

personalities have led to a solid give-and-take relationship that helps them overcome business problems while maintaining a happy interpersonal relationship.

The division of work is a natural match and successful combination because of the partners' different but complementary interests. Mark is a natural salesman and has most of the face-to-face contact with customers; he also handles personnel matters (hiring and training employees). Connie manages the inventory, buys shipping supplies, keeps the books, and oversees the finances. Both partners share in decisions about advertising and promotions.

### The Dilemma

Things began changing two years ago when Connie became less interested in the business and got more involved in other activities. Whereas Mark's enthusiasm remained high, Connie's time was increasingly consumed by travel, recreation, and community service activities. At first, she reduced her work commitment from four to three days a week. Although not physically present as many hours, she was attentive to e-mails and often worked from home ordering inventory and paying

bills. Then she indicated that she wanted to cut back further, to just two days. At first, the store continued to operate pretty well, but problems began to arise. With Connie spending less time managing the inventory, Mark found that they often had empty spaces on the showroom floor. Furthermore, Connie had less time to focus on their financial situation and suppliers starting complaining about late payments on invoices. While Connie feels that her contributions are still substantial, Mark feels that their 50/50 is no longer fair. Connie, on the other hand, believes that she's keeping up her end of the bargain and doesn't want to make any changes to the partnership agreement.

### QUESTIONS TO ADDRESS

- 3-19. What are the reasons the business has been successful? How did each partner contribute to the success?
- 3-20. Looking ahead, what are the biggest risks to their venture?
- 3-21. Is it fair for Connie to work fewer hours than Mark? What changes could they make to create equity and fairness in their agreement?

## cases

### It All Started with a Late Fee

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At the beginning of this chapter, you read about how the idea for Netflix came about and how the company chose their business model. Using the information presented in this chapter, you should now be able to answer the following questions:

### QUESTIONS FOR DISCUSSION

- 3-22. What are some of the primary reasons Netflix has been successful?
- 3-23. Netflix is a corporation. Why do you think the firm uses this form of ownership?
- 3-24. What threats might derail Netflix's success? What steps might the firm take today to thwart those threats?
- 3-25. Suppose Reed Hastings asked you for advice on how to make Netflix better. What would you tell him?

### Ice Cream Headache

If you have ever visited a Cold Stone Creamery, you are familiar with the seemingly endless list of ice creams and toppings, as well as prepared cakes and other confections. You may not be aware, however, that Cold Stone is a franchise sold by Kahala Brands, whose other franchisee opportunities include Blimpie's sandwich shops and Samurai Sam's Teriyaki Grills.<sup>29</sup> Cold Stone has approximately 1,400 locations in 20 countries. In case you are considering opening your own Cold Stone, you might be interested in the conditions of ownership. Those who wish to purchase a Cold Stone franchise must show that they are financially sound, with at least \$125,000 of cash available and a \$250,000 net worth. The up-front franchise fee is \$27,000 and the franchise is good for a ten-year term. Cold Stone provides plenty of assistance in selecting a location and opening a store, but start-up costs are estimated to be over \$250,000. The company estimates

that the average time to open a location is four to twelve months, which presents a real challenge for a new franchise owner. Once in operation, franchisees will pay a royalty fee of 6 percent of gross sales and an advertising fee of 3 percent of gross sales.<sup>30</sup>

Cold Stone's parent organization provides support in site selection, lease terms, and equipment selection. They provide 11 days of training at the company's headquarters and three additional days of training at the franchisee's location. Once the business is up and running, they provide continued support through newsletters and annual meetings, cooperative advertising arrangements, and a toll-free hotline. In 2015, Entrepreneur.com ranked Cold Stone Creamery #54 in its list of Top 500 franchise opportunities.<sup>31</sup>

Revenues for Cold Stone franchises have declined in recent years. In 2005, the typical location earned approximately \$400,000 in revenues, but this number dipped to \$352,000 in 2011. Tough economic times cut into discretionary spending, hurting the ice cream business. In 2012, a group of Cold Stone Creamery franchise owners threatened to file suit against the company, alleging that the company was not delivering on promised marketing campaigns. In addition, there was an ongoing dispute over revenue and interest from unused gift cards. Tensions between franchisors and franchisees are becoming increasingly common. Eric Stites, managing director of *Franchise Business Review*, reflects, "When franchisees aren't making money, that's when you see them form associations and sue the franchiser." Franchises in the food industry seem to have been hurt especially hard. Although the initial investment is often close to \$450,000, annual profits average only \$88,382. Although a bowl of ice cream will brighten almost anyone's day, a Cold Stone Franchise may not be a sure thing.<sup>32</sup>

### QUESTIONS FOR DISCUSSION

- 3-26. What would be the advantages of buying a Cold Stone Creamery franchise as opposed to starting a business from scratch?

- 3-27. What are the disadvantages of buying a Cold Stone Creamery franchise?
- 3-28. While franchise owners must have at least \$125,000 of cash available, average start-up costs are more than double this amount. What are the most likely sources of funding for a franchise?
- 3-29. How would you research a franchise purchase before making the decision to invest?
- 3-30. Do you think that you would be interested in owning a Cold Stone Creamery franchise? Why or why not?

## MyBizLab

Go to the Assignments section of your MyLab to complete these writing exercises.

- 3-31. Research suggests that certain characteristics are common for most entrepreneurs. Pick three and explain why they are important for an entrepreneurial mind-set. Compare and contrast how some might be more important than others given different situations. Are there situations where these characteristics might hinder successful entrepreneurship? Explain your answers.
- 3-32. What are the three primary forms of business ownership? Provide a description of each as well as the most significant advantages and disadvantages. When is each form most appropriate or desirable?

## end notes

- <sup>1</sup>"Oh, To Be Young, and An Entrepreneur," *USA Today*, February 8, 2013, p. 8B.
- <sup>2</sup>See <http://www.sba.gov>
- <sup>3</sup>See <http://www.sba.gov/aboutsba>
- <sup>4</sup>*Employment Projections: 2012–2022 Summary*, U.S. Bureau of Labor Statistics, March 14, 2015.
- <sup>5</sup>Byrne, John. "The 12 Greatest Entrepreneurs of Our Time," *Fortune*, April 9, 2012, pp. 68–86.
- <sup>6</sup>"A New Generation Rewrites the Rules," *Wall Street Journal* (May 22, 2002), R4; See also Mark Henricks, "Up to the Challenge," *Entrepreneur* (February 2006), 64–67.
- <sup>7</sup>"Special Report—Stars of Asia," *BusinessWeek* (July 12, 2004), p. 18; see also <https://www.tempstaff.co.jp/english/corporate/>, accessed on January 27, 2015.
- <sup>8</sup>"Special Report—Stars of Asia," p. 18.
- <sup>9</sup>"A Startup's New Prescription for Eyewear," *Business Week*, July 4–10, 2011, pp. 49–51.
- <sup>10</sup>See Thomas Zimmerer and Norman Scarborough, *Essentials of Entrepreneurship and Small Business Management*, 5th ed. (Upper Saddle River, NJ: Prentice Hall, 2008).
- <sup>11</sup>Combs, James, Ketchen, David, Shook, Christopher, and Jeremy Short. "Antecedents and Consequences of Franchising: Past Accomplishments and Future Challenges," *Journal of Management*, January 2011, pp. 99–126.
- <sup>12</sup>See <http://www.franchise.org/Franchise-News-Detail.aspx?id=63438>, accessed on January 30, 2015.
- <sup>13</sup>"Case Looks for Passion in Start-Ups," *USA Today*, March 26, 2013, p. 3B.
- <sup>14</sup>See <https://www.sba.gov/content/7a-loan-amounts-fees-interest-rates>, accessed on January 28, 2015.
- <sup>15</sup>[http://www.census.gov/ces/dataproducts/bds/data\\_firm.html](http://www.census.gov/ces/dataproducts/bds/data_firm.html)
- <sup>16</sup>"To Fund a Startup, Go to Kuala Lumpur," *Bloomberg Businessweek*, February 25–March 3, 2012.
- <sup>17</sup>"Small Businesses Go Alternative for Loans," *USA Today*, November 14, 2012, p. 1B. See also "Alternative Online Lenders Fill Funding Needs for Small Businesses," *Forbes*, September 23, 2014, accessed at [forbes.com](http://forbes.com) on January 20, 2015.
- <sup>18</sup>[http://www.census.gov/ces/dataproducts/bds/data\\_firm.html](http://www.census.gov/ces/dataproducts/bds/data_firm.html)
- <sup>19</sup>U.S. Census Bureau, "1997 Economic Census Surveys of Minority and Women Owned Business Enterprises," at <http://www.census.gov/csd/mwb>
- <sup>20</sup>Hoy, Peter. "Minority and Women Owned Businesses Skyrocket," *Inc.* (May 1, 2006), pp. 20–24.
- <sup>21</sup>Zimmerer and Scarborough, *Essentials of Entrepreneurship and Small Business Management*, 20; See also [http://nawbo.org/section\\_103.cfm](http://nawbo.org/section_103.cfm) [http://nawbo.org/pdfs/2014\\_State\\_of\\_Women-owned\\_Businesses.pdf](http://nawbo.org/pdfs/2014_State_of_Women-owned_Businesses.pdf), accessed on January 20, 2015.
- <sup>22</sup>"Soft Pretzels out of Hard Times," *Fortune*, July 22, 2014, pp. 23–26.
- <sup>23</sup>See U.S. Small Business Administration, "Frequently Asked Questions," at <http://app1.sba.gov/faqs/faqIndex-All.cfm?areaid=24>, accessed on February 20, 2011; see also [https://www.sba.gov/sites/default/files/FAQ\\_March\\_2014\\_0.pdf](https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf), accessed on January 20, 2015.
- <sup>24</sup>"Inventure." CrunchBase. Accessed March 22, 2015. De La Merced, Michael. "Shake Shack More Than Doubles Its I.P.O. Price in Market Debut." *DealBook*, January 30, 2015. Accessed March 22, 2015. [http://dealbook.nytimes.com/2015/01/30/shake-shack-more-than-doubles-its-i-p-o-price-in-market-debut/?\\_r=2](http://dealbook.nytimes.com/2015/01/30/shake-shack-more-than-doubles-its-i-p-o-price-in-market-debut/?_r=2) Lidsky, David. "The World's 50 Most Innovative Companies