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#13 Characteristics of a Franchise

Many well-known business in the **retailing** businesses operate under a franchise arrangement. The owner of the ***franchise*** (**franchisor**) **allows** the owner of a ***retail business*** (**franchisee**) to sell its goods or services, in return for a franchise **fee**. Franchising is a way for franchisees to operate as **chain** stores.

Franchisees are often required to pay **royalties** to the franchisor, and share management and **promotional** fees with the franchisor regularly. Some franchisors calculate royalties based on the gross sales or gross **profits** that the franchisees earn. Franchisees must operate their businesses in a **similar** way to that of the franchisor. The franchisor will provide management **training** to franchisees before they **start** their businesses.

For the franchisor, franchising provides the business with an opportunity to **grow** with capital and **manpower** provided by the franchisees. Examples of franchised businesses are 7-eleven, Grove Sandwiches, FitBoxx.com, Kodak Express and Quality Dry-Clean.

Characteristics of a franchise

1. Brand name well regarded by customers

Most franchises have built up a good **reputation** for their **products** or services. They are **recognized** by customers as having good, consistent quality.

2. Support from the franchisor

Franchisees receive the franchisor's **support** in operating the business. For example, the franchisor helps the franchisees set up the **accounting** system and provides credit for **inventory** purchase. The franchisor also provides training to franchisees and their **employees**.

3. Standardized operation

The store's **look**, staff **uniforms**, logos, products and prices are **standardized** according to the franchisor's requirements.

4. Control by the franchisor

The franchisees are required to operate their businesses according to the franchisor's **instructions**. The operations of the stores, such as the product **display** and selling **strategy**, are monitored regularly by the franchisor.

5. Sharing of promotional expenses

The franchisees share the **cost** of promotional campaigns which are carried out by the franchisor.

6. Chain stores in different locations

The franchise system operates as a chain with stores located in **different** areas. For example, 7-Eleven has stores in many Hong Kong districts.

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#14 Advantages and disadvantages of operating Franchised shops-(i)

To franchisees

Advantages	Disadvantages
1. Franchisees obtain **support** from the franchisor in terms of marketing, **inventory** supplies, accounting and management.	1. Franchisees are often required to pay **royalties**, **promotional** and **management** fees to the franchisor whether or not a **profit** is earned.

2. Franchised stores have built up **goodwill**. Their products are **well-known** and accepted by customers.	2. Franchisees may rely too heavily on the support of the **franchisor**.

3. It is **easy** to set up the business as the franchisor provides a wide range of support to franchisees.	3. Some franchisors' head offices are located overseas, so franchisees may find it difficult to **communicate** and receive support within a short time.

4. Franchisees enjoy the benefits of a **large** shop, such as lower **costs**, when buying stock in **bulk**.	4. Franchisees may have less **independence** in operating their businesses as the franchisor operations.

5. The **management** system of franchised stores helps establish goodwill quickly.	

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#15 Advantages and disadvantages of operating Franchised shops-(ii)

To franchisors

Advantages	Disadvantages
1. Franchisors can obtain capital from franchisees who have to pay a franchise **fee** to join the franchise.	1. Franchisors need to make a **huge** investment to build the franchise system and **infrastructure**, and to provide **training** and support to franchisees.

2. **Operating** costs of franchisors can be reduced as their promotional and management fees are **shared** by franchisees.	2. Franchisors may not have complete **control** over their business. Franchisees may ruin the **reputation** of the business if they manage their outlets **poorly**.

3. Franchising provides the business with an opportunity to **grow** and build the brand with **capital** and **manpower** provided by franchisees.	3. Franchisors may need to disclose **confidential** information to franchisees who may become their future **competitors**.

4. The **risk** of the business is shared by franchisees who have also **invested** money in the business.	

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