
An analysis of motives and expectations of franchisees while choosing a franchisor, with reference to Fast Food Industry

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Abstract:

India is growing tremendously in all aspects with the help of demographic dividend. Consumerism is also rapidly increases with changes in the lifestyle patterns. People are looking for preferring branded products/services for the value benefits. It is also observed that Indian economy is undergoing a structural shift from agriculture based economy to a service based economy.

In order to seek the benefits of growing economy, many businesses are trying to go for expansion through franchising. This paper aims at understanding the selection criteria of a franchisee while choosing the franchisor. The survey of twenty franchisees was conducted for this purpose. The major finding reveals that Franchisor support is the biggest motivation behind taking a franchise, besides the brand reputation and other.

Keywords:

Franchisee, Franchisor, Fast food franchise, Entrepreneur

Introduction:

After globalization, India's economy is witnessing drastic changes and rapid progress in all the sectors. The franchising is seen as an effective business strategy for expansion by many industries. With the increasing wages, life expectancy rates, literacy rates and improved health condition, there is an emergence of a good size middle and higher middle class, who are aspiring for better lifestyle and branded products.

This Indian market scenario further opens wide scope for franchising. The Indian franchising industry was expected to grow rapidly between 2012 and 2017.

This growth is evident from the mushrooming of franchise outlets of big brands viz; McDonalds, DTDC, KidZee, Starbucks, Lakme Salon etc.

This research paper aims at understanding the reasons behind taking up a franchise by the franchisee perspectives.

Hence the researcher attempts to understand here the franchisee perspectives behind taking up a franchise with the help of fast food franchisee in Pune.

The study here uses a descriptive approach to explore and identify the information. The main thrust of the study was given to understand the motivating factors for the franchise to take up a franchisee. The sample size was 20 fast food franchisees in Pune city.

The finding suggest that the franchisor support is the main stimulating factor behind taking up the fast food franchise besides other reasons.

Thus, findings can motivate other aspiring entrepreneurs to take up the franchise route for their ventures. Also, the study would help franchisors to come up with more franchise friendly strategy that can attract more franchisees and would be helpful for expanding the business.

Conceptual framework-

Franchising:

According to KPMG 2013 report, franchising is the most widely used way of business expansion method adopted by international as well as domestic players. There is no official definition of franchising in Indian law. But the term indicates a way of doing business involving the use of a person called "Franchisee", pursuant to the license of another person's (franchisor's) business model, name, image and business identity along with his or her confidential knowhow to exploit his/her intangible assets in a particular territory for a specified period with or without assured financial returns to the franchisor. According to the Black's Law dictionary, franchise as a license from the owner of a trademark or trade name permitting another to sell a product or service under that name or mark. It is also needed to talk about the 3 distinct types of franchising here

1. Product Franchising:

Under this, dealers were given the right to distribute goods for a manufacturer. For this dealers were given the right to distribute goods for a manufacturer. For this right, the dealer pays a fee for the right to sell the trademark, goods of the producer. e.g Singer selling sewing machines through franchising.

2. Manufacturing franchising:

Under this arrangement, franchisor (manufacturer) gives the dealer (Bottler) the exclusive right to produce and distribute the product in a particular area e. g soft-drink industry selling soft drinks through this mode.

3. Business format franchising:

This is an arrangement under which the franchisor offers a wide range of services to the franchisee, including marketing, advertising, strategic planning, training, products of goods and services, operations manuals and standards and quality control guidance.e.g. McDonald's.

Growth of franchising in India:

According to KPMG survey, following are the stimulating factors for the growth of franchising in India,

1. Availability of robust concept
2. Investment availability
3. Entrepreneurial spirit
4. Exposure to global media
5. Growing preference for branded products
6. Huge consumer class

Franchising in food service industry in India

The food service industry in India, seems to be growing immensely. The lifestyle changes, increased household incomes and increase in the number of working women are some of the reasons for this growth. Moreover quick availability of quality food can also trigger the growth for the increase of this sector. This food service industry was estimated to be worth USD 48 billion in 2012 which was expected to grow at 13 percent CAGR by 2017(KPMG estimates)

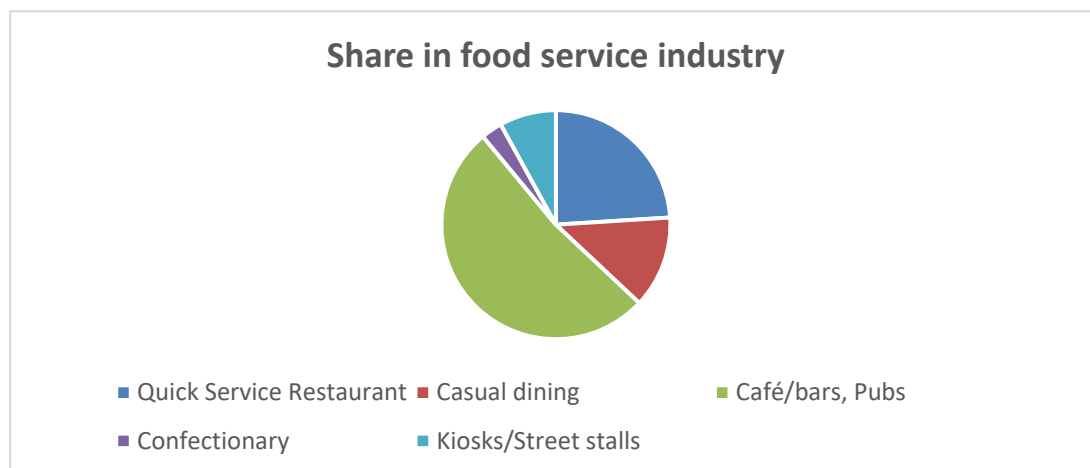
The organized share of restaurant was 3.5% with a franchise penetration of around 70percent of the organized restaurant industry in India as against 90 percent in the US.

Thus it indicates high growth potential in the organized sector of restaurant. The further growth is possible with the help of franchise chains.

Growth Projections of Food Franchise penetration in India:

(KPMG Data)

Sr No	Food and Bev sub category	Share in food service industry	Estimated potential additional outlets during 2012-17
1	Quick Service Restaurant	24%	~4800
2	Casual dining	13%	~2,700
3	Café/bars, Pubs	52%	~11,000
4	Confectionary	3%	~600
5	Kiosks/Street stalls	8%	~2200
6	Total	5700	~27000



Research Methodology:

Objectives of the Study:

1. To understand the reasons that makes franchisee to select a franchisor
2. To understand franchisee expectations from the franchisor

Data Collection:

1. The primary data received for the research was collected using personal and telephonic interviews, with the help of structured questionnaires.
Convenient sampling was considered for the selection of franchisees.

A sample of 20 fast food franchise outlets are considered from Pune city for the study.

The questionnaire was designed to understand,

- The franchisee perspectives behind selection of the franchisor.
- The Franchisee expectations and there by their satisfaction level with the franchisor.

2. Secondary data was collected from academic journal (print and online version), books, periodicals, websites, thesis references, Reports franchise association of India, KPMG reports, newspaper and any other published reports.

Scope and Limitations:

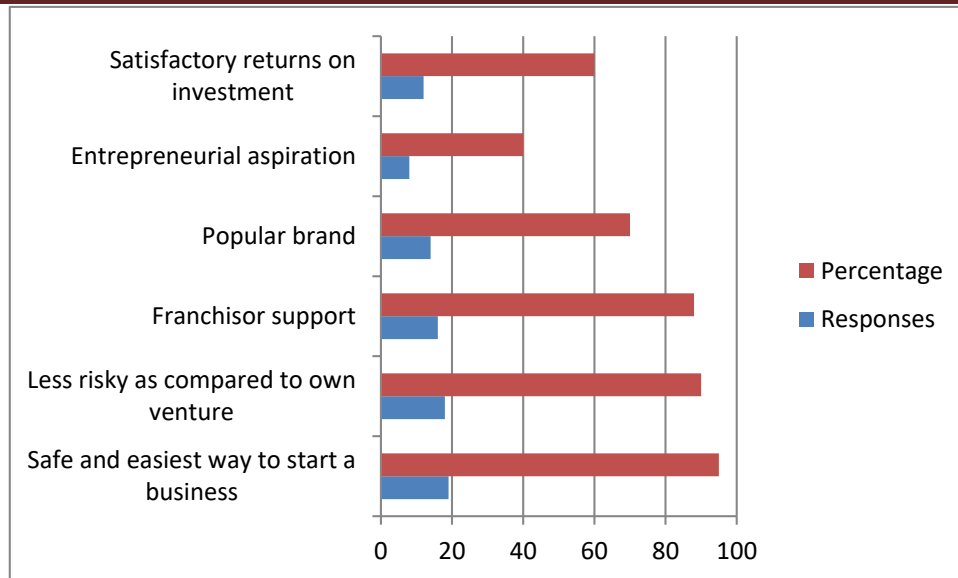
1. The study would help franchisors to plan and decide about their marketing strategies to attract franchisees.

2. The study would benefit franchisees, by gathering more appropriate support from the franchisors.
3. The study would attract the attention of job seekers and entrepreneurs to this emerging franchising sector in India and further would help in boosting the economy.
4. The study is purely based on the information given by the fast food franchisees from various parts of the Pune city, Maharashtra, India.
5. The study is conducted in the current situation and the opinions perceptions and expectations of the respondents may differ with time and place.

Data Analysis and Interpretation

I. Taking up a franchisee:

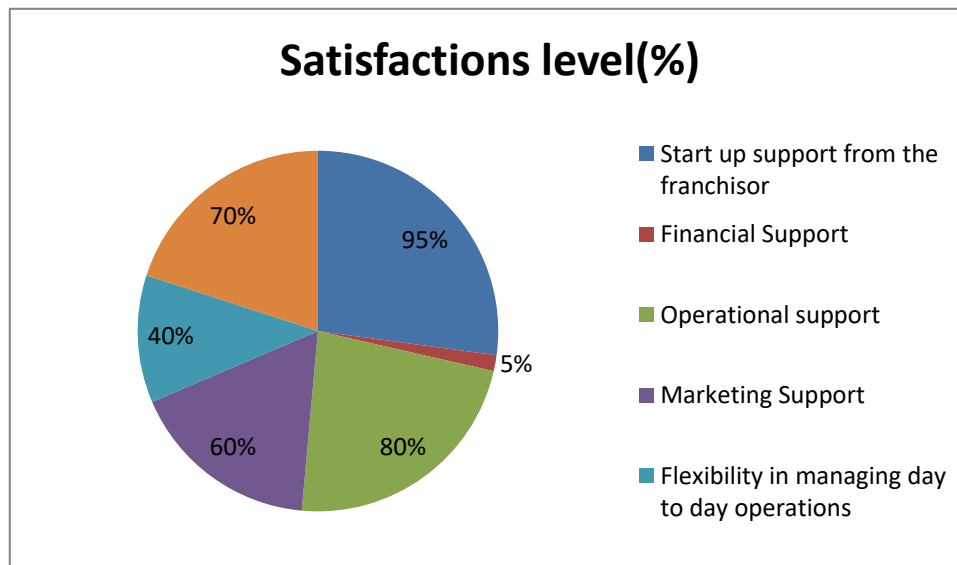
Sr No	The reasons for taking up a franchisee	Responses (20)	Percentage
1	Safe and easiest way to start a business	19	95
2	Less risky as compared to own venture	18	90
3	Franchisor support	16	80
4	Popular brand	14	70
5	Entrepreneurial aspiration	8	40
6	Satisfactory returns on investment	12	60



1. Majority of respondents(95%) agree that franchising is a safe and easiest way to start a business
2. Many of the respondents(90%) also agree with the fact that franchising is less risky since the business is already tried and tested in the market and the results of it are noticeable.
3. Majority (70%) franchisees said that they opt for the franchising because of the brand popularity of the franchisor and they believe that popular brand can attract more customers since the beginning of the business and the franchisee doesn't have to worry about the establishments of brand.
4. Many respondents (60%) preferred franchising due to its satisfactory returns on investment.
5. Some respondents shared that they can fulfill their entrepreneurial aspirations through franchising route with not much risk involved in it

II. Franchisee satisfaction about the franchisor's support.

Sr No	Support from the franchisor	Satisfactions level(%)
1	Start up support from the franchisor	95%
2	Financial Support	5%
3	Operational support	80%
4	Marketing Support	60%
5	Flexibility in managing day to day operations	40%
6	Training and Recruitment	70%



Interpretation about franchisor support to the franchisee:

1. Start up support :

Most franchisees are satisfied with the start up support of the franchisor. The major areas where they received the start up support are:

- Selecting suitable location
- Launching of the outlet(franchisee)
- Initial administrative and operational guidance

2. Financial Support:

Majority of the respondents i.e 95% , said that they don't receive any financial support from the franchisor and had to face lot of hardships while applying for bank loans as they don't have any fixed assets as collateral. But they revealed that franchisor help them in necessary documentation to get the loans

3. Operational support:

Most of the respondents were (80%) satisfied with the operational support they receive from the franchisor. They get the necessary guidelines right from the procurement of raw materials, processing, till the service to the consumer. They get necessary guidelines regarding the pricing too. They also get all the necessary set up guidelines as per the format so as to keep the standardization and maintain the brand name.

Training and recruitment:

Franchisor also provides guidelines for training and recruitment of the staff. Most of the respondents said that the key staff recruitment is done by franchisor. Again this helps in maintaining the quality and consistency of the franchise offer.

Franchisee also acknowledged the trouble shooting support they receive from the franchisor as and when required.

4. Marketing Support:

The franchisees responded that advertising, promotion and local publicity is mostly managed by franchisors. This helps in building brands and creating awareness about the franchisees locally.

Most of the franchisees are satisfied with the marketing support provided with the help of advertising, promotion and local publicity. Though some franchisees said that the marketing support gets reduced after the launch of the outlet. Some franchisees said that they have to contribute to the advertising and promotion expenses which adds to their expenses and reduces to the margins.

Key findings and suggestions:

1. About franchise route by the franchisee :

Many Franchisees adopt franchising route mainly because they feel it is the safest and easiest way to start a business which is also less riskier as compared to starting up own business.

Also the brand image of a franchisor is a major attracting factor for the franchisees.

Hence franchisors need to pay due attention to establish and maintain its brand image. Also they should be transparent about the investment requirements and the potential profitability of the franchisees since return on investment counts a major motivator for them.

2. About franchisor's support:

Franchisor's overall support has been greatly assumed by the franchisees. This seems to be attracting the preference of entrepreneurs for going for franchisee over starting their own business. It seems that most of the franchisees are satisfied with the franchisor's start up and operational support. Some of them are also seemed to be satisfied with the marketing support. However, they have revealed that the marketing support diminishes after the launch of the franchisee.

Hence franchisors need to note that the marketing support should remain continued even after the launch so that they can fight with the emerging competition of new outlets.

Regarding financial support, most of them were not satisfied with the financial support and were really faced lot of difficulties for arranging their finances. If franchisors come forward with the necessary loan arrangement with the help of tie up banks and other financial institutions, that will benefit the franchises.

Also franchisors can support promising entrepreneurs by offering initial funding or reducing the franchising fees.

These efforts would encourage more entrepreneurs to go for a franchisee .

Conclusion:

The tried and tested format of the franchise business and the franchisor's support to the franchisee seemed to be the major deciding factors for the franchisee to go for a franchise rather than going for own business.

The understanding of franchisees' perspectives in regards to choosing franchise route and expectations about franchisors' support would also help franchisors in deciding the right marketing strategy to attract franchisees and expand the business.

The franchising industry has to take cognizance about this scenario and adopt in practice various franchisee friendly policies that would promote franchising in India.

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