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Franchise - A Smart Business Solution

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ABSTRACT :

This article explores the advantages of franchising as a strategic business solution for aspiring entrepreneurs and established companies seeking growth. It outlines how franchising offers a proven business model, reducing the risks typically associated with startups. By leveraging established brand recognition, training programs, and support systems, franchisees can accelerate their path to profitability. The article also examines the economic benefits of franchising, including lower failure rates compared to independent businesses and access to collective buying power. Ultimately, this article aims to provide a comprehensive understanding of why franchising is a viable and attractive option for those looking to enter the business world or expand their existing operations.

Keywords: Franchise, Smart Business Solution,

1. Introduction :

There are various business models in the sphere of business. Several businesses adopt different business models like retail, E-commerce, subscription and many more according to the types of business, their processes and strategies to capture market and create value and generate revenue. One of the promising and popular business models is franchise business.

A franchise operates under a business framework where a corporation (the franchisor) allows a person or entity (the franchisee) to run a business under its brand, products, and business processes. This relationship is a commercial agreement between the franchisor and the franchisee, where the franchisor offers a franchised business opportunity, and the franchisee manages the business following the franchisor's rules. The franchisee usually pays a one-time fee and regular fees to the franchisor in return for assistance, education, and the privilege to utilize the well-known brand.

2. Evolution of franchise business :

Franchising has its roots in the Middle Ages when feudal lords granted others the rights to collect taxes and manage markets, marking the earliest political forms of this practice. However, the transition to a business model began in the mid-19th century, particularly in Germany, where brewers entered into agreements with tavern owners to sell their beer exclusively.

In the United States, Isaac Singer transformed this idea in 1851 by being the initial American brand owner for product names. He permitted individual sales representatives to market his sewing machines, establishing the foundation for contemporary franchising. This move was a major milestone as it enabled people to launch their own ventures under a well-known brand.

Coca-Cola emerged as another key player in the late 1890s, franchising its bottling rights to independent entrepreneurs. This model enabled Coca-Cola to expand rapidly without the burden of direct management, leveraging local knowledge and investment.

The early 20th century saw the automotive industry adopt franchising as well. Companies like Ford and General Motors began to franchise dealerships, allowing independent business owners to sell their vehicles under established brand names. This strategy was crucial for these companies to grow their market presence without substantial upfront capital for retail outlets.

The franchising boom truly took off in the 1950s and 1960s, as brands like KFC, McDonald's, and Burger King established large franchise networks. This period marked the transformation of franchising into a dominant business model, characterized by standardized products, marketing, and operational practices, ultimately shaping the fast-food and retail landscapes we know today.

3. BENEFITS OF FRANCHISE BUSINESS :

2.1 Benefits to Franchisee:

i. **Established brand and customer base:** Franchisees benefit from operating under a well-known brand that already has customer recognition and trust. This significantly reduces the time and cost needed to build a reputation from scratch.
ii. **Proven business model:** Franchises come with a tried-and-tested business model, reducing the risks associated with starting a new business. The operational systems, procedures, and marketing strategies are already established.
iii. **Quick start:** Franchisees can usually start operating much faster than if they were to create a business from scratch. The franchisor provides guidelines and resources, allowing the franchisee to hit the ground running.
iv. **Be your own boss:** A major advantage of running a business is the autonomy it provides. By launching a franchise, you enjoy the freedom of being in charge, while also gaining support from the franchise's collective expertise. Franchising allows you to enjoy the perks of leadership without the inherent risks associated with launching a standalone business.
v. **Reduced risk of failure**: Franchise businesses generally have a higher success rate compared to independent startups due to the established reputation, support systems, and operational guidelines provided by the franchisor.
vi. **Easier financing:** Lenders may be more willing to finance a franchise due to its established business model and track record, making it easier for franchisees to secure loans.
vii. **Training and Support:** Many franchisors provide comprehensive training programs for new franchisees, covering everything from operations to marketing. Ongoing support is often available to help address challenges as they arise.

2.2 Benefits to Franchisor:

i. **Rapid Market Penetration:** Franchising enables rapid expansion into new markets, increasing brand presence and market share more quickly than traditional company-owned growth. It allows companies to expand quickly without bearing the full financial burden of opening and operating new locations. Franchisees invest their own capital into opening new units, facilitating faster growth.
ii. **Revenue stream:** Franchise owners make money from the upfront franchise payments, continuous royalty payments, and occasionally from the sales of products to their franchisees. This gives them a steady and consistent flow of income.
iii. **Local Market Knowledge:** Franchisees, often being local to the area in which they operate, bring knowledge of their local market and customer preferences, which can contribute to the franchise's success in different regions. This helps the franchisor in formulating strategies.
iv. **Brand Consistency:** By providing a standardized business model, franchisors can maintain consistent branding and customer experience across different locations, which enhances brand reputation.
v. **Reduce risk:** Franchisors share the financial and operational risk of expansion with franchisees. Since the franchisee invests their own money, the franchisor does not need to bear the full cost of opening new locations
vi. **Increased Brand Visibility:** As more franchise units open, brand recognition grows, attracting more customers and driving sales across the network.
vii. **Minimal employee supervision:** Being a business owner comes with a lot of pressure, especially when it comes to recruiting and overseeing staff. As a franchisor, your role is limited to offering training and business expertise to the franchisee. Typically, the franchisor doesn't interfere with the hiring or termination of staff, allowing for minimal oversight of employees. This reduced involvement in staff management enables the franchisor to concentrate on the expansion of the business rather than the daily tasks. Rather than fretting over the punctuality of employees, the franchisor is more concerned with the overall success of the business.

4. Financial data of Franchise business of few prominent companies :

S. No.	Brand Name	Sector	Franchise Investment Cost	Revenue per franchise	Netprofit Margin
1.	Kalyan Jewellers	Jewellery	50L-1Cr	1.5Cr-3Cr	18%-25%
2.	Lenskart	Opticals	30L-35L	15L-30L	25%-30%
3.	FirstCry	Retail	10L-20L	1.5L-3L	15%-20%
4.	Hero Motor Corp	Automative	1.5Cr-3.5Cr	1.2Cr-2.5Cr	5%-10%
5.	Dominos	Food	1Cr-2Cr	3L-7L	15%-20%

Financial data of Franchise business

Interpretation of the data: A franchise business model can significantly increase both sales and profit margins due to several advantages it offers, in the above table Lenskart has up to 30% average profit margin which shows the increase in sales of the company.

This model promotes growth by increasing the number of outlets and market presence without requiring the franchisor to bear the full financial and operational burden. For example, dominos has opened multiple outlets and the company has witnessed average profit margin of upto 20%.

With optimized processes and cost efficiencies in place, the profit margin per unit also tends to increase. Hero motor corp has highest sales of upto 2.5 cr with a profit margin of 5-10% because of its cost management and efficiency.

In conclusion, the franchise business model drives both sales growth and higher profit margins by enabling rapid expansion, leveraging economies of scale, and fostering local-level operational efficiency. The combination of increased market reach, shared costs, and motivated franchisees ensures sustainable profitability. As a result, franchising becomes an effective strategy for businesses seeking to scale quickly while maintaining or improving financial performance.

5. How Franchising is Better Than Independent Business :

The comparison of franchising with the independent business is a classic review to understand how franchising is a smart business solution in today's world rather than starting traditional method of business for the person who wants to start a business.

Starting a new business can be done through either franchising or owning it independently. Franchising means running a business using the well-known brand, products, and services of an established company, whereas independent business ownership involves creating a business from the ground up. Franchising has several advantages over starting a business from the beginning. A franchisee enjoys the advantage of a strong brand name, which attracts customers more effectively than a lesser-known independent business. Additionally, a franchisee gets training and advice from the franchisor, which helps them avoid typical errors and guide the business to success. Another benefit of franchising is the continuous support provided, which includes areas like marketing, product creation, and managing the business.

One important factor to consider when comparing franchising and independent business is the cost. Starting an independent business usually requires a significant amount of capital, as the entrepreneur is responsible for everything from product development to marketing and advertising. On the other hand, franchising usually requires a lower initial investment, as the franchisee is essentially buying into a proven business model and brand. Success rates can also be a factor to consider. Research conducted by the International Franchise Association indicates that franchises tend to achieve higher success levels compared to standalone companies. This is probably because franchises benefit from a well-established business framework and well-known brand identity, which aids in drawing in customers and creating income.

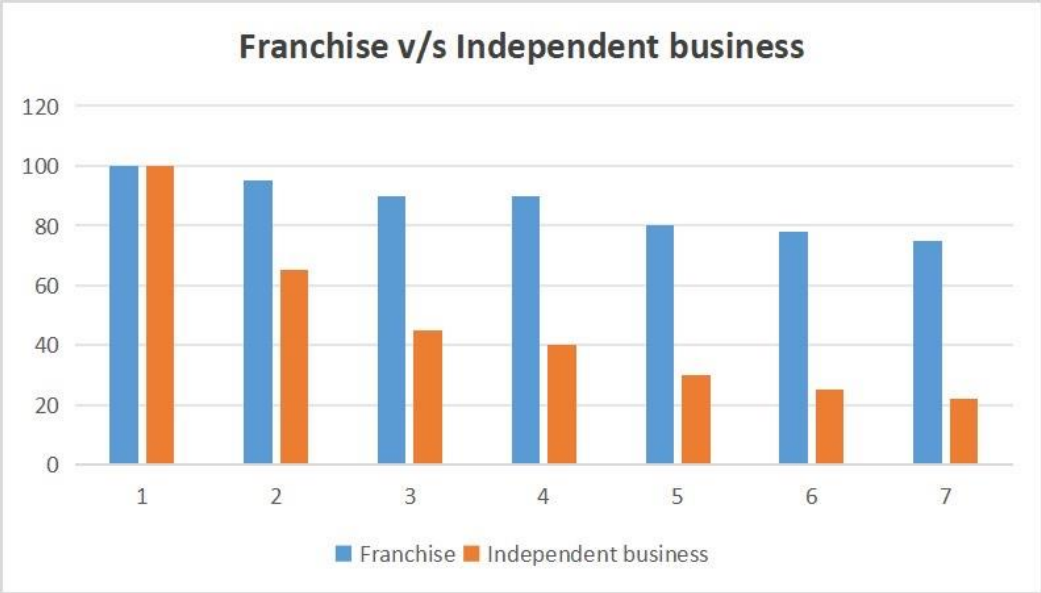
Brand recognition is another important factor to consider. Franchises are typically associated with well-known brands, which can help to attract customers and build trust. Independent businesses, on the other hand, may struggle to build brand recognition from scratch, which can make it more difficult to attract customers and generate revenue.

It is worth noting that while franchising can offer many advantages over independent businesses, it is not necessarily the right choice for everyone. Franchisees are typically required to follow strict rules and regulations set forth by the franchisor, which can limit their creativity and independence. Additionally, there may be ongoing fees and royalties that franchisees are required to pay, which can eat into their profits over time. Ultimately, the decision between franchising and independent business depends on a number of factors, including personal preferences, financial considerations, and the industry in which the entrepreneur is looking to start a business.

Research by FranNet found that 92 percent of franchises were still operational after two years, and 85 percent remained after the initial five years. This stands in stark contrast to independent ventures, as Investopedia notes that only 25 percent of them survive their first year, with 50 percent failing within five years, and 30 percent continuing to operate for ten years.

In summary, franchises boast a greater success rate overall compared to startups. They operate within a set business framework that has proven successful, whereas independent businesses constantly adapt and modify their strategies. Nonetheless, not all franchises guarantee success, and not every independent venture is doomed to fail, underscoring the need for thorough research and comparison when considering franchise opportunities. The success rates for individual franchises can range from as low as 40 percent to as high as 100 percent. It's crucial to look into the success history of any franchise under consideration and to speak with current franchise owners.

ASPECT	FRANCHISE	INDEPENDENT BUSINESS
Brand Recognition and Customer Base	You benefit from an established brand and customer base, leading to quicker sales and profitability due to customer trust.	Building a brand and customer base from scratch is challenging but offers the satisfaction of attracting loyal customers aligned with your unique vision and values.
Operational Support	Comes with a support system, including training, marketing, and operational guidelines, helpful for first-time entrepreneurs. However, it limits autonomy in decision-making.	Complete control over operations allows quick adaptation to changes or personal goals but requires more proactive efforts to find resources and support.
Market Penetration and Expansion	Franchises benefit from an established reputation, aiding immediate market penetration. Franchisors often help with site selection and market analysis for strategic expansion.	May struggle with market penetration and expansion due to limited brand recognition and resources for extensive market analysis.



6. Understanding How Franchising Has Become a Smart Business Solution in The Growth of Business

Case Study: McDonalds

Let's deep dive to understand how franchising is a smart business solution in today's economy with the help of a case study of one of the most successful franchise businesses McDonalds.

Overview of McDonald's: Founded in 1940 by Richard and Maurice McDonald in San Bernardino, California, McDonald's has grown into the largest fast-food restaurant chain in the world. The brand is synonymous with hamburgers, fries, and breakfast items but has evolved its menu significantly over the decades.

Franchise Model

- Structure: Approximately 90% of McDonald's locations are owned and operated by individual franchisees. This strategy allows for rapid expansion and local control.
- Initial Investment: The upfront cost to become a franchisee usually starts at $45,000, with the overall investment ranging from $1 million to $2.3 million, based on the area.
- Monthly Payments: Franchisees are required to pay a monthly royalty fee of about 4% of their total sales and also contribute 4% to national advertising campaigns.
- Key Financial Figures: Revenues exceeding $46 billion globally in 2022. Worldwide Presence: Spans over 39,000 sites across more than 100 nations. Workforce: Hires over 1.7 million individuals globally.

Franchising has been a key factor in McDonald's remarkable growth and success. Here’s a detailed look at how franchising has contributed to its expansion and dominance in the fast-food industry:

i. **Rapid Expansion Scalability:** The franchising model allows McDonald's to expand quickly without bearing the full financial burden of opening new locations. Franchisees invest their capital to establish new restaurants, enabling McDonald’s to increase its footprint rapidly.

ii. **Global Reach:** By leveraging local franchisees who understand regional markets, McDonald's has successfully entered and established itself in diverse international markets.

iii. **Local Market Knowledge Cultural Adaptation:** Franchisees are often local entrepreneurs who understand their communities. This local insight allows McDonald's to tailor its menu and marketing strategies to fit regional tastes and preferences, which is crucial for acceptance in different cultures. Community Engagement: Local franchisees can engage with their communities more effectively, creating a sense of connection and loyalty that enhances the brand's presence.

iv. **Operational Efficiency Standardized Training:** McDonald's provides extensive training programs for franchisees and their employees, ensuring that operational procedures are followed consistently. This results in a uniform customer experience across all locations. Support Systems: Franchisees receive ongoing support in areas such as supply chain management, marketing, and operational best practices, which helps maintain high standards and efficiency.

v. **Shared Risk Financial Risk Mitigation:** Franchising allows McDonald’s to share the financial risks associated with opening new restaurants. Franchisees take on the financial investment, while McDonald's benefits from the royalties and fees generated by each location. Resilience In times of economic downturns, having franchisees absorb some of the operational costs helps McDonald's maintain stability.

vi. **Brand Recognition and Loyalty Consistent Branding:** The franchise model ensures that all restaurants uphold the McDonald's brand standards, which fosters brand loyalty among customers. Consistent branding across all locations helps reinforce consumer trust. Marketing Power: Franchisees contribute to national advertising funds, allowing McDonald's to execute large-scale marketing campaigns. This collective investment amplifies brand visibility and customer engagement.

vii. **Innovation and Adaptability Menu Experimentation:** Franchisees can implement new menu items and promotions on a local basis, allowing McDonald's to experiment with offerings without risking the entire brand. Successful innovations can then be rolled out more widely. Feedback Loop: Franchisees provide valuable feedback from customers, helping the corporate team to adjust strategies and offerings based on real-time consumer preferences.

viii. **Diversified Revenue Streams Royalty and Franchise Fees:** McDonald's generates significant revenue through franchise fees and royalties, which provide a steady income stream. This financial model allows for reinvestment in marketing, technology, and infrastructure. Conclusion Franchising has been instrumental in McDonald's growth, enabling rapid expansion, operational efficiency, and strong brand recognition. By empowering local franchisees, McDonald's has been able to adapt to diverse markets while maintaining high standards across its global network. This synergy between the corporate team and franchisees has solidified McDonald's position as a leader in the fast-food industry.

Conclusion of the case study: In this manner franchising has helped McDonalds to become the brand that is today in the world. It has proven to be a smart business solution in terms of expansion and global reach which contributes to increase in the revenue and become a valuable brand and capturing dominance in its sector. If the company wouldn't have adopted the concept of franchising it would be restricted to smaller areas and would not have become a global brand. This emphasizes how it is smart choice in the way of conducting the business and establishing a brand. The Securities and Exchange Board of India (SEBI) inquiry in the wake of the Hindenburg report has highlighted an important clue to the trend of regulatory action in India especially allegations of regulatory inefficiencies in the management of Adani Group emphasize

7. Conclusions :

Franchising is a smart business solution because it involves moderate level of investment and in return it increases the sales due to which the profit margin because of economies of scale, cost efficiency, established brand and several other factors contribute towards reducing the risk level. Now-a-days franchising is considered as a trend among young entrepreneurs who are ready to start their own business by willing invest money for higher returns at low risk seeking growth and success because if they start an independent business all from scratch it involves several aspects of business-like brand, costs, marketing, customer acquisition and so on which are to be considered to grow the business and establish a brand. So considering all the factors franchising is a better business solution than any other business model.

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