Franchise

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General characteristics

- Franchising is the practice of using another firm's successful business model.
- Thirty three countries, including the United States, and Australia, have laws that explicitly regulate franchising, with the majority of all other countries having laws which have a direct or indirect impact on franchising.
- The franchisee is said to have a greater incentive than a direct employee because he or she has a direct stake in the business. the franchisor is a supplier who allows an operator, or a franchisee, to use the supplier's trademark and distribute the supplier's goods. In return, the operator pays the supplier a fee.
- For the franchisor, the franchise is an alternative to building 'chain stores' to distribute goods that avoids the investments and liability of a chain. The franchisor's success depends on the success of the franchisees.

Types

- There are two general types of franchises.

- Product distribution: Franchises simply sell the franchiser's products - these are supplier-dealer relationships. The franchiser licenses its trademark and logo to the franchisees but typically does not provide them with an entire system for running their business. The industries where you most often find this type of franchising are soft drink distributors, automobile dealers and gas stations. Some well-known product distribution franchises are Pepsi, Ford Motor Company and Exxon.

- Business format franchises: Use a franchiser's product, service and trademark, but also the complete method for conducting the business, such as the marketing plan and operations manuals. Examples of business format franchises include MacDonald's, Taco Bell, Radio Shack, Marriott Hotels, Jenny Craig International, H&R Block, Midas International, Barbizon School of Modeling, Century 21 Real Estate, and 7-Eleven.

Advantages

- Association with a well established brand, reputation and product or service;
- Assistance with site selection, lease negotiation, site development, builders and shop fitters;
- Assistance with outlet design and equipment purchasing;
- Initial management training and continuing management assistance;
- Access to group/national market research, along with advertising and merchandising assistance;
- Access to established standard procedures, operating manuals and stock control systems;
- Assistance in securing finance and sometimes financial assistance in establishing the business;
- Access to financing packages which may be more attractive and easier to access than for non franchised businesses; and
- Access to established financial systems and checks which can provide early warning signals to highlight trouble spots.

Disadvantages

- The franchisee is not completely independent. Franchisees are required to operate their businesses according to the procedures and restrictions set forth by the franchisor in the franchisee agreement.
- These restrictions usually include the products or services which can be offered, pricing and geographic territory. For some people, this is the most serious disadvantage to becoming a franchisee.
- In addition to the initial franchise fee, franchisees must pay ongoing royalties and advertising fees.
- Franchisees must be careful to balance restrictions and support provided by the franchisor with their own ability to manage their business.
- A damaged, system-wide image can result if other franchisees are performing poorly or the franchisor runs into an unforeseen problem.
- The duration of a franchise agreement is usually limited and the franchisee may have little or no say

Statement

We would choose not to use the franchise system. Entering into a franchise is expensive, and there is no guarantee that you will pull a profit from it. You are stuck with most of the work while having very little control over "your" business, as the business model and policies are set by others. Franchising agreements are also for limited amounts of time. Becoming a franchisee will not guarantee a permanent source of income.

Creating a franchise is very difficult. You have to be able to establish a recognizable brand that people want to be part of. You are also counting on others to earn your revenue. If one franchisee doesn't uphold your brand image, it can effect the performance of other franchises elsewhere.

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