Chapter 07

Franchising

❖ Franchising

The term ‘**franchise** ‘is understood as an exclusive right conferred by the parent organization to an individual or enterprise to use the former’s successful business model, in stipulated areas. **Franchising is a business relationship; wherein the owner authorizes another party to use their brand, product, business system and process in return for adequate consideration.**

In finer terms, franchising is an arrangement, in which the manufacturer, permits another firm, the right to use its diverse intellectual property rights such as trademark, brand name, technical know-how, designs, etc., in addition to the proven name, goodwill and marketing strategies, for a certain sum. **E.g. Mc Donald’s, Subway, & Eleven, Domino’s, Dunkin’ Donuts**, etc.

In franchising, the firm that grants a license is called **franchiser**, and the individual or entity to whom the right is conferred is **franchisee**. The franchisee acquires franchise by paying initial startup and annual licensing fees to the franchiser, who in return provides training and assistance to the franchisee at regular intervals.

Franchising Agreement is a special agreement between both the parties, under which rights are given, and also the terms and conditions relating to franchising are stated clearly.

❖ Characteristics of Franchising

1. **License**: The franchisee gets the right to use, franchiser's trademark under a license.
2. **Policies**: The franchisee must follow the policies concerning the mode of conducting business, as stated in the agreement.
3. **Marketing support and technology**: Franchisee is supplied with continuous market support and technology, by the franchiser, to undertake business, in the manner stated in the franchising agreement.
4. **Training**: Complete training and assistance are provided to the personnel working in the franchisee's enterprise.
5. **Royalty**: For making use of a well-known business model, the franchisee pays the royalty to the franchiser.
6. **Limited period**: Franchisee is allowed to use the business know-how and brand name for a specified period, as mentioned in the franchise agreement. Although, the agreement can be renewed further.

Franchising is a most common practice of **expanding the business**, through a licensing relationship, wherein the owner provides training, equipment, ingredients, and marketing support to the other entity.

❖ Importance of Franchising

- It allows franchiser to augment his distribution chain in minimum time.
- It provides feedback to the franchiser regarding the product popularity, needs and choices of customers, etc.
- It expands the network of franchiser which helps in increasing goodwill.
- As the business is already established, the franchisee need not make efforts in promoting the product.
- Franchisee get sole rights in providing the product or service

Franchising is a great alternative to developing chain stores, to provide goods and services to the customers and avoid investment. But there are certain demerits attached to it such as there is always a fear that franchisee may open the same business with a different name, after the expiry of the said term. The franchiser’s brand name and reputation will suffer if the franchisee does not provide quality service to the target audience. Besides this, as there is a certain restriction due to which the franchisee lacks freedom in conducting business.

❖ Advantages and Disadvantages of Franchising

Franchising is a process for rapid market expansion but it is gaining traction in other parts of the world. Franchising works well for firms that have a repeatable business model that can be easily transferred into other markets.

Franchising is a specialized form of Licensing in which the franchiser not only sells an intangible property to the franchise but also insists the franchise agree to abide by strict rules as to how it does business.

Advantages of franchising –

- The risk of business failure is reduced by franchising.
- Products and services will have already established a market share. Therefore, there will be no need for market testing.
- One can use a recognized brand name and trademark by franchising.
- The franchisor gives support – usually, as a complete package including training, help set up the business, a manual telling you how to run the business and ongoing advice.
- No prior experience is needed as the training received from the franchisor should ensure the franchise establishes the skills required to operate the franchise.
- A franchise enables a small business to compete with big businesses, more so than an independent small business, due to the pool of support from the franchisor and network of other franchises.
- One usually has exclusive rights in your territory. The franchisor won’t sell any other franchises in the same territory.
- Financing the business may be easier. Banks are sometimes more likely to lend money to buy a franchise with a good reputation.
- You can benefit from communicating and sharing ideas with, and receiving support from, other franchisees in the network.
- Relationships with suppliers have already been established.

Disadvantages of franchising –

- Costs may be higher than expected.
- The franchise agreement usually includes restrictions on how you can run the business. One might not be able to make changes to suit your local market.
- One may find that after time ongoing franchisor monitoring becomes intrusive.
- The franchisor might go out of business.
- Other franchises could give the brand a bad reputation, so the recruitment process needs to be thorough.
- One may find it difficult to sell your franchise.
- All profits are usually shared with the franchisor.

The inflexible nature of a franchise may restrict the ability to introduce changes to the business to respond to the market or make the business grow.