

# Large business operation through franchising



“ Being first does not necessarily mean being the biggest. Discuss the issues of growing into a large business operation through franchising. ” In this essay, I will be discussing, analysing and evaluating the issues of growing into a large business operation through franchising.

By doing this, I will be giving and combining examples of large franchise operations, which are functioning today, that are not necessarily the largest and then analysing and evaluating them in context with my given essay topic. Also, before I begin my argument, I will briefly explain what franchising is and what it entails. A franchise is a legal and commercial relationship between the owner of a trademark, service mark, trade name or advertising symbol and an individual or group seeking the right to use that identification in a business. Generally, a franchisee sells goods or services supplied by the franchisor or sells goods or services that meet the franchisor's quality standards.

Franchising is based on mutual trust between the franchisor and franchisee. The franchisor provides the business expertise (i. e. , marketing plans, management guidance, financing assistance, site location, training, etc. ) that otherwise would not be available to the franchisee.

The franchisee brings to the franchise operation the entrepreneurial spirit and drive necessary to make the franchise a success. Wimpy, the fast food chain, first appeared on Britain's high streets in 1954. Today, Wimpy is the largest ' independently' owned, franchised restaurant chain in the UK.

However, regardless of Wimpy being in the UK fast food market for over 50 years and being the first to enter the fast food market in the UK by offering

their franchisees the proven business notion, currently, they barely have 300 outlets and they are not the largest fast food restaurant chain in Britain. The 300 outlets nationwide are made up of the company's stalwart style, table service and newer developments such as express outlets that can be found on motorways, in bowling, leisure and shopping centres. Wimpy began to multiply around the nation rather swiftly the time it entered the UK market and as aforementioned above, it now functions its outlets in a variety of different settings, which include high streets, services stations, leisure complexes and bowling alleys.

Also, they were the first fast food restaurant in Britain to launch the new kiosk notion. Also read: Scientific Management Examples

McDonaldsHowever, at the present moment, they are the third largest fast food chain in the UK and the second largest operator within the motorway service areas, with their largest operation being Road Chef. It must also be said that colossal petroleum companies Fina and British Petroleum (also known as BP) are also franchisees of Wimpy. Unlike McDonald's and Subway, during the major BSE crisis in the 1990s, Wimpy went to extreme lengths in ensuring the health and safety of their customers.

This was apparent when they even withdrew from using British beef and getting rid of all its beef supply in all its restaurants. However, regardless of all its effort, care and concern to its customers, Wimpy remains only third in the fast food franchise chain in the UK. In ensuring that their franchisees obtain the utmost optimum assistance and supervision available to them from the franchise, Wimpy have constructed three diverse kinds of eateries, in order to guarantee its franchisees that their franchising notion is more

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than affordable and attractive to everyone. Wimpy makes available to its franchisees its innovative notion of 'table service,' which presently consists of three forms.

These are in the form of table service restaurants, express units and even kiosks. The table service restaurants can usually be found along the high streets or in the shopping precincts. Express units offer customers a fast service from a limited take-away menu, while offering a widespread choice of meal deals. In order to supply freshly cooked food for its customers, Wimpy's kiosks are making sure that they use as less space as possible with a limited take-away menu for order.

This is great when and where there are a lot of customers and not so much space available, in settings like leisure complexes, forecourts, cinemas, convenience stores and sports arenas. On the other hand, McDonald's is one of only a handful of brands that demands instant recognition in virtually every country of the world. McDonald's began with one restaurant in the UK in 1974 (twenty years later than Wimpy) and today there are more than 26,500 restaurants in over 119 countries, serving around 39 million people every day - making McDonald's by far the largest food service company in the world. Therefore, McDonald's is the largest fast food chain in the UK, even though it was the second fast food chain to enter the UK market after Wimpy. Their first chain was opened in the high street of Woolwich and it was here where the start of the gigantic ascendancy of this corporation, which to this very day contains nearly 2,000 outlets in the UK.

Even today, McDonald's still believes that the main reason why they are the biggest franchising company in the world is largely due to the superb training received by their franchisees, before they become part of the McDonald's franchise. In order for their franchisees to be profitable and successful in the restaurant business, McDonald's provides hands on training and the resources required by their franchisees. To guarantee the optimisation of sales and profits by the franchisees, McDonald's field operations and franchising staff work directly with their existing franchisees from the second they enter the training programme by assisting them in maximising quality service and cleanliness. This is the principal objective of the field operations staff of McDonald's. McDonald's also supplies widespread help and support in the marketing and advertising aspects to their franchisees, as well as an award winning advertising ceremony that touches potential customers worldwide. It is a fact that every McDonald's restaurant is indebted to spend at least four per cent of its gross sales every year for advertising purposes and the promotion of the corporation.

This is in order to constantly preserve and enhance further McDonald's stronghold position in the UK's fast food market industry. In order to place advertisements and, in various cases, construct their own innovative resources, McDonald's franchisees collaborate together with local agencies. As a result of this, McDonald's had an overwhelming advantage that was immeasurable for each McDonald's restaurant, which formed a global brand name unrivalled in the UK and world food service industry. McDonald's offers its franchisees a widespread continuously progressive training system within 'Hamburger University,' and over 20 provincial training departments.

It also offers the state-of-the-art training resources in the industry and its supply chain department has nurtured a comprehensive network of the world's optimum suppliers. Subway, another giant fast food chain, was the last to enter the attractive UK market. It opened its very first store in 1996 in Brighton. At the moment, Subway already has over an incredible 400 outlets in the UK and Ireland and plans to double the number of outlets it has in the UK and Ireland over the next year.

By 2010, it aims to have opened over 2, 010 outlets in the region.

Verification that being first does not necessarily mean being the biggest is that Subway has already overtaken Wimpy's UK market share and it has only been in the UK fast food market for just nine short years, in comparison to Wimpy's 51 years in the UK fast food market. The Subway chain has opened 22, 500 outlets worldwide in over 75 countries. The flexibility of the chain's franchise system has enabled Subways' outlets to open in a wide range of locations, both individually and corporately owned. The Subway chain, the world's largest submarine sandwich franchise, has been awarded the coveted Number 1 spot in Entrepreneur magazine's 26th annual " Franchise 500" rankings. The " Franchise 500" is the most comprehensive system of franchise rankings in the world, and this year's result represents the 13th time in the past 17 years that this prestigious honour has been awarded to the Subway chain.

The appeal of the Subway chain's franchise system is universal with low investment, simple operation and unparalleled support for franchisees.

Therefore, entrepreneurs have learned that when it comes to ensuring success, the best way is Subway. Subway believes that the main reasons

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why they have been such a huge success are primarily because of its low start up costs, flexible space requirements and ease of operation, as well as offering a wide range of services to their franchisees. Even though Wimpy was established way before McDonald's and Subway in the UK fast food chain, they are still a long way behind them in terms of profitability, success, recognition and market share. While Wimpy did adopt the correct expansion strategy via franchising, I believe that they did not explore profoundly enough the UK fast food consumer market, unlike McDonald's and Subway who went to great lengths to make sure that they did. Also, in comparison with McDonald's and Subway, Wimpy's potential franchisees are not getting the same opportunities to develop their franchising expertise, as Wimpy are not providing the same quantity and quality of franchising aid and service support.

Not to mention the non-existent publicity it endures, which results in a huge lack of consumer awareness. In contrast, McDonald's are always in the media spotlight with constant television advertising coverage, such as the ever popular " I'm lovin' it" campaign, and constant innovative ranges of food made available in their restaurants. In regards to Wimpy's huge lack of consumer awareness, Subway on the other hand, persistently informs their existing and potential customers of their fast food outlets, which only provides healthy and natural ingredients within their menus. This is due to Subway employing business dieticians for the enhancement of their brand name by them administering the nutritional information for all of Subway's menu items.

Subway also made the extra effort in publicising a true case involving two Americans, Cody Lawler and Jared, who are normal people that suffered from severe obesity, who both lost a vast amount of weight. This was all down to the careful selection process of Subway's health menu. Subway's business dieticians persuaded them both to eat their wide range of natural foods, as well as staying active. As a result, both of their health programmes were successful.

To help businesses to grow into large business operations via franchising, it would be imperative to supply the finance required, in order to commence the business enterprise, as franchising is a profit making strategy that can aid business to develop. When starting up the business enterprise, franchising can offer a business the essential capital necessary to survive and expand, as capital is often limited in a business, particularly new projects. Also, it provides businesses the opportunity to expand, in units, by dispersing globally. No other business expansion strategy can offer this kind of profit making opportunity. Consequently, the profits made by the quantitative number of units through franchising, enables the business to purchase the whole structure. In turn, this would result in huge savings for each franchisee to enhance its individual profit margins, which would give them a huge competitive advantage over their rivals.

Franchising is an effective and efficiently proven business growth strategy, as it is adopting an already proven business success formula. This gives the opportunity for the franchise to expand worldwide, giving them more consumer awareness. This allows the managers to focus more on the strategic development of the business and less on monitoring. On the other



hand, franchising does have its implications in growing into large business operations. These can occur when for example, the franchisee controls its unit by running certain aspects of the unit differently in accordance with the franchisor.

This results in the franchisor losing control, as it cannot manage all its franchisees simultaneously. Consequently, this dispute between the franchisor and franchisee can lead to legal action, which could tarnish the brand name and the company image. Another implication could be that the franchisor is over demanding or over controlling and is not complying with the franchise agreement. However, the franchisee could be liable, for example, if it goes wrong as a result of failure in a city, as it could affect the entire franchise business. There may also be limitations for the franchisee in respect where it may have to follow the franchise agreement format of how the unit should be run very closely, which also limits the creative and innovative input for the franchise, which could prevent the growth of the business.

If the franchisee is progressing better than expected or should be, then all the care and success that it generates will benefit only the franchisor, as it has all the rights to the brand name and its products. If there is a time where the franchisee is successful and may want to expand, then this will also only benefit the franchisor, as it has all control. The formation of any franchise is by no means an easy mission. This is because numerous stores, eateries and other related outlets are franchised and operated via a reputable format. Both the franchisor and franchisee wish for profit making and success, just like any business, so receiving specialist guidance at the beginning is

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essential for both concerned. The franchisor will always have the authority over the franchisee, with regard to the contract of the franchise agreement, especially if the trademark is established.

This means that the franchisee will never really be independent from the franchisor, regardless of the fact that it runs its own unit. However, the franchisee still has to function the unit entirely as stipulated by the franchisor. Therefore, if the franchisee has its own ways of running the unit, has its own innovations and does not like to be instructed how to operate its business, then this could lead to frustration and dissatisfaction. It is therefore imperative that a potential franchisee does its homework before joining a particular franchise network, in order to establish whether it will suit its working style. Before the franchisee enters a contract with the franchisor, they must agree between them the terms and conditions then, in order to suit both parties because once the contract has been signed, the franchise agreement cannot be broken. The terms and conditions cover the franchise fee, royalties and how much and when the franchisee must pay the percentage of the franchise business revenue to the franchisor.

There could also be additional fees, such as advertising costs. There is no assurance that the franchise network the potential franchisee enters will be successful. This is because there are two kinds of franchise networks. One can be an established franchise, which can be very costly, and the other can be not so well-known but affordable. Purchasing into an established franchise can mean that the franchisee must be able to finance some important aspects of the franchise, especially if it is the franchisee's decision to join the

network. Whereas, purchasing into a not so well-known franchise can be risky.

Most of the time, it is the established franchisor that is only interested in creating as many franchises as possible, unlike McDonald's for example, where it also cares and considers the needs and wants of their franchisees. However, this does not mean that the less well-known franchisors are the ideal franchise network to join but careful consideration must be taken seriously before joining any franchise. Therefore, in conclusion, joining a franchise network and how it can aid businesses to develop into larger business operations is very important. In this essay, I have given examples of huge franchises, including McDonald's, Subway and Wimpy, where it is evident that franchising can benefit any potential franchisee to start up and operate a business.

Using the example of Subway in the UK, it has also shown that a potential franchisee can also become a potential franchisor itself and create a network of franchisees abroad. Statistics gathered recently by the British Franchise Association, indicates that there is only a 5 per cent danger of bankruptcy via a franchise network, and a whopping 95 per cent chance of franchisees surviving five years later. This proves that franchising is a fantastic opportunity to develop a business. ([http://www. britishfranchiseassociation. co.](http://www.britishfranchiseassociation.co)

uk/). As already explained, Wimpy is a great example of a franchisor that provides its potential franchisees with any assistance and advice they may need in opening and functioning their units. Wimpy does this by personally

giving its successful formula to its franchisees, which basically allows them to obtain complete authority of their units, along with Wimpy's support, business experience and expertise in its franchising knowledge. Wimpy offers all of this to its potential franchisees because they take immense care in their judgment of franchisee motivation, commitment, dedication and work ethic to its objectives of business success. In regards to McDonald's, due to their giant status and powers of profit making, it is safe to say that they provide the most effective and efficient franchisee programmes, which includes its reliable service support and expertise for success. On the other hand, Subway specialises its service support to its potential franchisees via expert training.

This has resulted in its huge success in the UK and is the main reason why it has overtaken Wimpy's UK market share, regardless of it being established in the UK fast food chain more than forty years later. Having explained the benefits of franchising, potential franchisees must take careful consideration with a professional outlook of the franchising world, in order to see and be aware of the potential risks connected with this particular business strategy of prospective business success. In conclusion, a business that enters the franchising world does not particularly mean that it is the largest!

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