

# Franchising

A Franchise is the legal right to use the brand name, products and business style of an existing business. McDonald's restaurants often operate as franchises. In this case, a business person has paid McDonald's a fee to open a franchise of McDonald's. The franchisee (the person who has bought the franchise) now has the right to use the brand, business style etc of McDonald's in a specific area. Franchising in general is a fast growing business format, an industry worth an annual £10 billion a year to the economy and which now employs over 360,000 people in the UK.

**Franchisor.** The owner of the brand name, products and trading style, who licences to the franchisee the right to use these.



**Franchisee.** Individual or firm who buys or leases the right to use the brand name, products and trading style developed by the franchisor

The financial relationship between the franchisor and franchisee does not end with the payment of the franchise fee. The franchisee will often be required to buy supplies, raw materials, stock etc from the franchisor (the seller of the franchise), pay annual fees, and may even have to pay a share of his profits to the franchisor. The franchisor will also regularly check on the performance of the franchisee to ensure that the brand is not being devalued in any way and that standards are being maintained.



So the franchisee is in somewhat of a straightjacket, paying a monopoly supplier for stock, paying over to the franchisor a portion of his profits and being regularly checked on. So with these restrictions, why is franchising so popular? There are in fact, a number of advantages to the franchise system for the franchisee, these include:

- **Use of an established brand name-** this should help guarantee customers.
- **Help in training and recruiting staff,** and setting up business systems
- **Nationwide marketing campaigns** - from franchisors like McDonalds and Body Shop.
- **Easier to sell a franchise,** than an unbranded business.

The franchisee will received guidance on general business matters, and a good franchisor will do everything they can to help guarantee the success of franchisees. One way of looking at a franchise is that it helps overcome many of the problems inherent in setting up business as a sole trader.



The franchisor by selling a franchise obviously gains as well. The advantages from the franchisors point of view are;

- **Fast growth** - with lower risk
- **Economies of scale** - bulk buying for the franchises
- **Increased income** from franchise fees
- **Managers (franchisees) who are committed to the success of the business and hard working**

There are nearly 800 franchising firms operating in the UK, covering everything from accountancy, to pet care. Some are very similar to each other, for example there are 4 franchisors who's business model is based on lawn care, each claiming to be the leading lawn care specialist. Fastest growing franchise chains include coffee shops such as Coffee Republic, and community magazines.

Buying a franchise does not guarantee success, not all franchise formats succeed, and not all people will be successful entrepreneurs, no matter how much back-up they receive. But figures show that franchises are a good way of starting up in business, and greatly reduce the risks of going it alone. Before buying a franchise, the potential franchisee should research the market carefully, and find out exactly what they are paying for. Franchises can cost anything from a few thousand to £100,000 plus and the potential franchisee should ask the question 'would the cash spent in buying the franchise, be better used by myself in setting up my own business'?

## Notes