

**Chapter 4**  
**MULTIPLE CHOICE**

1. Which characteristic is *not* considered a positive of franchising?
- higher success rates than for alternative methods.
  - entrepreneurial independence.
  - financial and training assistance.
  - operating benefits.

ANS: PTS: 1 REF: p. 109-110 OBJ: 4-2 TYPE: C  
NAT: Analytic | Value Creation

2. A disadvantage of franchising is
- reduced risk of failure.
  - access to a proven system.
  - restricted sales territories.
  - immediate economies of scale.

ANS: PTS: 1 REF: p. 109 OBJ: 4-2 TYPE: C  
NAT: Analytic | Value Creation

3. An entrepreneur would choose a franchise over an independent startup most likely because of the
- freedom in decision making.
  - guidance provided for organizational structure.
  - probability of success.
  - opportunities to meet and share ideas with other executives.

ANS: PTS: 1 REF: p. 109 OBJ: 4-2 TYPE: C  
NAT: Analytic | Value Creation

4. The cost of a franchise may include
- royalty payments.
  - higher operational costs.
  - a one-time federal franchise tax.
  - higher labor costs.

ANS: PTS: 1 REF: p. 114 OBJ: 4-2 TYPE: C  
NAT: Analytic | Finance

5. Investment costs related to franchising include all of the following *except*
- insurance premiums and legal fees.
  - inventory and supply costs.
  - building and equipment costs.
  - royalty payments.

ANS: PTS: 1 REF: p. 114 OBJ: 4-2 TYPE: C  
NAT: Analytic | Finance

6. Having worked professionally for 10 years, Tom and Kate have decided to start a new franchise. Considering their background, a disadvantage for them becoming franchisees is
- the restrictions on business operations.
  - unlimited company growth.
  - the expectation to work more than a 40 hour work week.
  - an increase in entrepreneurial independence.

ANS: PTS: 1 REF: p. 113 OBJ: 4-2 TYPE: A

NAT: Reflective Thinking | Value Creation

7. Consider this quote: "If you can't follow somebody else, don't buy a franchise." Which characteristic of a franchise does this quote describe?
- High success rate
  - Restrictions on growth
  - Loss of entrepreneurial independence
  - Location problems

ANS: PTS: 1 REF: p. 113 OBJ: 4-2 TYPE: C  
NAT: Analytic | Value Creation

8. Which company is credited with being the first franchisor in the United States?
- Ben Franklin Printing*
  - Roman Catholic Church*
  - Singer Sewing Machine*
  - a South Carolina printer

ANS: PTS: 1 REF: p. 105 OBJ: 4-1 TYPE: C  
NAT: Analytic | Value Creation

9. An entity or individual granted the right to conduct business according to specified methods and terms of another party is known as a
- franchisor.
  - franchisee.
  - franchise.
  - licensee.

ANS: PTS: 1 REF: p. 107 OBJ: 4-1 TYPE: D  
NAT: Analytic | Ethical and Legal

10. A legal agreement between two parties in a franchise arrangement is referred to as a
- master license.
  - franchise contract.
  - requirements contract.
  - franchise consent draft.

ANS: PTS: 1 REF: p. 107 OBJ: 4-1 TYPE: D  
NAT: Analytic | Ethical and Legal

11. An entity or individual that grants another party the right to conduct business according to specified methods and terms is known as a
- franchisor.
  - franchisee.
  - franchise.
  - licenser.

ANS: PTS: 1 REF: p. 107 OBJ: 4-1 TYPE: D  
NAT: Analytic | Ethical and Legal

12. The franchising strategy whereby an individual or firm is granted the legal right to own more than one unit of a franchised business is known as
- development franchising.
  - multiple-unit ownership.
  - piggyback franchising.

d. aggregate ownership.

ANS: PTS: 1 REF: p. 107 OBJ: 4-1 TYPE: D  
NAT: Analytic | Ethical and Legal

13. Individuals or firms that possess the legal right to open multiple outlets in a given area are referred to as
- development franchisees.
  - area developers.
  - piggyback franchisees.
  - multiple-unit owners.

ANS: PTS: 1 REF: p. 107 OBJ: 4-1 TYPE: D  
NAT: Analytic | Ethical and Legal

14. The rights conveyed by a franchising agreement are referred to as
- franchising rights.
  - franchise claims.
  - franchise interests.
  - the franchise.

ANS: PTS: 1 REF: p. 107 OBJ: 4-1 TYPE: D  
NAT: Analytic | Ethical and Legal

15. Products and trade name franchising is best illustrated by the system offered by
- Exxon Mobil.*
  - Mail Boxed Etc.*
  - Burger King.*
  - Holiday Inn.*

ANS: PTS: 1 REF: p. 107 OBJ: 4-1 TYPE: A  
NAT: Reflective Thinking | Value Creation

16. Business format franchising is best illustrated by the system offered by
- Goodyear Tires.*
  - Coca-Cola.*
  - Subway.*
  - Dr. Pepper.*

ANS: PTS: 1 REF: p. 107 OBJ: 4-1 TYPE: A  
NAT: Reflective Thinking | Value Creation

17. A \_\_\_\_\_ is an independent firm or individual acting as a sales agent with the responsibility for finding new franchisees within a specified territory.
- multiple-unit franchisor
  - area developer
  - franchisor representative
  - master licensee

ANS: PTS: 1 REF: p. 107 OBJ: 4-1 TYPE: D  
NAT: Analytic | Ethical and Legal

18. A *Starbucks* franchise located inside a Target store is called \_\_\_\_\_ franchising.
- folded
  - internalized
  - cooperative

d. piggyback

ANS: PTS: 1 REF: p. 107 OBJ: 4-1 TYPE: A  
NAT: Reflective Thinking | Value Creation

19. Which source of information is *not* recommended to help a potential franchisee investigate a franchising opportunity?
- The franchisors themselves
  - The franchisor suppliers
  - Existing and previous franchisees
  - Independent, third-party sources

ANS: PTS: 1 REF: p. 117 OBJ: 4-3 TYPE: C  
NAT: Analytic | Value Creation

20. Which source of franchise information is produced by a federal agency?
- Buying a Franchise: A Consumer Guide*
  - Website of *Entrepreneur* magazine
  - Francorp*
  - Franchise list for the *International Franchise Association*

ANS: A PTS: 1 REF: p. 116 OBJ: 4-3 TYPE: A  
NAT: Reflective Thinking | Economic Environments

21. A primary source of information for a potential franchisee should be
- the franchisor.
  - the franchise suppliers.
  - other parties considering the same franchisor.
  - other franchisors.

ANS: PTS: 1 REF: p. 116 OBJ: 4-3 TYPE: C  
NAT: Analytic | Dynamics

22. Which source would provide the most pertinent information about potential franchisors?
- Any state funded university
  - Friends and neighbors
  - Advertisements in *Inc.* magazine
  - Internet search

ANS: PTS: 1 REF: p. 115 OBJ: 4-3 TYPE: C  
NAT: Analytic | Value Creation

23. Sarah is considering investing in a nationally known franchise. While the franchise involves an industry she has had an interest in for several years, she has no formal business experience. Which source of information should cause her the least concern?

- The franchisor
- The franchise suppliers
- Other independent business people she knows
- Information posted on a website

ANS: PTS: 1 REF: p. 115-116 OBJ: 4-3 TYPE: A  
NAT: Reflective Thinking | Value Creation

24. What information is typically *not* found in a disclosure document?
- The franchisor's involvement in litigation
  - Key features of the franchisor's experience

- c. Details of the franchisor's proprietary technology
- d. The franchisor's size

ANS: PTS: 1 REF: p. 118 OBJ: 4-3 TYPE: D  
NAT: Analytic | Ethical and Legal

25. Franchise costs include all of the following expenses *except*
- a. advertising costs.
  - b. investment costs.
  - c. royalty payments.
  - d. churning costs.

ANS: PTS: 1 REF: p. 114 OBJ: 4-2 TYPE: C  
NAT: Analytic | Finance

26. All of the following restrictions are considered management disadvantages of franchising *except*
- a. requiring adherence to the operations manual.
  - b. requiring site approval and outlet appearance.
  - c. restricting goods and services offered for sale.
  - d. restricting advertising and hours of operation.

ANS: PTS: 1 REF: p. 112 OBJ: 4-2 TYPE: C  
NAT: Analytic | Ethical and Legal

27. What question is the least important when developing a franchise from an independent business?
- a. Who will develop the operations manual?
  - b. Is the business replicable?
  - c. How will growth be financed?
  - d. What expert assistance will be needed for legal matters?

ANS: PTS: 1 REF: p. 120 OBJ: 4-3 TYPE: C  
NAT: Analytic | Value Creation

28. Benefits of becoming a franchisee include all of the following items *except*
- a. reduced risk of failure.
  - b. detailed operating manual.
  - c. management training.
  - d. reduction in control.

ANS: PTS: 1 REF: p. 109 OBJ: 4-2 TYPE: C  
NAT: Analytic | Value Creation

29. In what way is a franchisee's control over the business greatly reduced?
- a. Most franchisors are located near the franchisee.
  - b. The franchisees are technically employees of the franchisor.
  - c. The franchisee is bound by the terms the franchise contract.
  - d. The franchisee is completely dependent on the franchisor for funding.

ANS: PTS: 1 REF: p. 113 OBJ: 4-2 TYPE: C  
NAT: Analytic | Ethical and Legal

30. The disclosure statement provided to a prospective franchisee must contain all of the following information *except*
- a. franchisor's finances.
  - b. experience in the market.
  - c. involvement in litigation.

d. strategic plans for future expansion.

ANS: PTS: 1 REF: p. 122 OBJ: 4-3 TYPE: C  
NAT: Analytic | Ethical and Legal

31. Which of the following reasons for buying a business is also a reason for purchasing a franchise?
- Reduction of uncertainty
  - Acquiring goodwill
  - Bargain price
  - Quick start

ANS: PTS: 1 REF: p. 123 OBJ: 4-4 TYPE: C  
NAT: Analytic | Ethical and Legal

32. The *Franchise Registry* maintained by the *U.S. Small Business Administration*
- lists warnings about certain franchise systems.
  - verifies a franchise system's lending eligibility.
  - rates franchise systems according to a four star rating.
  - registers all franchise systems operating in the U.S.

ANS: PTS: 1 REF: p. 111 OBJ: 4-2 TYPE: D  
NAT: Analytic | Ethical and Legal

33. A FDD disclosure includes all of the following information *except*
- litigation and bankruptcy history.
  - investment requirements.
  - conditions that would affect renewal, termination, or sale of the franchise.
  - franchise qualifications requirements.

ANS: PTS: 1 REF: p. 118 OBJ: 4-2 TYPE: D  
NAT: Analytic | Ethical and Legal

34. Which descriptor is *not* a part of the definition of franchising?
- Two party legal agreement
  - One party obtains the right to sell a specific product or service
  - Two parties are brought together by a facilitator
  - One party allows another to do business as it specifies to gain certain benefits

ANS: PTS: 1 REF: p. 106 OBJ: 4-1 TYPE: D  
NAT: Analytic | Ethical and Legal

35. In addition to consulting an attorney, the text also suggests the use of all of these professionals in evaluating a franchise *except*
- an accountant
  - as many sources of help as would be practical
  - a banker
  - an experienced administrator

ANS: PTS: 1 REF: p. 121 OBJ: 4-3 TYPE: C  
NAT: Analytic | Ethical and Legal

36. One of the most important features of the franchise contract is the provision related to
- the sale or transfer of the franchise to a government entity.
  - changes in management.
  - termination and transfer of the franchise.
  - termination of contracts with suppliers.

ANS: PTS: 1 REF: p. 122 OBJ: 4-3 TYPE: C  
NAT: Analytic | Ethical and Legal

37. The offer and sale of a franchise are regulated by
- state laws exclusively.
  - federal laws exclusively.
  - both state and federal laws.
  - Federal Trade Commission laws exclusively.

ANS: PTS: 1 REF: p. 122 OBJ: 4-3 TYPE: C  
NAT: Analytic | Ethical and Legal

38. A document called the \_\_\_\_\_ is the accepted format for satisfying franchise disclosure requirements.
- Franchise Disclosure Document
  - Franchise Offering Circular
  - Franchise Circular Agreement
  - Uniform Franchise Circular Agreement

ANS: PTS: 1 REF: p. 122 OBJ: 4-3 TYPE: D  
NAT: Analytic | Ethical and Legal

39. Items covered in the new FDD include all of the following *except*
- litigation.
  - bankruptcy.
  - investment requirements.
  - marketing goals.

ANS: PTS: 1 REF: p. 122 OBJ: 4-3 TYPE: C  
NAT: Analytic | Ethical and Legal

40. Most franchise experts recommend that the FDD be examined carefully by
- regulators that specialize in such documents.
  - a franchise attorney and an accountant.
  - everyone associated with the potential startup.
  - suppliers that may be used if the startup is successful.

ANS: PTS: 1 REF: p. 122 OBJ: 4-3 TYPE: C  
NAT: Analytic | Ethical and Legal

41. Susan is considering buying the local franchisee of *Pots-R-Us*. The owners would probably state this reason for selling when in actuality the other three reasons may be more likely.
- desire to locate to a different part of the country
  - unprofitable
  - loss of an exclusive sales franchise
  - lack of growth potential

ANS: PTS: 1 REF: p. 127 OBJ: 4-4 TYPE: A  
NAT: Reflective Thinking | Dynamics

42. Craig Slavin, as the chairman and founder of *Franchise Architects*, felt that
- a company grows best when it is allowed to form as needed.
  - his training as an architect student helped him get his start in franchising.
  - too many ventures are built from the top down based on the founding entrepreneur.
  - his company's research team showed following the rules was best for performance.

ANS: PTS: 1 REF: p. 119 OBJ: 4-3 TYPE: C  
NAT: Analytic | Value Creation

43. Which consideration does *not* need to be well thought out before deciding to franchise a business?
- Is the business model replicable?
  - What will be included in the operations manual?
  - How will the growth be financed?
  - What proprietary information will be included in the FDD?

ANS: PTS: 1 REF: p. 120 OBJ: 4-3 TYPE: C  
NAT: Analytic | Value Creation

44. The purchase price of a business is determined by negotiation between
- lender and seller.
  - seller and broker.
  - buyer and seller.
  - lender and buyer.

ANS: PTS: 1 REF: p. 129 OBJ: 4-4 TYPE: C  
NAT: Analytic | Finance

45. In evaluating the financial health of an existing business that available for purchase, all of the following historical documents must be examined *except*
- profit and loss statements.
  - seller's personal bank statements.
  - income tax statements.
  - balance sheets.

ANS: PTS: 1 REF: p. 127 OBJ: 4-4 TYPE: C  
NAT: Analytic | Finance

46. Union contracts are among the many \_\_\_\_\_ factors in valuing a business.
- nominative
  - nonessential
  - nonquantitative
  - nonqualitative

ANS: PTS: 1 REF: p. 128 OBJ: 4-4 TYPE: D  
NAT: Analytic | Finance

47. Which factor is a non-quantitative factor of valuing a business?
- Future community development
  - Size of the buildings
  - Number of employees who will stay with the company
  - Employee salaries

ANS: PTS: 1 REF: p. 128 OBJ: 4-4 TYPE: C  
NAT: Analytic | Finance

48. When purchasing a business during closing, which document will *not* be completed?
- Bill of sale
  - Certifications as to taxing and other governmental regulations
  - Agreements pertaining to future payments and related guarantees to seller
  - FDD

ANS: PTS: 1 REF: p. 129 OBJ: 4-4 TYPE: C



NAT: Analytic | Ethical and Legal

49. Which technique is *not* valid for valuing a company?
- Asset-based valuation
  - Cash flow-based valuation
  - Market-comparable valuation
  - Review of recent business sales

ANS:                   PTS: 1                   REF: p. 128                   OBJ: 4-4 TYPE: C  
NAT: Analytic | Finance

50. Who will be the least informed when asking questions about a prospective business during due diligence?
- Bankers
  - Competitors
  - Employees
  - Suppliers

ANS:                   PTS: 1                   REF: p. 125                   OBJ: 4-4 TYPE: C  
NAT: Analytic | Dynamics

51. When evaluating the financial data of a 10 year old business that is being considered for purchase, which issue will be of least concern?
- Understated income in an effort to minimize taxes
  - Unrealistically reduced levels of advertising cost
  - Business expenses related to personal use of vehicles
  - Not having the books for Years 1-5 due to a fire

ANS:                   PTS: 1                   REF: p. 127                   OBJ: 4-4 TYPE: C  
NAT: Analytic | Finance

52. A matchmaker
- is a realtor who deals only with businesses that banks have started foreclosure proceedings.
  - who only represent possible sellers and therefore have no conflict of interests between a possible buyer and seller.
  - is a specialized broker who handles all arrangements for closing a buyout.
  - All of the above statements are true about matchmakers.

ANS:                   PTS: 1                   REF: p. 124                   OBJ: 4-4 TYPE: D  
NAT: Analytic | Dynamics

53. Which practice is a competitive concern for franchisees?
- churning
  - encroachment
  - nondisclosure agreements
  - royalty payments

ANS:                   PTS: 1                   REF: p. 113                   OBJ: 4-2 TYPE: D  
NAT: Analytic | Value Creation