

Characteristics of franchising systems



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DEFINITION OF FRANCHISING

Franchising is a viable method of distributing goods and services which can have a positive influence on economic development by its contribution to the establishment of new businesses and job creation. (By Martin Mendelsohn, 2004, p. 1, The Guide to Franchising).

The distribution networks can be expanded without having to borrow funds or raise additional equity finance. Some capital will be required to prepare for franchising but in general the franchisees will supply the capital as they will fund their own outlets. (By Gideon Nieman, 1998, p. 8.)

One can start in business with the use of comprehensive business package consisting of an established trade name and corporate image, a proven product or service, and the benefit of the goodwill that has been built up up by the franchisor. (By Gideon Nieman, 1998, p. 9, the franchise option-how to franchise your business).

Disadvantages for franchisees

Loss of independence: one of the most serious disadvantages of becoming a franchisee is loss of independence. If you want to make all your own decisions, franchising may be the wrong choice. Franchise systems are structured in such a way that the franchisor sets many of the rules; the franchisee is required to operate the business according to the franchisor's manuals and procedures.

Over-dependence on the system: loss of independence , if taken to extremes, leads to a further disadvantage: over dependence on the

franchise system. When franchisees rely totally on the system for their success, their over-dependence can cause problems. Franchisees have to balance system restrictions with their personal ability to manage their own businesses. For example, when a franchisee depends on national advertising exclusively and does not invest in local marketing, she is short changing her business by relying too greatly on what the franchisor is bringing to the party. (By Michael Seid, Dave Thomas, 2007, p. 42, Franchising for dummies

Common characteristics of franchise systems that reflect different types of exploration and exploitation

1. The positioning of the system in the market
2. The degree of hardness of the system
3. The system's entrepreneurial orientation
4. The room for strategic participation of franchisees in the system
5. The system's growth objectives (by Josef Windsperger, Gérard Cliquet, George Hendrikse, Mika Tuunanen, 2012, P. 194, economic and management of franchising networks).

Several limitations of franchise relationships as a specific form of alliance in which both franchisor and franchisee are intelligent partners that interact and adjust to each other through time. The franchise relationship is often seen as a static, top down relationship in which the focus is on efficiency-aspects, such as monitoring and control of franchisees. However, it is argued here franchise systems and the relationships within them have to deal with paradox of exploitation and exploration in organisational adaptation.

Exploitation includes aspects such as refinement, choice, production, efficiency, selection, implementation and execution. Exploration includes

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issues such as search, variation, risk-taking, experimentation, play, flexibility, discovery and innovation. Arguably, firms must try to find an appropriate balance between exploitation and exploration in order to survive and prosper in their environment. (by Josef Windsperger, Gérard Cliquet, George Hendrikse, Mika Tuunanen, 2012, P. 194).

Resource acquisition theory

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