Article title: Why franchising is a smart business model: a comprehensive review

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Why franchising is a smart business model: a comprehensive review

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ABSTRACT

Entrepreneurship is the act of starting and running your own business or the creative desire to work on your own projects. The notion of entrepreneurship has evolved significantly over the last few decades, and it cannot be disregarded today. Many businesses have emerged, and the most successful are those that rely on a sound business model. The franchising business model is one solid business model that has proven its effectiveness in recent years. Franchising is a type of marketing and distribution in which the owner of a business system (the franchisor) provides the right to run a business by selling a product or delivering a service using the franchisor's brand and business system to an individual or group of people (the franchisee). This concept is well-known in the fast-food business (which has several famous franchisors such as McDonald's and KFC). This paper provides an overview of franchising: what it is, how it evolved, and what the pros and cons of franchising are for both the franchisor and the franchisee.

Keywords: *Business model, expansion, international franchising, partnership.*

1. Introduction

There are currently over 785,000 franchise firms in the United States, which contribute over $500 billion to the economy. This is because franchising has become a popular method of business expansion. The simplest explanation of franchising is that the first business owner (the franchisor) sells the right to use its brand and concept to the franchisee, who purchases this right to be able to sell the franchisor's goods or services under an already existing name or trademark. The contemporary form of franchising first appeared in the United States, in Philadelphia, on September 13, 1731, when Benjamin Franklin and Thomas Whitmarsh agreed that Whitmarsh would have the right to publish Franklin's writings and utilize them for his own. While the agreement was not the same as the current franchise structure, it did include many of the most important elements that we now recognize in franchising. Following that, the first food and hospitality franchises appeared in the 1920s and 1930s.

Franchising is regarded mostly as a win-win situation between the franchisor and the franchisee. This is due to the fact that it provides benefits to both of them. For the franchisor, franchising helps him to build his firm without incurring debt since franchisees provide cash. Franchising also reduces the franchise's overall liability by giving the franchisor the advantages of an additional location without the risk. Another advantage of franchising is that the more stores a firm has, the more people know about it. And the more these customers understand and enjoy the brand, the more profitable it will be. Also, the franchisee benefits since he starts a firm that is already well-known and has a large consumer base. As a result, he is free to grow without the burden of demonstrating his products and competing with competitors. *(Salar & Salar, 2014)*

It goes without saying that franchising will have certain drawbacks for both the franchisor and the franchisee. The most significant disadvantage of franchising is connected to control. The franchisor is forced to give up (indeed, sell) some of his power to the franchisee. However, he may still manage a lot of things to ensure consistent quality in all of his franchise's branches, which frequently frustrates the franchisee and limits his influence. As a result, disagreements between the franchisor and the franchisee are common.

2. Overview

2.1. What exactly is franchising?

A franchise (or franchising) is simply a way of distributing goods or services. When a company wishes to extend its market share or geographical reach at a cheap cost, it might franchise its product and brand name. A franchise is a partnership between a franchisor and a franchisee. The initial business is the franchisor. It sells the right to use its name and concept. The franchisee buys the right to sell the franchisor's goods or services under a name or trademark that is already in use. Many people nowadays choose franchising because it provides them with access to the brand name of an already established company. You won't have to spend money promoting your brand and goods to customers. When joining a highly competitive business such as fast food, this method is fairly common. *(Webber, 2013)*

To understand how essential this concept is now, consider that there are currently over 785,000 franchise businesses in the United States, which provide about $500 billion to the economy. Franchises feature recognized brands such as McDonald's, Subway, Starbucks, Pizza Hut, Dunkin' Donuts, Taco Bell, and Burger King in the food industry (one of the biggest businesses that incorporate franchising). Other well-known franchises include Hampton by Hilton, Day's Inn, 7-Eleven, and Anytime Fitness.

2.2. How did franchising begin?

Most business historians trace the origins of franchising to the middle ages when feudal rulers began selling the rights to collect taxes and conduct markets on their behalf to others. However, this example of franchising was political rather than commercial in nature. Moreover, many histories of contemporary franchising in the United States credit Albert Singer and the Singer Sewing Machine Company as the first commercial franchisors, dating franchising back to 1851. However, John "Albert" Singer was just seven or eight years old in 1851, and the Singer Manufacturing Company never issued franchises: the company expanded rather through local offices that were run autonomously by its workers.

Commercial franchising in the United States originated in the Colonies, in Philadelphia, on September 13, 1731, with an agreement between Benjamin Franklin and Thomas Whitmarsh "for the carrying on of the Business of Printing in Charlestown in South Carolina." While the agreement is not identical to the modern-day franchise structure, it does feature many of the most crucial components that we recognize in franchising today. Whitmarsh was obligated to handle the business personally for six years under the terms of the agreement. He was in charge of the firm's costs: all of the equipment and paper needed for the operation were to be acquired from Franklin, and Whitmarsh was in charge of maintaining the equipment. Furthermore, Whitmarsh committed to an in-term agreement not to participate in any other printing business during the term, whereas Franklin was free to form new connections with others. Many of Franklin's writings, notably "Poor Richard's Almanac," were printed by Whitmarsh, and Franklin had the authority to designate a successor if Whitmarsh died or left the business. *(The History of Modern Franchising | International Franchise Association, n.d.)*

In the 1920s and 1930s, the first food and hospitality franchises were established. In 1925, A&W Root Beer began franchising operations. Furthermore, Howard Johnson Restaurants debuted its first location in 1935, quickly growing and paving the way for the restaurant chains and franchises that have come to characterize the American fast-food business to this day.

2.3. Advantages and disadvantages of franchising

2.3.1. Advantages for the franchisor

Although franchising businesses requires some time and money, it offers the franchisor many benefits and the ability to earn a lot of money in the form of franchise fees. The first advantage is that expanding as a franchise allows for debt-free growth: the business expands as cash is made available by franchisees. The franchisor also bears less risk with the franchisee because the franchisee signs the deed for the physical location of the business, lowering the franchise's overall liability: the franchisor receives all of the benefits of an extra location without taking on the risk. Furthermore, franchising is an effective strategy to develop since sharing the burden of launching units with another business owner makes the process easier and relieves the initial business owner of the strain. Another advantage of franchising is that the more outlets a company has, the more people are aware of it. And the more these clients learn about and appreciate the brand, the more profitable and successful it may be. Last but not least, as a franchisor, the only help that can be given to a franchisee is training and business knowledge. The franchisor has no say in personnel management, recruiting, or firing. This low level of staff supervision lets the franchisor focus on growing the business rather than running it day to day. *(Blair & Lafontaine, 2005)*

2.3.2. Disadvantages for the franchisor

While there are several advantages to beginning a franchise, there are also some cons. To begin, when a franchisor launches a franchise, there is a starting fee to get the business up and running. He must ensure that the franchise agreement is clearly prepared and examined by a franchise law expert. He may also employ a franchise consultant for assistance. To cut it short, beginning a franchise necessitates an initial investment of both time and money. Another downside is that when a franchisor enables a franchisee to launch a business under their name, they give up some control over the branding of their small business. While the franchise agreement should include strong specifications and standards to govern the franchisee's actions, franchisees will not be clones of the parent business. They will think and behave differently, and this loss of control will cause the brand to suffer, which brings us to the second issue: conflicts. While a well-drafted and lawyer-approved franchise agreement should reduce the likelihood of problems between the franchisor and franchisees, such conflicts are nevertheless conceivable. These conflicts can be costly in terms of both time and money, jeopardizing the franchise's profitability.

2.3.3. Advantages for the franchisee

Franchising has a lot of pros for the franchisees as well. Being your own boss is one of the most significant advantages of running a business. Many people create franchise firms because they get to be their own bosses while still obtaining help from the franchise's knowledge base. They may set their own hours, have control over their jobs, and perhaps work from home. Brand awareness is another significant benefit that franchisees obtain when they launch a franchise. Starting a brand and building a client base from the ground up takes time when starting a business from scratch. Franchises, on the other hand, are well-known enterprises with built-in consumer bases. As a result, consumers will instantly understand what this business is, what it offers, and what they may anticipate. Hence, franchises, on average, have a lower failure rate than sole proprietorships. When a franchisee invests in a franchise, they are joining a strong brand as well as a network that will provide them with assistance and advice, making it less likely that they will fail. Furthermore, franchises have previously proven their business model, giving franchisees confidence that their products or services are in high demand. Another significant advantage of franchising is the sheer magnitude of the network. If one is running a tiny business and needs to order materials or supplies to manufacture his products, he will pay more per item because his order is relatively small. A network of franchisees, on the other hand, has the chance to acquire items at a significant discount by purchasing in bulk. The parent business may leverage the network's strength to negotiate bargains that benefit every franchisee. Furthermore, franchisees, in general, generate larger earnings than independently created enterprises. Most franchises have well-known brands that attract a large number of customers, resulting in greater profitability. As a result, the risk of starting a franchise is smaller. The franchise network is one of the reasons franchise owners incur less risk than independent business owners. Most franchises are owned by established organizations that have tested and proven the franchise's business model in many areas. This decreased risk may also make loans more accessible. *(Combs et al., 2004)*

Finding consumers is one of the most difficult challenges for every new business. Franchises, on the other hand, provide immediate brand awareness and a dedicated consumer base. Even if the franchisee is building the first franchise location in a small town, chances are potential customers are already aware of the brand due to exposure to TV advertisements or travel to bigger cities. Finally, one of the advantages of franchising for the franchisee is the business help provided by the franchisor. Depending on the franchise agreement and the business structure, the franchisee may obtain practically a turnkey business operation. They may be given the brand, the equipment, the supplies, and the advertising strategy—basically, whatever they need to run the firm. Other franchisees may not give everything, but all of them provide at least the franchisor's knowledge and wisdom. The franchisee has access to a vast pool of business support to help them through the process of owning and managing a firm. This information is vital for running a successful business and makes it far easier than establishing one from the beginning.

2.3.4. Disadvantages for the franchisee

Among the drawbacks of franchising is the absence of privacy. The franchise agreement will almost certainly state that the franchisor has complete control over the franchise's financial ecology. However, if the franchisee appreciates financial counsel, it may be less of an issue. Another issue is the initial franchise fee investment. It may be expensive, especially if the franchise is well-known and successful. While this frequently results in higher earnings, coming up with this initial capital can be difficult for any small business owner. However, there are franchise finance options available to assist with this initial expenditure. In addition to the initial expenditure required to launch a franchise, there are also recurring costs that are specific to franchises. The franchise's continuing expenditures should be specified in the franchise agreement. These expenses might include royalties, advertising, and a fee for training services. Furthermore, while a franchise allows the franchisee to be their own boss, they do not have complete authority over their business and cannot make decisions without consulting with the franchisor. The franchisor has some influence over the bulk of the franchise business and the franchisee's actions. The franchisor can control any of the following parts of the business, depending on the franchise agreement: business location, hours of operation, holidays, price, signs, layout, décor, products, advertising and marketing, and resale terms. These constraints are in place to keep the individual franchisees and the overall brand consistent, but they may also be annoying and seem confining to the franchisee. And because of that, disagreements develop. While one of the advantages of owning a franchise is the network of support one receives, there is also the possibility of dispute. While a franchise agreement defines the franchisee's and franchisor's expectations, the franchisee has little capacity to enforce the franchise agreement without an expensive court struggle. The intimacy of the commercial connection between franchisor and franchisee is ripe for conflict, whether it's due to a lack of support or just a clash of personalities.

3. Conclusion

The paper delved into franchising, a relatively new business concept that has been shown to be effective over the last decades. It defined franchising as follows: the initial company owner (the franchisor) gives the right to use its brand and concept to the franchisee, who acquires this right to sell the franchisor's goods or services under an already existing name or trademark. It also examined the origins of franchising: the earliest kind of franchising arose when Benjamin Franklin and Thomas Whitmarsh agreed that Whitmarsh would have the right to publish Franklin's writings and use them for his own. Following that, in the 1920s and 1930s, the first food and hospitality franchises developed. The paper also addressed the advantages and disadvantages of franchising for both the franchisor and the franchisee. Because franchisees give cash, franchising allows the franchisor to develop his business without incurring debt. Another benefit of franchising is that the more outlets a company has, the more people are aware of it. And the more these clients appreciate and understand the brand, the more profitable and successful it will be. The franchisee also benefits since he is starting a company that is already well-known and has a strong consumer base. As a result, he is free to expand without having to demonstrate his wares or compete with competitors. Regarding the disadvantages, the most serious downside of franchising is related to control. The franchisor is obliged to cede (by selling) part of his control to the franchisee. However, he may still have to handle a lot of things in order to ensure uniform quality across all of his franchise's locations, which usually annoys the franchisee and restricts his influence. As a result, conflicts between the franchisor and the franchisee are widespread.

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