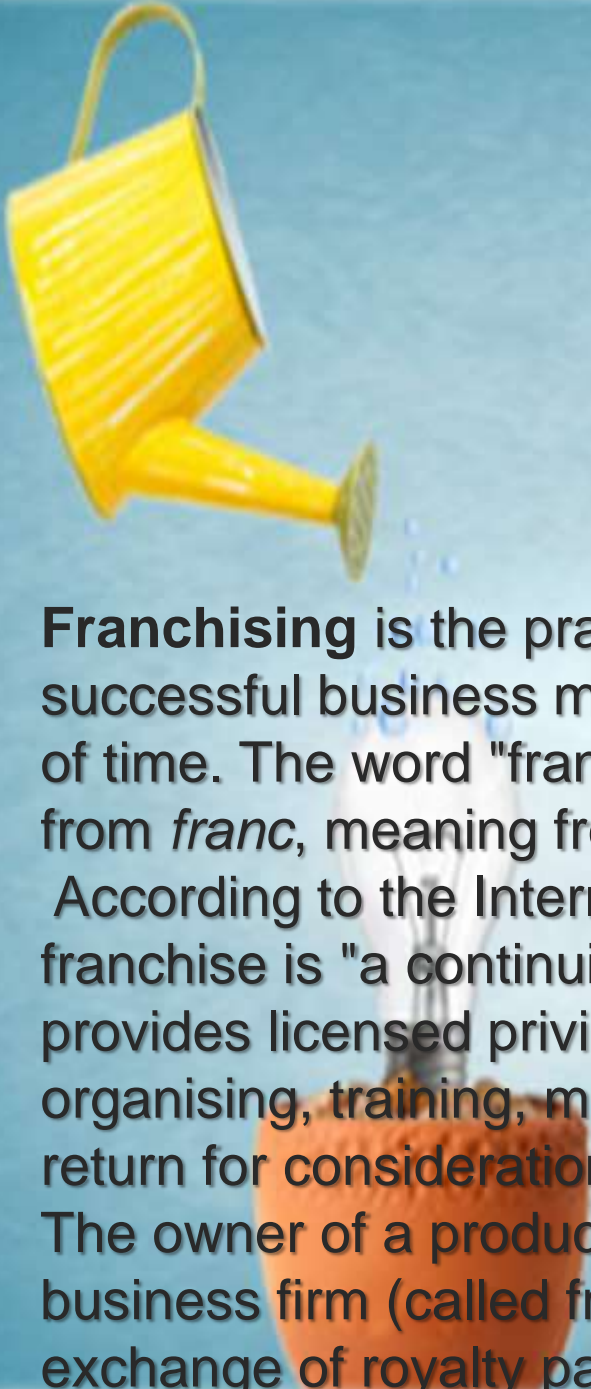




FRANCHISING


A yellow watering can is tilted, pouring water into a terracotta pot. The background is a light blue gradient with a white box containing the title. On the left side, there are decorative white circles.

What is Franchising?

Franchising is the practice of the right to use a firm's successful business model and brand for a prescribed period of time. The word "franchise" is of Anglo-French derivation—from *franc*, meaning free.

According to the International Franchising Association, a franchise is "a continuing relationship in which franchisor provides licensed privilege to do business plus assistance in organising, training, merchandising and management in return for consideration from franchisee."

The owner of a product (known as franchisor) permits another business firm (called franchisee) to sell the product in exchange of royalty payments.



Thirty three countries—including the United States and Australia—have laws that explicitly regulate franchising, with the majority of all other countries having laws which have a direct or indirect impact on franchising.

Key Features:

(1) immediate name recognition, (2) tried and tested products, (3) standard building design and décor, (4) detailed techniques in running & promoting the business, (5) training of employees, and (6) ongoing help in promoting and upgrading of the products.

The franchiser gains rapid expansion of business and earnings at minimum capital outlay.

TOP 10 LARGEST FRANCHISED CHAINS:2015

1. Hampton Hotels (mid price hotel)
2. Anytime Fitness (fitness)
3. Subway (sandwiches, salad)
4. Jack in the Box (burgers ,salad)
5. Supercuts (salon)
6. Jimmy John's Gourmet Sandwiches (burgers, sandwiches)
7. Servpro (insurance and disaster restoration and cleaning)
8. Denny's (fast food restaurant)
9. Pizza Hut (pizza's)
10. 7-Eleven (convenience store)



TYPES OF FRANCHISES

While there are many ways to differentiate between different types of franchises (size, geographic location, etc), we will be looking at how different franchisors allow franchisees to use their name. On this basis, there are three different types of franchise:

1. Business format franchises
2. Product franchises
3. Manufacturing franchises



BUSINESS FORMAT FRANCHISES

In business format franchises (which are the most common type), a company expands by supplying independent business owners with an established business, including its name and trademark.

The franchiser company generally assists the independent owners considerably in launching and running their businesses. In return, the business owners pay fees and royalties. In most cases, the franchisee also buys supplies from the franchiser. Fast food restaurants are good examples of this type of franchise. Prominent examples include McDonalds , Burger King, and Pizza Hut.

PRODUCT FRANCHISES

With product franchises, manufactures control how retail stores distribute their products. Through this kind of agreement, manufacturers allow retailers to distribute their products and to use their names and trademarks. To obtain these rights, store owners must pay fees or buy a minimum amount of products. Tyre stores, for example, operate under this kind of franchise agreement.



MANUFACTURING FRANCHISES

Through manufacturing franchises, a franchiser grants a manufacturer the right to produce and sell goods using its name and trademark. This type of franchise is common among food and beverage companies. For example, soft drink bottlers often obtain franchise rights from soft drink companies to produce, bottle, and distribute soft drinks. The major soft drink companies also sell the supplies to the regional manufacturing franchises. In the case of Coca Cola, for example, Coca Cola sells the syrup concentrate to a bottling company, who mixes these ingredients with water and bottles the product, and sells it on.