

FRANCHISING (LESSON NO: 6)

Your Small Business
Franchising Solution



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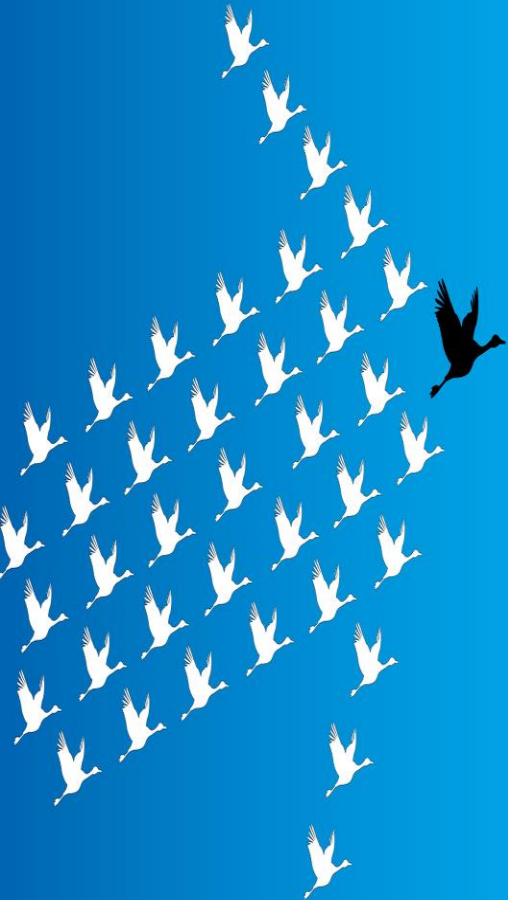
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FRANCHISE

- ✓ Partnership
- ✓ Distribution
- ✓ Professional
- ✓ Trademark



Franchise

A franchise is a business model created by an individual or a team of individuals, called the franchisor, that grants the right to someone to sell the business model's proven or well-recognized goods or services under a pre-defined set of terms and conditions, also known as "System".

The relationship between a franchisor and franchisee is held together by a content called a franchise agreement which outlines the privileges, terms, conditions, restrictions and other details of the system.



Royalty

Training

Franchising

Policies

License

Limited
Period

Marketing
support
and
technology

What is Franchising?

Franchising is a well-known business strategy.

Franchising is a form of contractual agreement in which a franchisee (a retailer) enters into an agreement with a franchisor (a producer) to sell the goods and services for a specified fee or commission. The retailer through his outlet distributes the goods or services.

Franchising is a relationship in which the service provider (franchiser) develops and optimizes a format of service that it licenses to other parties (the franchisees) for delivery.

In franchising, the franchiser, (service provider) licenses his brand name, business process or format, product, service or reputation in return for fees and royalties.

In a nutshell,

- Franchisor is a company that owns and controls a franchise system and can grant a **License** to Qualified individuals (franchisee).
- The franchisee pays the franchisor an **Initial Franchise Fee** and ongoing **Royalty**.
- Protected territories.
- Marketing and Advertising support.
- All the advantages of big business – **Established Brand Name, Reputation, Reliability, Resources and Experiences**.
- **In Business for yourself, But not by yourself**

FRANCHISING

Area:

Play Ground Area

Investment:

30 TO 50 Lakhs



Mahesh Bhupathi
Tennis Academies

a globosport company



DEFINITION OF TERMS



- Franchisor / Franchiser

the person or company that grants the franchisee the right to do business under their trademark or tradename

- Franchisee

the person or company that gets the right from the franchisor to do business under the franchisor's trademark or tradename and benefits from it.

Franchisor (Owner)

A company that **licenses its trademarks and methods** is called a franchisor



Franchisee (Investor)

Franchisee is the person who conducts business using a **franchisor's brand name**.

A **set fee** and a **percentage of sales revenue** is paid to the franchisor.



Types of Franchising



Product Distribution Franchising: Sells / Distributes the product manufactured by the franchisor



Business Format Franchising: Sells the trademark, product and service as well as the business approach and methodology

Franchisor Provides to Franchisee

1. A successful **business model** and **formula** that works!



2. A well recognized
Brand Name



3. Established marketing processes and ready to use Trademarks.

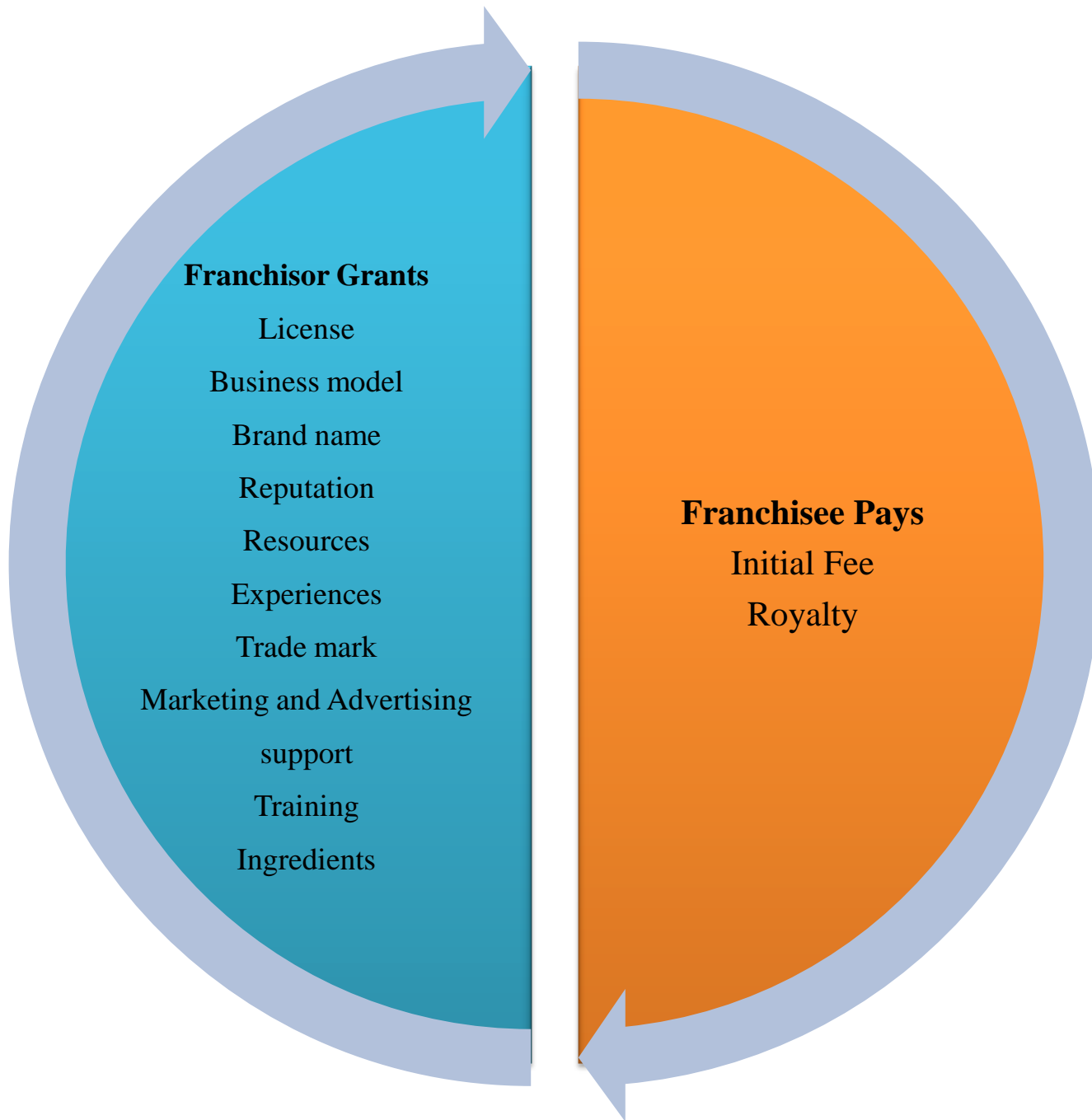


4. Established Customer Base And Awareness



5. Easy Access To Suppliers





Advantages of Buying a Franchise

1. **Higher Success Rate (Raymond)**
2. **Assistance (Equipment's & Training)**
3. **Cost Reduction (Save money)**
4. **Star Power (KFC)**
5. **Profits**
6. **Marketing Assistance**
7. **Staff Training**



Disadvantages of Buying a Franchise

1. Control (No decision can be taken by the franchisees without consulting the franchisor)
2. Ongoing Costs (Original franchise fee, Royalties, a percentage of franchise's business revenue)
3. Lack of Support (Assistance is provided only at the time of starting the business)

4. Expensive (branded product have more expensive)

5. Time consuming (At the time of selecting franchise business)

6. Misunderstanding (complex procedure and disputes may arise between the franchisee and franchisor.)

How do a franchise exist?

A franchise exists where one person grants rights to another to exploit an intellectual property right involving perhaps trade names, products, trade marks, equipment distribution.

Services Suitable for Franchise Operations

Examples of services which are suitable for franchise operations include:

1. Accounting and Tax Services,
2. Beauty Salons,
3. Car Rental Services,
4. Dry Cleaning Services,
5. Employment Services,
6. Hotels,
7. Industrial Services,
8. Garments,
9. Nursing Homes,
10. Restaurants,
11. Travel Agencies, and so on.

Factors Influencing Location of Franchise

- Firm's physical needs.
- Space requirements.
- Potential area.
- Internal competition.
- External competition.
- Traffic pattern.
- Quality of traffic

Franchising Vs. licensing

	Franchising	Licensing
Use of trademark/logo	Logo and trademark retained by franchisor and used by franchisee	Can be licensed
Royalty payments	Yes	Yes
Control	Franchiser exercise some control over franchisee.	Licensor does not have control over licensee
Support and training	Provided by franchisor	Generally not provided
Territorial rights	Offered to franchisee	Not offered; licensee can sell similar licenses and products in same area
Governed by	Franchising regulations for some countries or general company law when franchising regulations are not in place	Contract law

Commercial Franchising Vs. Social Franchising

	Commercial Franchising	Social Franchising
Role Players	Franchisee & Franchisor	Franchisee, Franchisor & Donor
Goals	Profitability of franchisor & profits to shareholders	Sustainability of franchisor & investment in community
Profits	Franchisees to make profits for individual wealth	Franchisees to be profitable and sustainable while achieving social goals
Demand	Consumer demand	Consumer demand
Sector	Profit sector	Non-Profit Sector
Products/Services	Mostly provides consumables and consumer products including food and services	Mostly provides social services including health and other related services
Marketing	National marketing to promote brand awareness	National marketing with bias to social marketing to promote brand awareness and awareness service
Prices	Market related prices	Subsidised prices

Franchising: Pros and cons for the *franchisee*

ADVANTAGES

- Greater chances of business success
 - Product may be well-known
- Franchisor provides marketing support
- Franchisor provides supplies
- Fewer decisions
 - Franchise's 'tried and tested' methods used
- Some HR functions provided by franchisor
- Banks more willing to assist franchises
 - Established business

DISADVANTAGES

- Less independence
 - Decision-making influenced by franchisor
- Restrained by franchise agreement
 - E.g. limited product offering
- Pays franchise fee and other agreed amounts to franchisor



Case study: A Successful Franchise

- World's largest submarine **sandwich shop**
- Over 41270 stores
- Over 104 countries
- 48 years experience serving great tasting subs
- Low investment
- Simple operations



Exercise: Product vs. Business Franchises

Identify which of the following are Product vs. Business Franchises:

- Coco – Cola
- McDonald's
- Ford Motor Company
- Maruthi Suzuki

Question Session



Thank You!

