

# Explain the advantages and disadvantages of starting a business from scratch, fra...

[Business](#), [Management](#)



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Date of Submission (July ..., 2012)

Entrepreneurship: Small Business Franchises

## Introduction

An aspiring entrepreneur has a few alternatives available to fulfill his/her dreams of owning and managing a business like franchise, buyout, and starting a new venture from the scratch. These options present different risk/reward situations and a careful evaluation can lead to the right choice. This essay briefly describes the advantages/disadvantages of starting a business from the scratch or buying out an existing business, and considers the specific case of a franchise option.

## Advantages/disadvantages of alternatives

Starting from the scratch denotes a high risk-reward situation. Advantages include the freedom to implement one's ideas to a large extent, aligning the investment and resource mobilization with market conditions rather than committing to rigid plans, and ease of entry and exit with minimum dependence on outsiders (Longenecker et al, 2011, pp. 104-133).

Disadvantages include high risk of venture failure due to lack of previous experience, making a wrong choice of product/service, and longer time needed to achieve physical and financial goals.

Outright purchasing of an existing business denotes a medium risk and gives assured customer base and revenues from the start. This advantage is diluted if the unit has poor reputation for quality or ethical practices. While the experienced staff is an advantage, if there are unresolved industrial

relations problems, the new owner has to solve them, which is not always easy. Also, it may not always be possible to identify hidden liabilities representing additional risks, which accrue to the new owner (ibid.).

Taking out a franchise is a minimum risk option for new entrepreneurs since it provides the advantages of a new unit as well as a running business model. On the minus side, one has to depend on the parent company for all major decisions besides committing to pay initial fees and royalties.

Profitability is reduced as a result of these limitations.

The International Franchise Association (IFA) provides assistance, both online and offline, and is of considerable help to entrepreneurs in choosing a franchise that fits their bill (IFA, 2012).

IFA and franchise as an option

One of IFA's best features is the listing of several franchise options, complete with the preliminary information for analysis, negotiations and decision making. I have considered the option of Expedia®CruiseShip Sales Center Franchise from IFA's website for analysis (Franchise opportunities, IFA, 2012). This is an established company with a strong brand image and 150 franchises. With an initial investment of \$9500 and total investment of up to \$20, 000, this business is within my reach (ExpediaFranchise, 2012). The business is related to travel and vacation for which the demand has always been good. Further, a franchisee can start operations alone and expand with more cruise consultants, and even as a Retail Center Franchise, thus enabling scaling up of operations. Franchisees are provided with the basic training in the firm's academy, followed by ongoing support and training as required. Expedia®CruiseShip uses technology extensively to help

customers as well as franchises.

### Conclusion

Various options are available for new entrepreneurs with different risk/reward profiles. Starting and running a business requires experience. Risks of failure can be minimized if one goes for franchise option and gain experience before implementing more ambitious plans. Even while choosing a franchisor, one needs to consider the nature of business vis-à-vis one's interest, investment levels, initial training and on-going support, scalability etc.

### References

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Franchise opportunities, IFA, (2012). Retrieved from [http://www.franchise.org/Expedia\\_CruiseShipCenters\\_franchise.aspx](http://www.franchise.org/Expedia_CruiseShipCenters_franchise.aspx)  
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