Example of case study on entrepreneurship in tourism and hospitality - franchisin...

Business, Company

Introduction

There are various methods through which an entrepreneur can use to get into a business venture. These methods include commencing a new business, purchasing an existing business operation, or through a franchise. Methods employed in getting into a venture vary from one individual to another. This is because different people have varying perceptions towards the pros and cons of the various methods. Further, different individuals have varying capital and entrepreneurial ability that are necessary for engaging into a business venture. Commencing a new business refers to the development of an original business idea. On the other hand, purchasing an existing business venture refers to the process of taking over the management of an existing enterprise that was established by someone else. Franchising refers to a business concept of obtaining licence from an existing business firm to use its` trademark and strategies in exchange of royalties and fees. Franchises are either business system or product based. This paper discusses what one needs to find out before purchasing Pita Pit Franchise. In addition, this paper talks about the advantages of franchising and the benefits of franchising a business idea.

Questions that I would ask the master franchise team before purchasing Pita Pit Franchise.

Pita Pit Franchise is part of the master franchise team which has invested globally and currently include over three hundred restaurants. In case I want to purchase Pita Pit Franchise, I will ask the master franchise team some questions in order to determine whether I am making the right investment decision. In addition, I will ask master franchise team various questions in order to acquire all the necessary information that is required to evaluate the worth of Pita Pit Franchise. Firstly, I will ask questions regarding customers` loyalty. I believe it is extremely significant to verify current and future customers` loyalty before purchasing a franchise. This is because customers form the centrepiece of any business activity. Pita Pit Franchise customers range from office workers, sports people to healthy eaters. With a large group of consumers, there is a significant need to determine the loyalty level. This is because the loyalty level is positively related to the profitability of an entity. Secondly, if I want to purchase a Pita Pit Franchise, I will ask the master franchise team the likely state of the restaurant industry. There is a need to determine whether demand of goods and services of an industry is decreasing or increasing. This is because demand of any good or service is positively related to profitability. As an investor, I would to invest in an industry whose demand is increasing with time. This is because I would be assured of good profits as a result of high sales turnover. Increasing demand is also advantageous since it reduces overall competition in a market. Competition in a market is determined by many factors which are inclusive of number of firms in a market and demand of products. Increasing demand reduces competition as it assures an investor of availability of a market. Thirdly, I would ask the master franchise team the current liabilities it faces. I will ask questions regarding potential liabilities such as reputation in the market place and existence of previously unsatisfied customers. I strongly believe that it is important to find out the existence of such liabilities as they negatively affect a firm`s productivity. For instance, if there are some customers who are not satisfied with master franchise team products, they can influence the attitude of other consumers. This will have a negative impact towards productivity in future as the sales turnover may reduce drastically. Further, poor reputation in a market place can lead to low sales turnover. This is because consumers influence each other. Profitability and productivity is influenced by consumers` perceptions towards a firm. In case the firm has a poor reputation in the market, it cannot enjoy huge profits as consumers will avoid its products for available substitutes.

Advantages of Purchasing a Franchise

Purchasing a franchise has numerous advantages over commencing one`s own store. Firstly, a franchise enjoys economies of scale. This is because a franchisor is in a position to buy materials in bulk. As such, savings realized are passed on to franchises. Purchasing commodities in bulk enables one to obtain quantity discount from sellers. This implies that when commodities are bought in bulk, costs incurred are less as compared to when commodities are bought in smaller quantities. In the case of a food store, there are various commodities that can be purchased in bulk. These include food stuffs, utensils, and washing materials among others. If a parent company buys the commodities, it will enjoy economies of scale as it will receive discounts from the suppliers. This is due to collective purchasing power as a result of many franchises. Secondly, there are lower failure rates of franchises. This is because franchising entails purchasing an existing concept that has been used over many years. On the other hand, starting a new business entails learning new ways and methods of operations. As such, learning by mistakes is the order of the day. In some cases, learning by mistakes lead to business failure. However, in a franchise arrangement, an entrepreneur uses the tested strategies and operating systems which are deemed to be the best. This in turn leads to a lower rate of failure in a franchise arrangement as compared to commencing a business from an original idea. Thirdly, franchises can easily access capital from financial institutions as compared to new enterprises. In most cases, financial institutions consider the viability of a business opportunity before lending funds for star ups. In addition, in order to obtain funds from any financial institution, an entrepreneur has to provide a guarantor who will take up the debt in case the entrepreneur fails to honour it. Therefore, franchises are in a better position to acquire capital from financial institutions due to their viability. Further, parent companies can act as a franchise` guarantor. All these factors make it easier for a franchise to obtain funds from any financial institution. This is very important since start capital is extremely significant in venturing into a business activity. Fourthly, a franchise gains goodwill of the existing parent company. Consumers normally appreciate established services and products. In addition, consumers are normally attaché to particular brand names. This implies that one can be assured of customer loyalty in a franchise arrangement. Further, in a franchise arrangement, sales turnover are usually higher due to the continued marketing and advertising of the products and services. Franchisors also undertake marketing research on behalf of the franchise. This is advantageous as an entrepreneur who gets into a franchise arrangement is in a position to obtain adequate knowledge about consumer preferences and tastes. Market research is also extremely significant as it equips one with adequate information on emerging trends in the market at large. Fifthly, a franchise is advantageous as compared to starting a new food store because it can be extremely profitable. This is because the overall productivity of a firm is based on the parent company. Many franchises such as Tim Horton and Macdonald enjoy huge profits as compared to their counterparts in the same field due to a variety of reasons. These reasons include low costs of operations due to economies of scale, customer loyalty, and faster access to capital which enhances growth of business activities. Further, franchises enjoy huge profits since they are in a position to produce quality products and services that meet consumers' requirement. Marketing research done by parent companies are significant as they are done with an aim of not only determining consumers` tastes and preferences but also verifying emerging issues and trends. All these factors give a franchise a competitive advantage over new business entities. As such, a franchise is able to make extremely high profits as compared to a new business entity.

Benefits of franchising a business idea

Franchising a business idea is better than expanding an entrepreneurial concept through multiple sites. Firstly, a franchisor only sells business strategies and ideas to a franchisee. As such, a franchisor does not directly get involved in the day to day operations and management of a franchisee`s firm. This advantageous since a franchisor does not experience challenges such cultural barriers. In addition, a franchisor does not experience geographical challenges. On the other hand, expanding an entrepreneurial concept through multiple sites forces an entrepreneur to manage all the sites on his own. As such, he or she is prone to facing various challenges such as cultural barriers. Further, an entrepreneur is prone to facing geographical and political barriers in case he or she wants to expand a business to other countries. Secondly, franchising a business concept does not entail the use of one`s capital. A franchisee obtains funds personally. However, an entrepreneur looks for funds on his own in case he or she wants to expand a business concept. This is a difficult process since expanding a business concept into various markets requires huge funds. It is extremely difficult to raise huge funds and this may delay an expansion process. Thirdly, franchising a business idea is better than expanding an entrepreneurial concept through multiple stages due to established customer loyalty. Established firms enjoy goodwill and customer loyalty across various countries. This makes franchising beneficial as a franchisee is assured of profitability and productivity due to customer loyalty. On the other hand, an entrepreneurial concept may enjoy customer loyalty in a few areas. This implies that expanding an entrepreneurial concept into a new market is not assured of growth in terms of profits.

Conclusion

In conclusion, when purchasing an existing business enterprise, one needs to ask some questions in order to determine the viability of an investment. Questions such as the state of demand in an industry, current and future customer loyalty should be asked. Further, there is a significant need to determine existing liabilities faced by a firm. This is essential as it can be used to determine a firm`s future profitability and productivity. On the other hand, franchising has numerous advantages which include purchasing power, easy access to funds, customer loyalty, and lower chances of failure. Further, it is better to franchise a business idea rather than to expand an entrepreneurial concept. This is because a franchisor does not experience cultural and geographical challenges like an entrepreneur.

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