should suffer from cost that the profit cannot cover.

The entrepreneur sets the price by using markup strategy. The setting price for each product is different from the other product. Therefore, the entrepreneur approximately marks the price up from 20% up to 70% from the cost of the product. For example, a price of ice is 10 Baht, the entrepreneur gets the 7 Baht profit, and a price of grilled chicken is 100 Baht, the entrepreneur gets the 20 Baht profit.

(3) Place Strategy

The restaurant is located in Muang Thong Thani Village that is a big village. There are a large amount of people, office, a sport center, shopping center, and etc. Therefore, it should be a good location to open a cafeteria or restaurant to provide food for these people.

The business that the author studied is a restaurant that serves people around Maung Thong Thani village and others from somewhere else, such as Bangna, Siam, Pathumthani, and etc. There are two types of customers who come to the restaurant:

(1) In House Customers

These customers usually come and have their food in the restaurant for lunch and dinner They spend their time getting a food and service prepared for them. The customers who come to have lunch are mostly officers who work in and around Muang Thong Thani Village and some are residents of the village. Officers do not have much time to eat so the entrepreneur is necessary to prepare everything to serve them as fast as possible. And resident is a good customer, they spend their time having their lunch or/ and dinner in the restaurant. They usually are not in a hurry to do so.

(2) Take Home Customers

These customers usually don't have much time to have their food in the restaurant so they prefer to order and bring it home. An another one is a person, who passes the restaurant and sees the grilled chicken on a stove, then, they feel hungry and order it back home.

(4) Promotion Strategy

The entrepreneur separates the promotion strategy into 2 parts. The first part is before starting and opening the restaurant and the second part is the existing restaurant. Promotion before starting the restaurant is to let the consumer know the product that the entrepreneur will present by using leaflets and a banner. A banner should be hanged in front of the restaurant to show consumer the place to be opened and show them when the grand opening day is. The entrepreneur should send leaflets to new customers 1 week before the grand opening and 2 weeks after the grand opening. The entrepreneur did these things because the entrepreneur wanted the customer

to know where the restaurant is and want them to visit and test our food. The promotion on the existing business is the entrepreneur should set the date of promotion and let the customers know. The date of promotion will occur on the important day such as New Year's Day, 1st year anniversary of the restaurant and every year anniversary. The entrepreneur will give the customer free soft drink, sticky rice, including a grilled chicken when they order a grilled chicken and other menus. And the other promotion is the entrepreneur will give a percentage discount to the regular customers and new customers who have the leaflet of the restaurant with a percentage discount at the corner.

IV. BUSINESS PLAN

The business plan is such a personal document that actual hard advice on its proper preparation is like giving any extremely personal counsel. Usually this type of guidance is not specific enough to be of applied value. Yet there are some common, helpful ideas that can and should be embodied in a business plan.

A success in small business is not limited to only innovative and spectacular products. There are many times that the success comes from recognizing a need and providing ordinary product to customers through appropriate marketing strategies such as Seven-Eleven, Mc Donald, and etc.

Therefore, the feasibility of setting up a northeastern Thai Cuisine restaurant franchise is one of the interesting choices. Esan cuisine is the native and famous food of Thailand. No one takes seriously the consideration about the setting up of a northeastern Thai Cuisine restaurant franchise.

The following facts give some indication of why the development of the business plan should be integrated with the needs of the financial markets.

4.1 Products and Services

A business that the author studies is the northeastern Thai restaurant which is a small business. The major product is northeastern Thai cuisine or Esan food. Esan food is now accepted around Thailand, especially in Bangkok, and then this is an opportunity to expand this business by using the limited investment and participant from outside. Esan food is spicy and the seasoning consisted of herb found in Thailand and most of them are healthy for the people. It can protect people from a disease and some doctors use them to cure their patients. This is an easy way to protect them from the disease; the people just only have the good food that consists of an herb. All raw materials are easy

to find from the fresh market and the restaurant has no need to stock the raw material, it means that the raw material is always fresh. This is a good point to make sure that the customer will get the best thing from the restaurant. And all materials are produced in Thailand so it is not necessary to import the materials from foreign country as other restaurants do.

Product is an important thing to impress the customer when they first consume it, but it is for the tangible product, not for the intangible product. In the restaurant, both tangible and intangible products are important because the customer does not get only the product, but they also get the service too. A good service can impress the customer at the first sight and they will come again and again. A service that the restaurant gives to the customer is gentle serve from the waitress and waiter who get on the job training from the franchise owner, clean restaurant, clean floor, clean kitchen and clean kitchenware. These are the things that the customer expects from the restaurant

4.2 Marketing

All customers are not rich. The customers come from all classes, such as doctors, dentists, students, labors, officers, government officials, educators, and foreigners. Esan food is not the food for only the northeastern people, but it can be served for everybody who loves to have Esan food or who loves spicy food.

The market can be divided into 2 categories. The first is the existing customer while the second is the potential customer.

(a) Existing Customer

The number of customer is inferred from the number of people who have the residence around there, it means that where the restaurant will be located should be near the residential area. Such as the restaurant that the author studied is located in the village where there are many people stay in

that area. Nowadays, the lifestyles of people have been changed because men and women have to work outside. Then they usually have not much time to cook by themselves. Therefore, they like to have their lunch or dinner outside their home place.

In addition to the existing customer, the customer is not only for each social class, but also every class too. The major customer is anyone who appreciates Esan food and spicy food cooked from herbs.

(b) Potential Customer

It is difficult to develop any accurate estimate of the number of potential market. The potential customer is defined that the people who may be an existing customer in the future. The potential customer for the restaurant is a person who never has their food in the restaurant. They may stay away from the location of the restaurant or near the restaurant but never know what the restaurant sells and never try it.

The restaurant's marketing activity will start immediately after start of operations and will concentrate on the existing market that close to the restaurant. During this period, the restaurant plans to pursue the possibility of reaching an agreement with the suppliers who can supply the material for the restaurant and give a credit for the material.

Public announcement of the restaurant will take place one month before the start of operations and will be heavily publicized in leaflet, signing, personnel selling, and banner. The first thing before starting an operation is to set the signing to show the customer a new restaurant will open soon, this should occur one month before opening.

Secondly, a sales representative should be sent to distribute leaflets to the target customer; this section will take place one week before opening and two weeks after

opening. And banner will hang on a place easy to be seen from the target market. It may be placed on an electric pole, tree, and in front of the restaurant.

4.3 Competition

The restaurant should be located in the residential area, then that area would have many restaurants, including large restaurants, middle sized and small sized restaurants. Every size of the restaurants is the competitor and most of them are not direct competitors. The author considers the kind of food used to categorize the competitors.

The competitors that the author studied can be divided into two groups; the first group is a direct competitor and the second is an indirect competitor. A direct competitor group is the restaurant that sells the same kind of food as the restaurant does, while an indirect competitor group is the restaurant that sells a different kind of food as the restaurant does such as noodle, Chinese food, Italian food, Seafood, etc.

The advantage of studying the restaurants is a kind of food that is different from the competitor and the owner has already improved a quality of food to meet the customer's demand. The different kind of food will be another choice for the consumer to select another food that they never have. And price should not be too high, an average of price is equal to the other restaurant.

Otherwise, the disadvantage of the studying restaurant is that the restaurant will be a new place for the customer at that area and they do not know well about the restaurant. The marketing strategy will solve this problem.

4.4 Operational Plan

The operational plan is prepared for the franchise to be operated in the near future. The operation should be set up before an opening of the restaurant. The operational plan is important to the franchise owner because the franchise owner should find trainers to train both new franchisee and his staffs and even take care of them in whole business live. The operational plan for the restaurant is listed as follows:

(a) Training

A franchise owner will prepare a training program for the franchisee and their staffs before the opening and during the first period of time. A franchise owner will concentrate on an account management and personnel management to the franchisee, and training the manner to the staffs.

(b) Recruiting

The franchisee must recruit people who are qualified by using a job description and a job specification of an applicant that the franchise owner signs it up in order to avoid a problem that will occur between the staffs even though the franchisee.

(c) Organizing

The organization must be clearly organized to prevent a mistake from the human resources and their job description. To organize must put the right man on the right job and delegate an authorization for each person.

(d) Controlling

The franchise owner takes the consideration on both human resources and products. Firstly, to control the human resources, the franchisee must control his/ her human resources as a policy of the organization that is who breaks the rules would be punished or may be fired and products must be

controlled by the franchisee and the franchise owner will set the standard for comparing with an output.

(e) Evaluating

Evaluating will take place on every part of the operational plan. This part would investigate the standard of an organization; each department will have their own standard, they must perform jobs and investigate the performance with the standard. It should be equal to the standard or above.

4.5 Financial Plans

Initial financial support will be required for the operation and development, which will take 12 months from operation start. Budgetary and control systems will be incorporated to insure sound financial operation. Expenditures will be carefully monitored and related to the financial plans

Initial financial is the most important factor to operate a new business. The investors spend their money much or less depending on the business that they choose. They would invest a high investment on a new business that they manage by themselves and they would take high risk to operate the business. The other way to invest is franchise that invests on low investment and low risk.

From the existing business, it shows the return on investment is better than the other businesses do. The investor can study and consider the opportunity of the franchise. An initial financial requirement is not too high to invest in the business. The amount of investment consists of deposit, rental, kitchenware and other things about the opening restaurant.

The franchise owner forecasts an average of the total sale per day is Bht 10,000 in first year, 12,000 Bahts, 15,000 Bahts, 14,000 Bahts, and 14,000 Bahts respectively as shown in Table 4.1.

Table 4.1. Income Statement Forecast (Baht 000).

	1St Year	2nd Year	3rd Year	4th Year	5th Year
Sales	3,600	4,320	5,400	5,040	5,040
Cost of goods sold	(1,800)	(2,160)	(2,700)	(2,520)	(2,520)
Gross Profit	1,800	2,160	2,700	2,520	2,520
Operating expense					
Marketing expense	100	120	150	100	100
Rental expense	144	156	180	180	180
Salary expense	480	600	600	600	600
Utilities	84	100	120	100	100
Depreciation	60	60	60	60	60
Miscellaneous	120	120	180	180	180
Total Operating expense	(988)	(1,156)	(1,290)	(1,220)	(1,220)
Profit before tax	812	1,004	1,410	1,300	1,300
Income tax	(60)	(60)	(60)	(60)	(60)
Profit after tax	752	944	1,350	1,240	1,240

Table 4.1 shows the income statement forecast for 5 years plan. The estimate sale is equal to 3,600,000 Bahts in the first years. The data came from the minimum sales that the existing restaurant can sell. The forecasting also shows that the return on investment can cover at the end of the first year.

Figure in the table is forecasted from the existing restaurant and the past experience of other restaurants. The average sale per day of the existing restaurant is around 16,000 Baht and the other one is around 12,000 Baht. The average of both

restaurants are 14,000 Baht, so the forecast sale is at least 10,000 Baht / day. And the profit from the total sale is around 50 percent of total sale. The franchise owner fixes marketing expense at 100,000 Baht /year. The rent is around 12,000 Baht / month. The salary expense is around 40,000 Baht / month; there are 9 employees in the restaurant and 1 manager, 3 cooks, and 5 waitresses. The amount of the salary is not quite high because we employ northeastern people. The other expense is forecasted from the existing business, it may be more or less than the forecast depending on the usage of each restaurant.

However, the actual movement of cash within a business is cash flow (cash inflow minus cash outflow). Cash flow is a term used to designate the reported net income of company operation of a organization plus amounts charged off for depreciation, depletion, amortization, and extraordinary charges to reserves, which are booking deductions and not actually paid out in cash. They used to offer a better indication of the ability of the business.

4.6 Franchise Contract

The legal agreement is known as franchise contract. The franchise contracts contain the basic feature of the relationship between the franchiser and franchisee and the potential value of franchising arrangement, determined by the rights.

The franchise agreements are as follows:

(a) Cost of Franchise

The franchise owner has tried to make the terms of the franchise agreement very tight in areas necessary for the franchise owner to control the quality of products and services and pricing of the products. However, the franchise owner is offering the potential franchise buyer terms so that the potential liability can be calculated at any time. At the time the franchise

agreement is signed, the franchise owner will be required a deposit of 50,000 Baht.

(b) Managerial Assistance Available

The franchise owner will provide continued support services to the franchisee, including management counsel, equipment provided, and training of new employees. Assistance and counseling is available to all franchisee by telephone line.

(c) Training programs

The franchise owner will provide intensive training programs about 3 weeks and the training center is franchiser place that is a real place to study in the real experience. During 3 weeks, the training is on-the-job training at franchise owner's place. The training program covers knowledge upon accounting, equipment operation, product knowledge, knowledge of cooking, services and ongoing field support.

The training will be beneficial to the franchisee in reducing the mistake. Then the franchisee will know the weakness and skill of each staff so it is not difficult to assign the right person to the right job before starting the real restaurant.

The actual franchise agreement will have to be written by our attorneys, but it will include the following provisions, subject to revision as we gain experience in this area. The following lists are the basic franchise agreement of the restaurant.

(1) The franchise agreement will be for an indefinite period but will be subject to termination by either the franchise owner or the restaurant on each yearly anniversary of the agreement signing

(2) The restaurant will be responsible for getting the individual restaurant ready to start operation. We will also provide advice, forms, and systems to assure efficient and profitable operation of the restaurant.

(3) The individual restaurant should provide the inventory and should replenish the stock every week in order to keep the food fresh.

(4) The franchise owner will supply a main product and packaging such as chicken, plastic bag, foam box, and etc.

(5) The franchise owner will agree to keep a full stock. All products are to be sold at prices set by the franchise owner unless otherwise agreed. The individual restaurant will also agree to participate in sales promotion and other programs initiated by the franchise owner.

(6) Any change in ownership must be agreed to by the franchise owner.

(7) The franchise will not participate in any earnings nor will it hold any equity interest in the earned surplus in any individual restaurant in case of dissolution.

(8) The individual restaurant will not stock any new items or offer any new service without the explicit approval of the franchise owner.

(9) At any time that a franchise agreement is terminated, the franchise owner will have the right to require everything that belongs to the franchise owner be returned.

4.7 Advantage and Disadvantage of the Franchise System for Business

Eventhough franchising is an attractive choice for expanding the business and it requires lower investment rather than expand our own branches, to set the franchise system for the restaurant has both advantage and disadvantage. Then the investor should

carefully study and consider before launching the project. The following is some advantage and disadvantage of setting the franchise.

(1) The Advantage of Restaurant Franchise

(a) Low Investment

(b) Easier Operation

(c) The Reputation of The Restaurant

(2) The Disadvantage of Restaurant Franchise

(a) Controlling over the Franchisee

(b) The Reputation of Franchiser

V. CONCLUSIONS AND RECOMMENDATIONS

Nowadays, there are many competitors in the business world. Then every business has to find the way to survive and the restaurant is also one of the businesses need to maintain the existing market and to expand the business. Franchising is an interesting choice for expanding the business because it requires low investment rather than establishing a new restaurant by themselves.

This project concentrates on investigating the opportunities of setting up a northeastern Thai Cuisine restaurant franchises and learning how to apply the franchise system for northeastern Thai Cuisine restaurant. The success of small business is not limited to only innovative and spectacular products. There are many times that success comes from the recognizing a need and providing ordinary product to customers through appropriate marketing strategies. Therefore, this project aimed at analyzing the existing business and evaluating the business plan in order to find the opportunities of a decision making for distributing a franchise system.

In this chapter, the author divides into 2 parts. The first part is the conclusion of the result that is obtained by evaluating the existing business and business plan. And the second part is the recommendation and the way to develop the project in the future.

5.1 Conclusions

This project concerns on the restaurant as a small business. The author studies the opportunities of a franchise system for northeastern Thai cuisine restaurant or Esan restaurant from the existing business established for more than 2 years. The author has studied the restaurant business and learns how to work in the northeastern Thai cuisine restaurant since 1999. The author found that there is not any restaurant owner who thinks of making a franchise system for his or her own business. Then this is a chance

for the author to innovate a franchise system for an investor who has not much fund and wants to have his or her own business. The author spends a long period of time studying the franchise system from the library and any franchise business in Thailand. Therefore, the author applies each system to make a new franchise system which closely matches the need of the franchise buyer.

The existing business indicated that it is not too difficult to operate the northeastern Thai cuisine restaurant and very low fund is needed. And the important things to do this business is the marketing strategies and the financial analysis that the franchise owner already manages and sets it up for the restaurant. So this business is quite good for a person who wants to invest in the restaurant business and who likes to serve other person, including a person who wants to have his or her own business because this business needs low investment and yields high return on investment in a short period of time. Unlikely the franchise that is owned by the international company has a high investment and high return, but high risk also. Many companies have been closed in a short period of time because of the marketing team, financial support, and the taste of food that is different from Thai taste. Northeastern Thai cuisine restaurant is a choice for the investor to study and consider. Northeastern Thai cuisine or Esan food is accepted in Thailand. Esan food is not accepted only in the northeastern part of Thailand, but also other parts of Thailand.

From the business plan, the author studies the opportunities of the franchise by using the forecasting of total sale and other expands that includes fix cost and variable cost. The number of the income statement forecast that the author studies is predicted from the number of the income statement of the existing restaurant and another branch that had been closed for 8 months (because of building owner), this branch had opened for more than one year and profit was quite good. Therefore, the number in the table of

the income statement forecast is reliable and close to the real one. The total sales per day is Bht 10,000; it means that an annual sale is Bht 3,600,000. After deducting the cost of goods sole and other expanses, the profit is Bht 752,000 for 1st year, and Baht 944,000, 1,350,000, 1,240,000, 1,240,000 for 2nd year-5th year on sequentially. The amount of the profit is high and it will attract investors.

As a result, it is possible to apply a franchise system to the northeastern Thai cuisine restaurant because northeastern Thai cuisine is called Thai national food and the restaurant that the author studies, an annual total sale is quite high and the profit is high too. This reason will attract the investor to invest in this business. But a franchise system would like to have a participant who respects and believes in the franchise system that belongs to and is managed by Thai people.

5.2 Recommendations

Northeastern Thai cuisine is not new for Thai people, but northeastern Thai cuisine restaurant is new for Thai people. It is difficult to take a simple food from the sideway and/ or in front of the gas station into the restaurant. This becomes a good point for the northeastern Thai cuisine restaurant. People rarely know that a simple food can make money for them or they are not interested in this. Therefore, someone who wants to invest in northeastern Thai cuisine restaurant can study and learn the opportunity to be a franchise buyer from this project. The franchise owner welcomes everyone who is interested in the franchise to the restaurant and can learn and keep information from a manager.

On investment, franchise buyer will invest more or fewer funds, it depends on the factors that effect the operation of the restaurant. The factor that is more effective to the operation is their own capital and asset, it includes money, car, land, building, equipment, and etc. If the franchise buyer has their own asset, it will be beneficial for

them in the investment. The franchise buyer has no need to buy an asset used in the restaurant. Then the franchise buyer can reduce the expense from the income statement; it means that the franchise buyer should get more profit and faster return on investment. On the other side, the franchise buyer who has only money will spend more investment, because the franchise buyer has to buy new equipment, new car, and anything that has to be used in the restaurant. Then the franchise buyer would increase the expense from the income statement; it means that the franchise buyer should get lower profit and should get the return on investment longer. Franchise buyer spends unequal amount of the investment; it depends on the asset and liabilities that they have. If the investor has much capital, he will invest in a low investment than anyone who does not have. From the income statement, it shows that if the investor reduces their expend, he will get more profit.

From the study, the other factor that is more important to the restaurant is consumer behavior. The author would like to study the behavior of the customer of the restaurant because it is the main factor for the owner to find the solution to solve the problem of the customer. The strategy that the author used in studying the consumer behavior is an observation and interview in the restaurant and in front of the restaurant. The observation normally has been used in the restaurant; the staffs should observe customers. Everyone responsible would observe them. And they will discuss about their behavior and try to solve their problems and improve their products and services, immediately. And the interview strategy has been used with customer who knows well and has relationship with the author. The information received is not reliable as received from other customer. So the author would like to keep information from customer by using the observation strategy and interview strategy, and add the research

methodology to correct the data and analyze it in order to have an evidence data to show to the franchise buyer.

5.3 Further Study

The scope of this study is limited only on investigation of the franchise opportunities for North-Eastern Thai Cuisine. Therefore, the next study should be expanded to the other types of restaurant.

Additionally, because of the time limited, the author does only focus on studying the secondary data. Then the further study should consider into collecting the primary data such as personal interview with the franchise business owner, interviewing the potential customer, and etc.

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