

## FRANCHISE AS A MODEL FOR BUSINESS GROWTH

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### **Abstract**

Franchising is a method of providing services and products to the customers and is a system the business owner permits or issues licenses to others to provide services and products in his or organization name and allows usage of its trademark. Models like business format and product franchise are studied to understand their nature. There are many ways of entering into an agreement and also different levels at which a franchise can operate. There are multiple benefits of adopting franchising as model for business growth and the potential of the market can be effectively leveraged which offers potential to growth at a faster pace. The successful case studies have been highlighted to emphasis the growth story of a business by adopting the franchising model of business.

**Key Words:** Business Growth, Marketing, Operation, Market Potentials, etc..

### **Introduction**

Franchise, as we know today, is basically an agreement between two legal entities giving the right to a person or a firm, called franchisee, the right to sell a product or service under the trade mark or name of the other business entity also called as franchisor. The franchisee buys the right to carry out the business for a certain time by paying fee to the franchisor. So the franchisor has the commitment to pay fee for the support he gets from franchisor and franchisor has the obligation to provide the needed support like marketing and in standardizing the operations to carry out the business by the franchisee. The rudimentary form of franchising has been in existence since ages as the Kings used to permit their representatives to rule over a region under their name carrying out their orders and interests by asking them to pay taxes or certain fee at regular intervals.

### **Objectives**

- To understand the concept of franchising

- To study the process and operation of franchising
- To assess the franchising as a model for growth of business

### **Literature review**

Franchising, as a form of organizational will contribute to increase and gaining importance in the provision of services, jobs and self-employment opportunities (British Franchise Association/NatWest, 2004; PricewaterhouseCoopers, 2004).

There have been numerous debates on the issue of franchise definitions (Hoy and Stanworth, 2002) but a broad definition, framed to meet the points commonly raised in debates, has defined franchising as: A business form essentially consisting of an organisation (the franchisor) with a market-tested business package centred on a product or service, entering into a contractual relationship with franchisees, typically self-financed and owner-managed small firms, operating under the franchisor's trade name to produce and/or market goods or services according to a format specified by the franchisor. (Stanworth and Curran, 1999).

### **Types of Franchise**

There are many types of franchises though mainly two types of franchises are more popular. The different types of franchises are business format, product distribution and management franchise. Among them business format and product franchise are more popular.

### **Business Format Franchise**

The most common type of franchise, the business format franchisee uses the product, service and trademark along with adoption of ways and methods of doing the business. The franchisee adopts and implements the business owner's operation manual, marketing plans and strategies. Here the franchisor supports and provides the franchise with training and other inputs required to emulate the front office, back office and other operational methods to be followed so that the quality and brand value is protected. Some of the major examples in this type of franchise are, Pizza Hut, Domino's pizza, KFC, Marriott Hotels, 7-Eleven mart etc.

### **Product Distribution Franchise**

This franchise model typically appears like a supplier-dealer arrangement. The product distribution franchise basically sells the franchisors product. Though the franchisors provides the franchisee with the license to use the trademark and logo, the franchisor may not support the franchise with other business support systems to run the business. The franchisor may not be interested in sharing and

ensuring the standardization of operations, marketing plans and strategies. The product distribution franchising is larger among the type of franchising.

Typical examples for this type of franchising are in automobile industry, petroleum products and soft drinks.

### **Management Franchise**

This type of franchise is ideal for someone who wants to own a business but does not want to run the business. Rather than franchisees being responsible for the day-to-day running of the business, they take more of a managerial role. It is advantageous for a management franchisee to have proven business-related skills though it isn't always essential. As in the case of a business format franchise, here also the franchisees receive training, support and advice from the franchisor in return for specified fee. However, the main difference is that the franchisee focuses on the growth and the development of the business, rather than being heavily involved in the operational running of the business.

### **Levels of Franchising**

Franchising can happen at different levels i.e how the operations of franchise can be made.

#### **Single unit Franchises**

A single unit franchise is restricted to operate only one franchise unit. It is a preferred way to start the business and provides a means to understand the intricacies of franchising before embarking on expansion through more franchise units.

**Territory:** The single-unit franchisee may have a small radius of exclusive territory to operate within. If it is a retail store, it may be a two or three mile radius around the store.

**Level of participation:** The single-unit franchisee is very involved with almost all operations. Because of this level of involvement, these franchisees are also known as owner-operators.

#### **Multi-unit Franchises**

If the franchisee acquires more than one unit of the franchise usually at a discounted initial franchise fees it is called multi-unit franchise This is indicative of a good sign of the strengths of the franchising organization.

**Territory:** There is normally no exclusive territory restriction where the franchises must be opened. The franchisee may have one unit in one part of town with a surrounding radius of exclusivity and another unit in another part of town far away or even in another city with its exclusive radius of operation.

**Level of participation:** The franchisee is less involved with each unit's operations but is managing

multiple operations and will need to have some level of supervision in each unit. The franchisee acts as a general manager. If many units are opened, a general manager and additional administrative and training staff may be needed.

### **Area Development Franchises**

This license usually grants the franchisee the right to open a certain number of franchises in a given area. There is usually a production schedule where the area development franchisee must open a certain number of franchises during a certain period. As long as the area development franchisee stays on track in opening franchises in the area, he/she has an exclusive area where no other franchisees are allowed to open a franchise. Area development franchisees also typically pay reduced franchise and royalty fees.

**Territory:** The area development franchisee maintains an exclusive geographic territory as long as the opening schedule is maintained. The territories range from a small city to parts or all of a larger city.

**Level of participation:** The area development franchisee will be very involved in the opening of the first store to ensure its success. Another important function will be to look for qualified real estate to open the next few locations. Once several locations are open, the area development franchisee will need assistance to manage the units.

### **Master Franchises**

Sometimes called a regional developer, a master franchisee has all the rights of an area developer and usually assumes a larger area. The main difference is that the master franchisee, in addition to opening franchises at reduced franchise and royalty fees, can also sell unit franchises, multi-unit franchises and area development franchises, and profit from those sales. The master franchisee usually receives a part of the ongoing royalties paid by each franchisee. There may be additional income available from distribution of products through the franchisees in the area and possibly some real estate interests in franchisee locations. The master franchisee will usually operate at least one unit for income generation, for use in franchise sales, and for use as a training facility. Master franchises are rare, and when they are available, they are usually sold quickly. Because of the multiple revenue streams associated with a master franchise, the potential return on investment is substantial.

**Territory:** Usually is a large metropolitan area, an entire state, or even several states or country. It is an exclusive area and will remain exclusive as long as the master franchisee meets the development schedule of franchises in the territory.

**Level of participation:** The master franchisee will usually open at least one unit and use a manager to

manage it while selling other “sub-franchises” and helping them to operate properly. Very rarely is a master franchisee “hands on” in a unit franchise. They generally spend more of their time operating as a business consultant or coach to their franchisees to help them become successful.

### Benefits of franchising

There are multiple benefits that can be achieved by adopting franchising as a business model. Some of them can be listed as

- Capital optimization can be achieved for expanding over the territories and for setting up of service outlets
- New markets can be captured as the franchise readily provide the knowledge about the local markets
- Ease of supervision can be achieved as franchise units operate as independent entities with profit targets

### Franchising in India

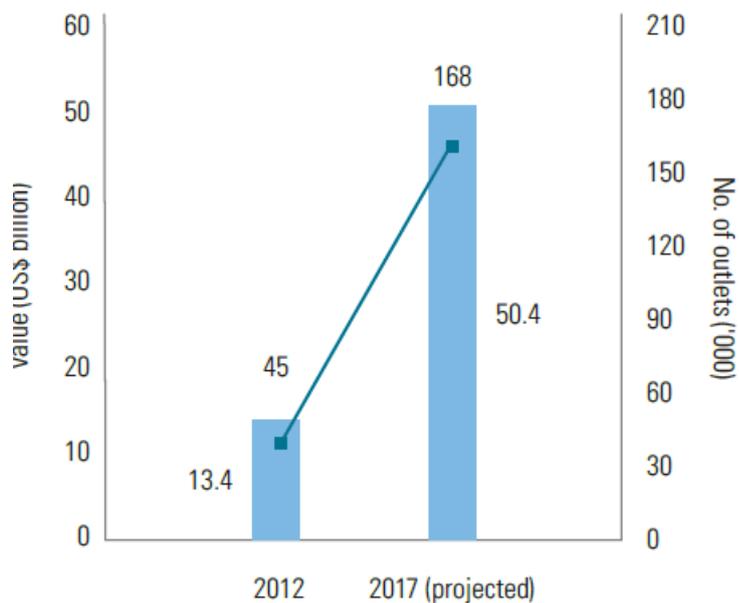
According to KPMG India’s estimate, the franchising industry is expected to multiply by four times between 2012 and 2017. The contribution by franchising industry is expected to be around 4% of India’s GDP by 2017. The services sector including financial industry is the major contributor to the growth of franchising in India. Health and wellness segment followed by retail and education are the major sectors leading the growth in the franchising industry in India.

### Contribution of Franchising to GDP and Employment (2012)



Source: KPMG in India Analysis

### Estimated franchising industry market potential (2012-2017)



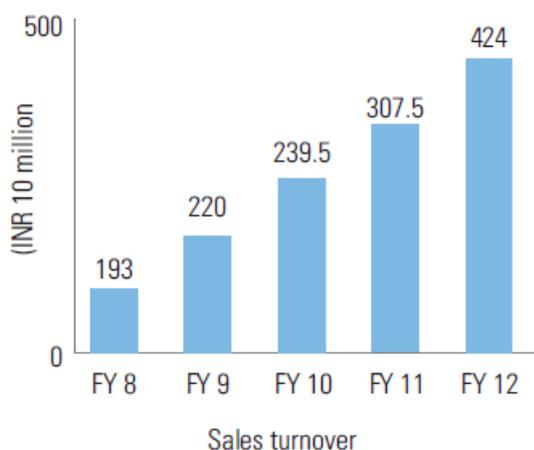
Source: KPMG in India Analysis.

### SUCCESS STORIES IN FRANCHISING IN INDIA

#### DTDC

DTDC operates in the area of courier and cargo and has started the operations in terms of franchising in 1990's. The low investment and low cost operations have been the USPs of the franchise option with low educational barriers and cash flow assured from initial months. The breakeven period is expected around 9 months.

The growth in sales turnover for the organization is given below

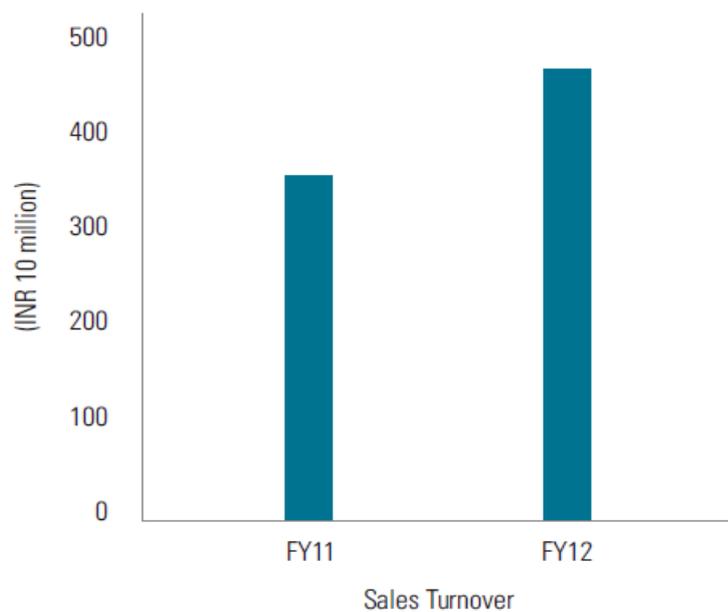


Source :Moneycontrol.com

## VLCC

VLCC operating in the segment of beauty and wellness is another classic example of successful franchising. Starting the operations of franchising in 2007, the company now has more than 50 outlets (Aug 2012) across the country and neighbouring countries. VLCC provides free start-up training in to the franchise staff in the areas of products, services, client handling and operations.

The sales of VLCC are



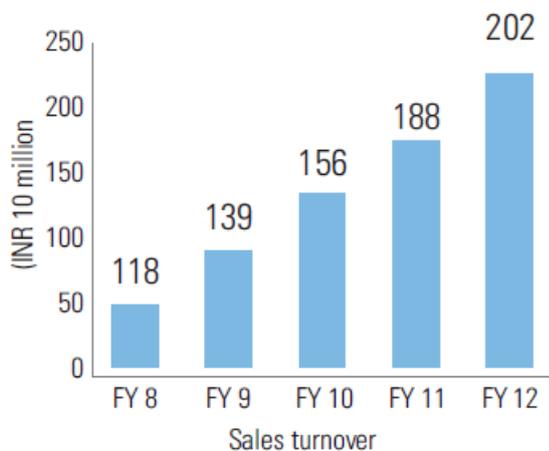
Source: ICRA

## Archies

Archies is a well-known brand operating in the retail sector of greeting cards and gifting. It began the operations of franchising in the early 1990's and has now more than 350 franchisee stores in more than 100 cities across the country. Archies believes and implements 360 degree support to its franchisee units and provides support in all possible areas right from setting up of stores to operations and supply chain management.

The location and customer profiling is very important for the selection of franchise unit for Archie. The ideal location will be near to colleges and high end residential localities. The ambience and layout of the store will play a critical role in attracting the customer footfalls

Though the breakeven period is high at 3 years, the growth in the sales for Archies can be observed as



Source: Moneycontrol.com

### **Conclusion**

This study attempted to look at franchise as an option for driving the growth of business. The various options in franchising are explored and then the market potential is studied with identification of potential areas for growth. Though the study is not complete in all aspects it gives fair idea of franchising as a business option.

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