Topic 9. Franchising

What franchising means?

Franchising is based on a marketing concept which can be adopted by an organization as a strategy for business expansion. Where implemented, a franchisor licenses some or all of its know-how, procedures, intellectual property, use of its business model, brand, and rights to sell its branded products and services to a franchisee. In return the franchisee pays certain fees and agrees to comply with certain obligations, typically set out in a franchise agreement.

For the franchisor, use of a franchise system is an alternative business growth strategy, compared to expansion through corporate owned outlets or "chain stores". Adopting a franchise system business growth strategy for the sale and distribution of goods and services minimizes the franchisor's capital investment and liability risk.

Franchising is not an equal partnership, especially due to the legal advantages the franchisor has over the franchisee. But under specific circumstances like transparency, favorable legal conditions, financial means and proper market research, franchising can be a vehicle of success for both franchisor and franchisee.

Thirty-six countries have laws that explicitly regulate franchising, with the majority of all other countries having laws which have a direct or indirect effect on franchising. Franchising is also used as a foreign market entry mode.

What is an example of franchising?

Franchising is a business relationship between two entities wherein one party allows another to sell its products and intellectual property. For example, several fast food chains like Dominos and McDonalds operate in India through franchising.

Why is franchising important?

The primary reason most entrepreneurs turn to franchising is that it allows them to expand without the risk of debt or the cost of equity. First, since the franchisee provides all the capital required to open and operate a unit, it allows companies to grow using the resources of others.

What are the advantages of franchising?

You don't necessarily need business experience to run a franchise. Franchisors usually provide the training you need to operate their business model. Franchises have a higher rate of success than start-up businesses. You may find it easier to secure finance for a franchise.

What are the disadvantages of franchising?

Franchisors earn royalties from sales. Franchisees earn money from profits. Achieving growth in both isn't always possible, potentially causing conflict.

What is the main purpose of franchising?

It sells the right to use its name and idea. The franchisee buys this right to sell the franchisor's goods or services under an existing business model and trademark. Franchises are a popular way for entrepreneurs to start a business, especially when entering a highly competitive industry such as fast food.

How does a franchise work?

A franchise enables you, the investor or franchisee, to operate a business. You pay a franchise fee and you get a format or system developed by the company (franchisor), the right to use the franchisor's name for a specific number of years and assistance.

Is franchising a good strategy?

Franchising is a proven business model that can bring about accelerated growth and fast-track market penetration. However, it is a strategy for businesses that clearly understand the basis of their success and are able to repeat that model again and again.