

## **Advantages of Franchising**

There are several distinct reasons for using franchising as a method for doing business for both franchisor and franchisee. Some of the most important reasons for franchising from a business perspective are discussed here.

For the franchisor, franchising has distinct advantages over expansion through company owned stores:

### *Advantages to the Franchisor*

#### *Spreading Capital Costs*

Franchising is a method for spreading the capital cost of market expansion. Increasing the market for any product or service usually requires expenditures in facilities, sales outlets, personnel, inventory and advertising. Immense effort must be put into opening a new market, and there is always a risk of failure. In franchising, the franchisee bears a considerable portion of these burdens, especially the cost of establishing new outlets and the risk of opening new markets. The franchisor is thus relieved of this cost, but nonetheless receives a fee for the use of its name, trademarks and business concepts.

#### *Rapid Market Expansion*

Franchising may be a rapid method for achieving expansion of a product market. Unless the manufacturer or seller has immense capital resources, it generally cannot expand into new markets as quickly as it can by franchising. Rapid expansion, in turn, may be the key to achieving market dominance and long-term sales for the franchisor's product or service.

#### *Developing and Expanding a Trademark*

Franchising is a method of capitalizing on a trademark or tradename. Franchising multiplies possibilities for distributing products or services. A chain of hair salons might market a line of hair-care products; a popular brand of ice cream sold in stores might franchise ice cream parlors; a manufacturer of picture frames might franchise outlets for do-it-yourself framing.

#### *Distribution of Service—Intensive Products*

Franchising is often an appropriate way to distribute industrial processes or machines, especially if they require a great deal of service. Through franchising, the franchisor may provide for a network of franchisees who are trained and qualified to service the product without incurring the cost of setting up service centers itself. In addition, the franchisor can exercise close supervision over the manner in which the products are serviced.

#### *Maintaining Quality Control*

Franchising is a method of insuring that proper postsale servicing or maintenance is available to customers, and of maintaining quality control over the product. The most obvious example of this

advantage is the automobile industry, where franchised dealers are trained in the sale and servicing of new models before they receive them. They also purchase special tools and an inventory of parts specified by the manufacturer for the new model. Such control may also help protect the franchisor against product liability claims.

### *Economic Efficiency*

Franchising has inherent efficiencies as a method of doing business. On the one hand, it relieves the franchisor of the burden of managing individual sales outlets and of carrying the overhead and burden associated with those businesses. A second source of efficiency arises from the economies of scale that can be achieved by having many outlets selling identical products or services. A well-orchestrated franchise system operates efficiently as a vertical sales organization with the product or service moving from the producer or franchisor through the franchisee to the marketplace. Additionally, individual franchise operators who own their own businesses tend to be more productive than employee managers of company-owned stores.

### *Advantages to the Franchisee*

For the prospective franchisee, franchising offers several advantages to the two most obvious alternatives—employment by others or ownership of an independent business. Among these advantages are the following:

#### *Individual Business Ownership*

Franchising makes the possibility of owning one's own business available to thousands of people to whom it otherwise would not have been available. For those who have no previous business experience, franchising may offer a shortcut to ownership of a business.

#### *New Opportunities*

Franchising has created vast numbers of new business opportunities in myriads of fields. It offers alternatives that were not previously available.

#### *Risk Management*

For the most part, franchising substantially reduces the risk of owning and running a new business. Because franchising is founded upon a trademark license, the franchisee may find that potential customers recognize the trademark and patronize the business because of it. Because the franchisor usually has an established product or service, the franchisee runs considerably less risk of failing to launch a new product.

#### *Easy Entry to the Marketplace*

Franchising reduces the barriers to opening one's own business. In a mature franchise system, the franchisee is relieved of the burden of creating a product, identifying a market, finding a location, and preparing a business plan for raising capital.

#### *Ease of Operation*

Franchising eases the burden of operating a business. Many franchise systems pave the way to suppliers, provide established accounting systems tailored to the business, train the franchisee in operations, and provide continuing guidance and counseling.

#### *Future Opportunities*

Franchising may be a stepping stone to other business ventures. Some franchisees have moved on to other independent businesses while others become executives in franchisors.