

BENEFITS OF FRANCHISING

The following benefits provide a good rationale for starting a business by purchasing a franchise. These must be balanced by the costs or disadvantages.

Lower Risks. Most business experts agree that a franchise operation has a lower risk of failure than an independent business. The statistics on this vary depending on the definition of failure. Whatever statistics are used, they consistently suggest that a franchise is more likely to succeed than are independent businesses.

Established product or service. A franchisor offers a product or service that has sold successfully. An independent business is based on both an untried idea and operation. Three factors will help you predict the potential success of a franchise. The first is the number of franchises that are in operation. The second predictor is how long the franchisor and its franchisees have been in operation. A third factor is the number of franchises that have failed, including those bought back by the franchisor.

Experience of franchisor. The experience of the franchisor's management team increases the potential for success. This experience is often conveyed through formal instruction and on-the-job training.

Group purchasing power. It is often possible to obtain lower-cost goods and supplies through the franchisor. Lower costs result from the group purchasing power of all franchises. To protect this benefit, most franchise agreements restrict the franchisee from purchasing goods and supplies through other sources.

Name recognition. Established franchisors can offer national or regional name recognition. This may not be true with a new franchisor. However, a benefit of starting with a new franchisor is the potential to grow as its business and name recognition grow.

Efficiency in operation. Franchisors discover operating and management efficiencies that benefit new franchisees. Operational standards set in place by the franchisor also control quality and uniformity among franchisees.

Management assistance. A franchisor provides management assistance to a franchisee. This includes accounting procedures, personnel management, facility management, etc. An individual with experience in these areas may not be familiar with how to apply them in a new business. The franchisor helps a franchisee overcome this lack of experience.

Business plan. Most franchisors help franchisees develop a business plan. Many elements of the plan are standard operating procedures established by the franchisor. Other parts of the plan are customized to the needs of the franchisee.

Start-up assistance. The most difficult aspect of a new business is its start-up. Few experienced managers know about how to set up a new business because they only do it a few times.

However, a franchisor has a great deal of experience accumulated from helping its franchisees with start-up. This experience will help reduce mistakes that are costly in both money and time.

Marketing assistance. A franchisor typically offers several marketing advantages. The franchisor can prepare and pay for the development of professional advertising campaigns. Regional or national marketing done by the franchisor benefits all franchisees. In addition, the franchisor can provide advice about how to develop effective marketing programs for a local area. This benefit usually has a cost because many franchisors require franchisees to contribute a percentage of their gross income to a co-operative marketing fund.

Assistance in financing. It is possible to receive assistance in financing a new franchise through the franchisor. A franchisor will often make arrangements with a lending institution to lend money to a franchisee. Lending institutions find that such arrangements can be quite profitable and relatively safe because of the high success rate of franchise operations. The franchisee must still accept personal responsibility for the loan, but the franchisor's involvement usually increases the likelihood that a loan will be approved.

Proven system of operation. An attractive feature of most franchises is that they have a proven system of operation. This system has been developed and refined by the franchisor. A franchisor with many franchisees will typically have a highly refined system based on the entire experience of all these operations.
