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Taking A Franchise: A Growing Business Trend In India

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Abstract:

The rapid economic growth of India, is giving boost to franchising sector, which can be evident from the mushrooming of franchising in the country. The nature of franchising model, is making it very popular and businesses are preferring franchising for growth and expansion in India. Food and Beverages, Education , health and fitness, are some of the sectors, adopting franchising model conveniently. The franchising concept is still in its early stage and evolving in India . The article attempts to review the concept of franchising. Further, the article talks about various types of franchising model. The article concludes by discussing a model regarding taking a franchise in Indian context.

Keywords: Franchising, Franchisor, Franchisee, taking a franchise,

Introduction:

The Globalization and liberalization policy of India , making the brand awareness predominant and inviting may foreign brands in India. Foreign brands such as McDonald's and Pizza Hut had identified the tastes and preferences of the Indian consumers . They have made their offers suitable to Indian consumers, and are proliferating their businesses through franchising in India. Indian market is rapidly changing its demography as well as economy, attracting many other foreign brands to start and expand in India via franchising route.

Thus, it becomes the need of the time to study franchising from the Indian perspective.

Let understand the concept of franchising first.

Franchising Definition :

Franchising is defined as “an organizational form in which a company (i.e. franchisor) grants an individual or another company (i.e. franchisee) the right to do business in a prescribed manner over a certain period of time in a specific place in return for royalties or the payment of other fees” [Elango and Fried, 1997, p.68].

According to Barringer, et al. 2010 , “Franchise” is a French word that gives its one of the meanings as “privilege”Franchise

The Basic Concepts in Franchising

To get more insight about the franchising concept, following section covers key components of Franchising model starting with the basic terminology.
To begin with, the meaning & origin of the word franchise, followed by definitions from different perspectives for concepts of franchising and finally two parties in a franchising agreement viz. Franchisor and franchisee are covered below.
In French Language Franchise means, freedom, privilege, and exemption(Barringer,et al.2010,513). Few more definitions of franchising..
According to Babcock, “Franchising is a business strategy, a way of doing business and a method of distribution of goods and services designed to satisfy customer needs”.
Keupgives the definition of franchising as a method of marketing and therefore entails a business in and of itself.
Franchisor is the creator of business concept, the one that has developed and launched the operations, says Tuunanen 2005,19. Usually, after the successful establishment in the business, the business owner i.e franchisor lends rights to the franchisee to do business under the same name to another business owner using the original method and/or trademark for a predetermined period of time set in a contract(Barringer, et al 2010,513)
Thus, in a nutshell, as summarized by Bennett, et al. (2008, 9) Franchisee has to pay the franchisor a royalty fee and/or an initial fee, for the right to utilize the franchisor’s brand name, operating system, and ongoing support, and agrees to conform to quality standard .

Types of franchising models:

1. **Product franchising:**

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In this model, dealers are given the rights to Sale and distribute goods on behalf of the manufacturer. Here, the dealer pays a fee, to sell the trademark goods of the producer/manufacturer and get the distribution right. One of the first such example where Product franchising was used, was by the singer Corporation during the 1900, to distribute its sewing machines. This practice subsequently became popular in many industry sectors including petroleum and automobile industries.

2. Manufacturing franchising:

In this arrangement, franchisor gives exclusive right to the dealer, to produce and distribute the product in a particular area. For Example, franchisor/manufacturer like Coca Cola gives the dealer (bottler) the exclusive right to produce and distribute the product in an area. This type of franchising is commonly used in the soft-drink industry.

3. Business format franchising:

Franchisor offers a wide range of services in Business-format franchising to the franchisee, including production of operations, marketing, advertising, strategic planning, training, manuals and standards and quality-control guidance.

This is most popular type of franchising and is the most recently evolved format of franchising. In the United States, business format Franchising accounts for nearly three-fourth of all franchised outlets. Notable examples are McDonald, Pizza-Hut, KFC, Subway, Starbucks etc.

Now let us see, some important motives behind franchising.

There are lot of benefits to franchisors as well as franchisees , hence the franchisor franchisee relationship can also be called as symbiotic relationship.

Franchising Motives:

Some of the Key motives behind franchising are listed here,

1. In franchising, the franchisee’s investments, royalties paid , help franchisors to fund their expansion plans, thus franchisors overcome their capital inadequacy for expansion
2. Generally, franchisee establishes their own set up with all required resources. This enables franchisors, To overcome organizational resources constraints
3. Franchising is known for standardization, hence all franchisees stick to the standards provided by the franchisor, thus delivering the uniform product across the global locations.
4. Franchisor provides his methods of production and / or distribution, thus leveraging his developed expertise.
5. In most of the franchising models, especially, product type and business format franchising the distribution rights and responsibilities are given to the franchisors, thus distribution risk gets shared.
6. To make their product or service suitable for local markets(Glocal): Sometimes, Franchisees make the necessary changes in the franchisor’s products/services that suits the local requirement. Thus, making the product/services more relevant to the market (Glocal), as seen in case of KFC who has added veg menu to the Indian outlets.
7. Sometimes it is risky to explore international markets even after a great amount of market research, but with local partners as franchisees,it becomes more easier.
8. In order to cover the bigger market size the franchisee net wok provides immense help , thus expanding the width of distribution.
9. Utilizing infrastructure of local partners i.e franchisees for production, display, promotion and sale of goods and services
10. Franchisors always take franchisees feedback, suggestion and opinions, thus enhancing the market knowledge, they create space for innovation and improvements.

As every coin has two sides, franchising also has two sides.The disadvantages of franchising can be discussed as below,

1. Sometimes, the difference of opinion between Franchisor and franchisee can cause friction, when both parties thinks they know the best (Murray 2004, 19- 21; Keep 2007, 56-58; Bar ringer, et al. 2010, 522)
2. The major risk in franchise model emanates from relationship between franchisor and franchisees. When there is less transparency, and lack of trust, the relationship gets spoiled.
3. In Franchising, the continuous arguments also might spoil the relationship.

This is quite evident from above discussions that franchising has more advantages than disadvantages, hence franchising model is rapidly becoming very popular throughout the globe.

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Franchising: Global scenario

As per the earlier discussions, it is clear that, franchising started as a western concept, But, it is now spreading to developing countries like India, Brazil, China etc. Recently, it has been also introduced to African countries like Nigeria, where brands like McDonalds, Dominos etc. have already set up franchisee outlets to tap the potential market.

It has been observed that Franchising is now playing a significant role in generating new employment both in terms of numbers and in terms of job quality. Along with its contribution to country's gross domestic product (GDP) generating revenue Franchise also contribute in the form of taxes, duties etc. in the respective countries that it operates. Franchising Business Model has also immensely helped many national and international brands to spread their presence across the globe.

The following chart reveals the franchising contribution to GDP and Employment of various countries.. Franchising contribution to GDP and Employment (2012)[1]shown in figure 1 below,

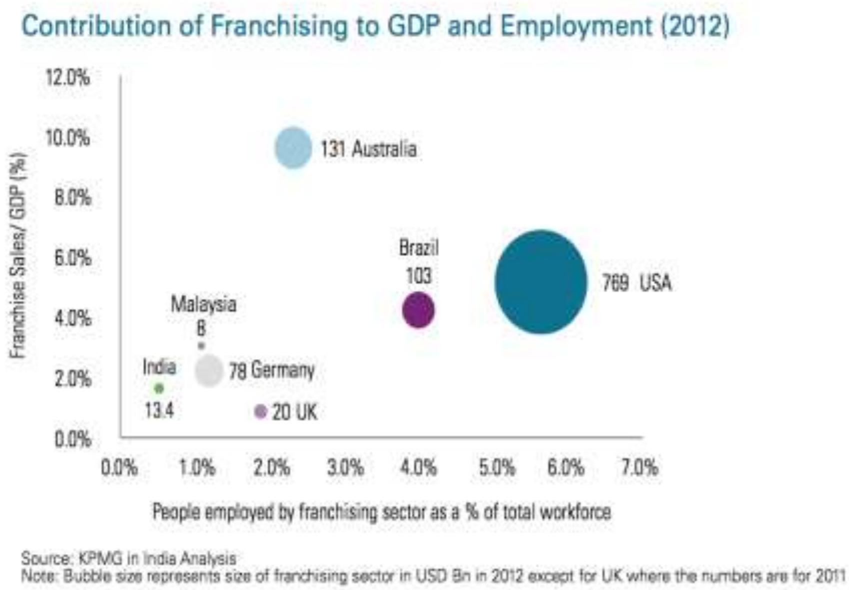

Fig1: Contribution of Franchising to GDP and Employment

It is predominantly seen from the graph that, employment generation through franchising mode is comparatively higher in US whereas revenue contribution to income in Australia is nearly 10% of its GDP .Research shows that franchising can be the major contributor to India's economic growth and has a potential to generategreater employment . Franchising also allows substantial flow of capital from the unorganized segment into organized business. Hence, this seems to be an appropriate model is well for an emerging economy like India.

Franchising in India:

The liberalization policy of India gave boost to Indian economy. That also lead to changes in the standard of living of Indian consumers. Increasing disposable income and growing urbanization gave impetus to consumerism and brand awareness. Branded outlets in the form of franchisees are attracting consumers attention in India. The legal formalities and policies are also not very stringent and they are still developing in India. This becomes the right entry platform for many local and international brands to make their presence via franchising route. Various Franchising format are now seen in various sectors such as food and beverages, education, tourism and hospitality, fashion, etc. Today India is home to more than 3000 brands which have embraced the franchising model. Bata has been one of the first franchisor not only for footwear companies but across all sectors in India. NIIT was one of the pioneers of Indian franchising. Besides this, other leading global franchise brands, such as Dominos, McDonald's, Burger King, etc, have established their existence in India.

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[1] Pal, CY (2013, December). Collaborating for Growth. Report on Franchising Industry in India 2013 http://www.icrim.eu/wordpress/wp-content/uploads/2014/12/KPMG-Franchising-Industry-India.pdf retrieved on 23rd May 2017

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Taking a Franchise:

As discussed earlier, in Franchising franchise offers a ‘franchise’, that means the right to sale products/ services of the franchisor to the franchisee. Taking a franchise in this competitive era, is also very challenging and needs a systematic process. This process can be summarized as below,(fig.2)

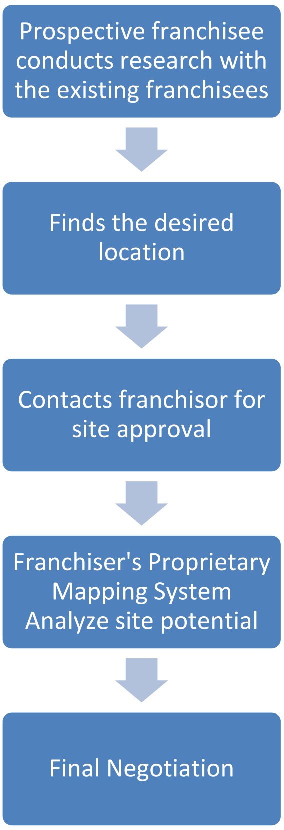

Fig 2: Taking a Franchise

Conclusion

The concept of franchising in India has been growing rapidly in various sectors in India. The less risky nature of franchising model seems to be more suitable to Indian entrepreneurs who consider franchising as most feasible and safe option to tap the nation’s vast consumer market. The win-win relationship of franchisee and franchisor seems to be the major factor behind the growth of the franchising.

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