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Why Franchising is a Smart Business Tool?

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Abstract:

In the world today establishing your own business is challenging since it entails significant risk, is tough, and costs a lot of money. Franchises, on the other hand, are more successful than starting your brand. A franchise carries less risk than a start-up company does. In the franchising business model, the owner of a business system (franchisor) grants permission to a person or a group (franchisee) to operate a business selling goods or services using the franchisor's system and brand name. Since most fast food chains and luxury clothing companies operate using this business model, they are quite well-known around the world and have locations in most nations and cities. This research paper gives an outline of Franchising, what it is, its advantages, its disadvantages, and growth. With this paper an individual would be able to decide if he should go for a startup or franchising business model.

REVIEW OF LITERATURE:

In the Franchising Model, the owner of a business system (franchisor) gives right to an individual or a group (franchisee) to operate a business selling a product or services by using the franchisor brand name and system. Franchisees are permitted, under certain conditions, to utilize the franchisor's branding, trademarks, and distinguishing markings. Anybody choosing to launch a company as a franchisee must keep in mind that doing so binds them to a partnership agreement with the franchisor for a predetermined amount of time. An overview of contemporary management literature on franchising is given in this article, with a focus on its management control features. Franchising is very important in current business life. This kind of entrepreneurship is rapidly being used in a range of industries, notably by retailing and service organizations such as McDonald's, Holiday Inn,\sBody Shop, and Benetton. A method for the selling of goods, services, and/or the use of technology, according to the Deontological European Code of Honour (2004), is franchising. The franchisor and each of his franchisees, who are both legally independent and financially autonomous, work closely and continuously to support one another.

TYPES OF FRANCHISE BUSINESS:

1. JOB-FRANCHISE: This is a low-cost, home-based franchise run by someone looking to launch their own modest franchised business. These franchisees are often made up of a single individual who works inside a certain trade or industrial area, selling goods or rendering services.

2. Product Franchise: These are product-driven franchises that entirely rely on the supplier-dealer technique, in which the franchisee sells the franchisor's goods and services. By depriving franchisees of a comprehensive operating system, the franchisor licenses its brand name.

3. Business Format Franchise: This is a sort of franchise business that uses the brand name of the franchisor and the full system to run the company and promote the good or service. The franchisor provides comprehensive agreements and guidelines on a certain component of the company model. Initial and continuous training and assistance are also included.

4. Investment franchise: These are big, expensive franchises, including those in the hotel and restaurant industries. Franchisees often spend money and hire either their management team or operate the firm to make a profit.

5. Conversion Franchise: In this type of relationship-building between the franchisee and franchisor, many franchise models expand by turning their businesses into trademarks. The company expands into franchise-only locations within the same sector.

Why is franchising a smart business solution?

Growth in the business:

1. Less capital is required.
While entrepreneurs frequently run into financial difficulties, it is one of the most prevalent barriers to business development. Goals for expansion considerably outpaced available money. Growing a business is extremely difficult for owners who take on debt from banks, leasing firms, private investors, and perhaps even friends and family. Bank loans are sometimes difficult to find, especially in sums big enough to support fast expansion, and high-interest rates can make payments spiral out of control. Nowadays, unlike in the years before the Great Recession, banks frequently refuse to make loans even when they are adequately secured. Franchises provide a substitute that enables business owners to grow their operations without having to invest more capital.

2. You can expeditiously encourage development:
The concern shared by the majority of business owners is that someone else will promote their idea before them. Such worries are valid since the economic world evolves so swiftly. However, opening one unit takes time. You can be required to look for suitable locations, negotiate leases, help with location build-out, learn about the neighborhood market, set up vendor contacts, and more depending on the nature of the firm. Even with sufficient cash, the capacity of an entrepreneur to support that development still limits unit growth. For some business owners, franchising may be their only viable option for securing market leadership. Franchising enables small firms to compete with much larger ones and gain market share before rivals.

Stimulate Entrepreneurship

There are dozens of professionals who desire to become entrepreneurs but without know what to invest in.
Many people want to stop working for others and start receiving rewards that are more closely related to their own efforts. The option of purchasing a franchise motivates and helps this desire.

A Well-Known Brand.

Each small firm must invest heavily in creating its brand. By purchasing a franchise, you may benefit from a name that is presumed to be already positioned in the market, with a reputation that is acknowledged and supported by customers.

Minimize Danger.

According to data from the International Franchise Organization, just 5% of independently owned firms remain in operation after five years, compared to 90% for franchised enterprises owned by franchisees.

Establishing A Brand.

It is simpler to generate more noise and brand visibility overall by allowing franchisees (third-party businesses) to advertise your firm.
To try to run a marketing campaign independently while working with several franchisees, where they all gain from a stronger brand presence in the marketplace, is not the same as doing so.

Training

With a franchise model, you have the choice, to begin with receiving guidance and training on a business strategy that others have already employed. The transfer of knowledge enhances the new business owner's capacity to handle disputes and circumstances that the franchisor has previously encountered through manuals and training.

Established formula

Using a tried-and-true business strategy makes it simpler for a new business owner to speed up the industry-famous learning curve of the company, enabling you to start running and seeing profits sooner than if you did it yourself without any prior expertise.

Quantity Discounts

Businesses with a single location often cannot take advantage of volume savings, but franchise firms may. Although streamlining your company's distribution, using a single distributor for all of your franchisees frequently makes it possible to take advantage of volume discounts.

Prospective franchisees are drawn to the benefits of quick volume savings since they may take advantage of them before building a clientele. Anything that is out of the price range of a single small firm.

Technology

Franchising can open the possibilities of what's feasible for your business in terms of technology as well. For a business with just one location, it would likely be cost-prohibitive to create customized software for booking, training, or customer loyalty.
However, a customized software solution becomes more cost-effective as the number of businesses that you will be using will rise

The Main Idea

Making use of the knowledge and expertise of the entire organization is perhaps franchising's biggest benefit. You may avoid a lot of the challenges associated with launching a company from scratch by partnering with an established brand. As a reliable generalization, a franchisee receives greater support from the main company, can use the registered trademark name, and is moreover more sternly protected by the franchisor.
According to Jonathan Barnett, founder, and CEO of Oxi Fresh Carpet Cleaning, franchising removes the element of uncertainty from beginning a business. In addition, he adds, "They have constructed mechanisms built to offer new franchisees a huge advantage over rivals. Franchisees further profit from the strength of an established brand.

Franchise Startup Prerequisites and Procedures:

State legislation and the Federal Trade Commission both control franchising. You must give accurate and thorough disclosures to potential franchisees as a franchisor so they can decide intelligently on your franchise offer.
Your primary franchise system investments are these legal agreements, together with the operational guides, personnel, training courses, and marketing campaigns. The Franchise Disclosure Form and the Franchise Agreement are the two main papers you'll draught (FDD).

The Franchise Agreement:

A strong franchise agreement will be succinct, transparent, and equitable.
Typical topics covered in a franchise contract include:
- Initial and ongoing franchise fees;
- Initial and ongoing franchise fees;
- Deadlines for opening the franchise for business;
- Protections for the franchise territory (if applicable);
- Details on the equipment, supplies, and inventory;
- The length of the contract and the terms under which it may be renewed; guidelines for transferring the franchise to a third party;

- And conditions under which the contract may be terminated, including post-termination obligations and non-compete covenants.

ADAVANTAGES OF FRANCHISIS:

Developmental funding is provided via franchising:

Almost all development-related financial requirements are gone. In most cases, the franchisee's setup fee will include expenses for things like equipment, signage, renting out storefronts, and other startup charges. Financial leveraging is a risk that may be reduced by using franchisees' money as funding. Instead of receiving funding for development, your franchisees might furnish the funds.

Erects a protective barrier between himself and matters involving employees:

The manager and employee are both paid in an organization store. They work for a franchisee at a franchised location. Franchisees will have fewer headaches as a result of worker wage protection, employee concerns, and other workplace-related problems.

Extends More Quickly Across A Large Area:

As a result, the franchisor is free to expand geographically at a pace that resolves the three main problems of money, management, and workers. Global development appears to be more workable when using specialist gadgets and internet technologies.

Franchisee administrators have a competitive drive:

A few years ago, a chain of donut shops switched from operating as a franchised chain to one that was owned by an organization. Almost always, the company directors continued as franchisees. The next day, the progress results were external. The doughnuts got bigger and better, the stores got cleaner, and the discounts increased. What mattered was that happy owners took control of the businesses rather than managers.
For motivated entrepreneurs who see the appeal of the franchise model, there are many businesses with open doors. Yet, not all franchisees are smart business decisions.

Assistance with business

The franchisee's access to the franchisor's business support services is one of the advantages of franchising. The franchisee may obtain a practically turnkey business operation depending on the conditions of the franchise agreement and the company's structure. The brand, equipment, materials, and marketing plan, along with anything else they require to run the business, may be provided.

Recognizing a brand

Brand awareness is a huge advantage franchisees have when they start a business.
Franchises, on the other hand, are well-known companies with built-in consumer bases. People will therefore understand your brand, what you provide, and what to anticipate when you launch a franchise with it.

A ready-made clientele:

Finding consumers is one of every startup business's major challenges. Franchises, on the other hand, benefit from immediate brand awareness and a committed clientele. Even if you're launching the first location of a franchise in a small town, likely, potential consumers have previously heard of the company via watching TV advertising or visiting bigger cities.

Act independently

Being your boss is among the main advantages of company ownership. Starting a franchise business gives you the freedom to work for yourself with the added benefit of getting assistance from the franchise's knowledge base.

DISADVANTAGES OF FRANCHISIS:

1. Discouraging rules

Although a franchise enables the franchisee to be their boss, they are not fully in charge of their firm and cannot make choices without considering the franchisor's viewpoint. The requirement to abide by the limitations outlined in the franchise agreement is typically the most aggravating drawback faced by franchisees. A certain amount of control over the majority of the franchise company and the decisions made by the franchisee is exercisable by the franchisor. The franchisor may influence any of these facets of the company, depending on the terms of the franchise agreement:

- Place of business
- Operating hours
- Holidays
- Pricing
- Signage
- Layout
- Decor
- Products
- Promotional activities
- Conditions for resale

2. Cost at first:

Although the franchise fee is an initial investment that provides the franchisee with many advantages, it can still be expensive, especially if you're joining a successful and well-known business. While this

typically leads to increased earnings, it can be difficult for any small business owner to secure the initial capital.
Even if you select a low-cost franchise, you'll probably need to put down a quite a good amount of money. Although this may be viewed as a drawback of franchising, it's crucial to compare the possibility vs the initial outlay and choose the best solution for your company. Furthermore bear in mind that franchise finance alternatives are available to assist you in covering this upfront expense.

3. Ongoing investment

There are extra, recurring expenses that are specific to franchises in addition to the initial investment you'll need to make to launch your franchise. The franchise's continuing expenses must be listed in the franchise agreement. These expenses might include royalties, advertising expenses, and a price for training services. When determining whether to launch a franchise, you should bear these continuing expenses in mind.

4. Possibility of a disagreement:

The network of support you receive as a franchise owner is one of its advantages, but there is also the possibility of conflict. Each tight commercial connection carries the danger that the parties won't get along, especially when there is a power imbalance.

5. Insufficient financial privacy:

Privacy is lost when you franchise, which is another drawback. The franchisor's authority to control the franchise's whole financial environment will probably be included in the franchise agreement. Although a franchisee may view this loss of financial privacy as a drawback of running a business, it might not be as big of a deal if you value financial advice.

6. Initial investments and start-up expenses may be high:

Initial investments might be expensive depending on the type of business. For instance, McDonald's demands a minimum investment of USD 500,000 in non-borrowed personal assets to be taken into account. This indicates that they anticipate you will own that much cash, free of loans. Some people believe that such an investment is not feasible. In addition to the initial investment, some franchisors may charge rent if you're buying an existing storefront, demand you handle marketing expenses, pay management fees, hiring expenses, service fees, royalties, etc., or force you to handle other expenditures as well. It can be expensive, which could be a detriment to individuals just starting in a company.

Suggestions:

1. Communicate with Franchisees Well:

When additional franchisees start-up, communication between them all is essential. Too frequently, franchisors are in the dark regarding the reporting data from each of their franchisees. Asking for updates on inventory, sales, labor expenses, and other things regularly is irritating and simple to forget. This should be simple for your retail point-of-sale system to accomplish. One comparative and consolidated report may be obtained by franchisors for all of their franchisees. KORONA is a franchise-specific reporting system that also automatically invoices each franchise for monthly royalties. Moreover, our cloud-based reporting allows you to access any report at any time, from anywhere.

2. Maintain consistency throughout each franchise:

Give yourself some credit for your company's current success. Without you, it couldn't succeed. Be sure that when it comes to your franchisees, "you" are not forgotten. Each firm needs to have its distinctive stamp. Less risk and accountability are advantages of franchising, but sufficient training and consistent branding are a must. With each new franchise, pinpoint EXACTLY what made your company successful and implement it. The ratio of the 13 herbs and spices or the secret sauce, for example, are only two examples of the success secrets that each franchise must be aware of. Each franchisee has to be aware of and linked to your expanding brand.

3. Pay close attention to legal counsel about franchising:

Attorneys are costly, and their rates might fluctuate. Yet, that's how the beast is. In 2018, starting a business in the US needs to anticipate potential issues. Even the biggest companies might be destroyed by a minor legal issue that is neglected. Many businesspeople have a "big picture" perspective or are "ideas people." It could be a royal headache to deal with complex legalese that entails a high upfront cost. Before you, many others have come to believe this. Accept it and defend your future prosperity.

4. Set Reasonable Boundaries for Your Area:

Your company's growth is beneficial. That is the reason you are considering or have already franchised. Yet expanding too quickly might be a serious mistake. Create a solid business strategy and break your goals down into manageable bits. Selling to the correct clients is another aspect of this. The correct environment, which includes everyone in your immediate vicinity, is necessary for positive growth. Franchise system flaws will result from growth for which your company is not prepared. Even some of the most well-known franchisors are experiencing this. The firms are facing major legal issues as a result of poor structure and unscreened franchisees. That will, at most, result in cost-cutting and, once more, a lack of stability.

5. Act as an Adjustable and Open Franchisor:

Accept the fact that you will err on occasion. And ideally, you only sold each franchise's rights to respected and trustworthy franchisees. Thus, as you develop, be alert to recurring criticisms or worries about particular procedures. The original recipe could have succeeded in one place, but there might be little variations that don't always lead to success. Some franchise owners want to make the majority of their money from the very first sale. The long-term royalties of each profitable franchise should be where you make your money instead. To do that, you must continually monitor each performance and make adjustments as required.

Conclusion:

The research examined franchising, a relatively recent business idea that has gained popularity over the past few decades. It said that franchising consisted of the first business owner (the franchisor) granting the franchisee the right to utilize the franchisor's brand and concept to sell the franchisor's products or services using an already-existing name or trademark.

It also looked at the beginnings of franchising, which would have the right to print writings and utilize them for his works. The first franchises for food and hospitality then emerged in the 1920s and 1930s. The article also discussed the benefits and drawbacks of franchising for both.

With franchising, an existing firm may be expanded to new, larger geographic areas both domestically and overseas. Franchisees don't have to "start from scratch," especially those who are new to the business world; instead, they may use an existing company model while receiving the required operational assistance and advice. The best way to expand into foreign markets in business is through franchising.

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