

# Franchise business

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A franchise is a business arrangements where an individual person or a company allows a third party to use his/its trademark in carrying on a business in return for payment of some initial amount of money agreed as for goodwill and subsequent payment of royalties to a definite future time period. The company may be involved in the production of goods or services and sell them through its various retail outlets such as chain stores and supermarkets. If a third party wants to sell such goods or services, it arranges with the independent operator to be allowed to use its trademark at a fee.

A good example of a franchise business is the Macdonald's and Dunkin Donuts (US) and so many others around the world (<http://business-law.freeadvice.com>). The franchisee is the third party seeking to use the trademark of an independent operator by selling goods or services which meet the third party's quality standards. A franchisor on the other hand is the independent operator who leases his trademark at a fee to be used by a third party (<http://smallbusiness.smh.com.au>). The key to success for any franchise business is the selection and training of suitable franchisees.

In doing so, the franchisors face many problems and they need to manage such problems for successful operations. Hence the franchisor should make a decision to go into the business after a careful thought and plan. Franchising gives a better alternative when starting a business since it involves fewer risks compared to starting an independent business. As the business expands, it acquires new businesses and the management becomes difficult and hence resulting to franchising its goods or services. In doing so, the

franchisor is face with the problem of knowing the suitable franchisees to carry on business.

The franchisee may be faced with initial capital investment. To be licensed to use another company's trademark is very expensive and the potential franchisee may not afford and hence the franchisor is limited by the number of willing and affording entrants. This can be solved by spreading the initial capital inflow over a long period of time and hence allowing the franchisee to have ample time to operate profitably and afford to pay the royalties and the initial fee (Kaufmann 2003). Commercial and company laws are very complex and the franchisees may not be in the know how.

This is specifically difficult when it comes to laws that govern the franchise business. The laws are very complex since they require that both the franchisor and the franchisee to make an agreement either in writing or expressly on the terms of operation. This requires legal advice to both the franchisee and the franchisor and this adds to the cost of operation. To come over this problem, there is need for the franchisor to look for those franchisees that have previously been in franchise business that will not require the services of a legal expert ([www. franchisinglaw. com](http://www.franchisinglaw.com)).

Since there are two major forms of franchising (goods or service name franchising and whole business operations franchising), the franchisor may lack a suiting franchisee depending on the form of his/her franchising. In the former form, the franchisor sells the trademark or the name of the franchising to a franchisee and retains all rights while in the latter franchising, involves so much rights being retained by the franchisor like

selecting the site, supplying the product solely, making marketing plans and even providing finance assistance.

This may result in difficulties in getting compatible franchisees (www.entrepreneur.com). The other problem that is involved during selection and training of a suitable franchisee is that the product or service in franchising is a product of growth over a period of time and hence the training should be high class in order to avoid the collapsing of the franchise due to decline in quality. The franchisor is in a dilemma in knowing between the honest and the dishonest and between the loyal and the no loyal franchisees.

This training is very expensive since it requires the training of the whole management team starting from the manager to the technical team. In order to solve this, there should be cost sharing between the franchisor and the franchisee such that each contributes equally to the franchise (Kehoe 1996). There is also another problem where the franchisor loses the control of the franchise through the signed contracts since it binds both of them to the agreed terms of operation in such a way that the franchisee now becomes part of the franchising operation/system.

Should the franchisor need to change the product, consultations are required between him/her and his/her franchisor (Kehoe 1996). Communication is a crucial aspect of success for the franchising business. The chain of command or the communication system between the franchisor and the franchisees becomes important for smooth operations. Lack of the same means that the operations are not smooth and the franchise may be at risk of losing its loyal customers. If there is no good communication system, the neglecting,

reckless, and omission acts of the franchisee may result into liability to the whole.

This may bring a bad reputation to the company and risking the going concern of the franchise. Good communication and leadership skills should be prerequisites to offering franchise to franchisees ([www. entrepreneur. com](http://www.entrepreneur.com) ).

## References

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