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Franchise regulations in Mongolia

1. Introduction

There are several ways to start a business, including finding and running a new business, buying an existing business, or buying a franchise, etc. Nowadays, buying a franchise is the most commonly used form. Under a franchise agreement, a franchisor undertakes to grant to the franchisee a license established in accordance with the procedure, for the use of its intangible assets such as the firm's name, trademarks or service marks, industrial design, packaging, as well as business management systems, planning, communications, and principal guidelines on the procurement of goods and services. While a franchisee undertakes to conduct its activities in accordance with a system and cooperation program developed by the franchisor, as well as to pay proper fees or royalties. The franchise business allows the franchisee to operate under the franchisor's trademark and to bring its business model into the market in line with the franchisor's standard and benchmark.

There are three types of franchise, depending on the branch:

- ▶ Product franchise /selling or distributing products manufactured by the franchisor using the franchisor's trademark/;
- ▶ Manufacturing franchise / transferring the right to use the technology by providing raw materials to the manufacturer and ultimate producer who own the trade secrets of the production of the raw material and technology registered in the Intellectual Property Office/;
- ▶ Service franchise /granting the right to the engage in certain types of activities along with trademark to the franchisee/.

Advantages

- Bankruptcy risk is low.
- The franchisee does not need to concern about marketing because of the use of trademarks of products and services that are already familiar to the market;
- The franchisor provides the franchisee with a package of business services such as training, support for starting the business, methodology, and regular advice.
- Previous work experience is not required as well as the franchisor provides with necessary training.
- Small businesses will be able to compete with large businesses under the franchise program.
- The franchisee has an exclusive right in its territory.
- Financing the business is easier. For instance, banks are likely to provide loans for buying reputable franchises.

Disadvantages

- The franchisee pays an advance payment, fixed management fee and royalty to the franchisor.
- The franchisee must buy goods only from the franchisor.
- The business is restricted under a franchise agreement.
- It is important to have high human resource standards, as other franchisees may adversely affect your business reputation.
- It is unable to sell the franchise without the consent of the franchisor.
- A certain percentage of all profits and sales are regularly paid to the franchisor.
- There is little opportunity to change or expand your business due to market conditions.

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