

The egyptian
franchising
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- 2. 6 Decision

By definition, harmonizing to the Egyptian Franchising Development Association ; Franchising is a method of administering merchandises and services, at least two degrees of people are involved in the franchise system ; the franchisor, who lends his hallmark or trade name and a concern system and the franchisee, which pays a royalty and frequently an initial fee for the right to make concern under the franchisor ' s name and system. The franchisor grants the independent operator the right to administer its merchandises, techniques, and hallmarks for a per centum of gross monthly gross revenues and a royalty fee. Furthermore, the Franchisor facilitates factors such as national or international advertisement, preparation, and <https://assignbuster.com/the-egyptian-franchising-development-association-commerce/>

other support services for the franchisee in order to do certain that the franchisee lives up to the trade name name its retention. Agreements, typically last five to thirty old ages, with premature cancellations or expirations of most contracts bearing serious effects for franchisees.

The issue of Franchising itself is considered to be complicated because it involves two parties from different states, which means that a batch of understandings have to be agreed upon and stated down in a clear contract that binds both parties. The Franchisor and the Franchisee both evidently seek their ain benefit which makes the advantages and the disadvantages for each party differ. In other words the franchisor has a set of advantages and disadvantages and the franchisee has a wholly different set of advantages and disadvantages every bit good.

2. 1 The grounds behind Franchising

As mentioned earlier, the issue of franchising is by no agencies considered to be an easy undertaking ; it is highly complicated and hazardous, since it involves two parties from different states, edge to each other through a binding contract that they both have to esteem and follow. The general wondering that comes to mind after cognizing these facts about franchising is about the grounds franchisors and franchisees still do it. There are a batch of options to franchising such as existent estate or securities ; nevertheless franchising is quiet often chosen over its options, which means that the franchisors or the franchisees are non seeking merely net incomes through franchising, they are evidently seeking more.

The research worker has discovered that accounts for the being of franchising from the franchisor ' s position have been discussed since the 1960 ' s, and are chiefly divided into two viing positions. The first position negotiations about franchising being a inexpensive beginning of capital when it comes to retailing enlargement (Oxenfeldt and Kelly, 1968/69) . This position nevertheless was proven to be flawed since cheaper options such as stock issue (Rubin, 1978) do be. On the other manus, surveies have shown that franchising supports the thought of rapid enlargement and that franchisors believe in that thought based on their desire to hold control with aliens. (Kaufmann and Dant, 1996) .

The 2nd position discusses the attractive force that franchisors get when make up one ' s minding to franchise. The position merely states that the franchisees get highly motivated when they grasp a franchising chance, since they are considered to be semi-independent proprietors of the franchise ; non merely a hired director. The ownership factor is the ground behind the franchisees exhilaration and motive, this factor gets the franchisee to make its best, in order to do as much net income as possible. This is where the franchisor benefits. The franchisor does non put a batch of capital in order to acquire its trade name name into a new market ; on the contrary the franchisee pays the franchisor a royalty fee in return of merely utilizing its trade name name. (Dahlstrom and Nygaard, 1994)

After discoursing the positions that franchisors have as to why they franchise, the research worker now moves on to discourse the grounds behind the franchising pick made by the franchisees. Research on the issue has shown that franchisees choose franchising over its options, because they <https://assignbuster.com/the-egyptian-franchising-development-association-commerce/>

merely go portion of an already established, larger system that they partly depend on. Franchisees view franchising as an chance to do tons of net income without exercising singular attempt, since they become portion of an international, good known trade name name, which gives them a competitory advantage within the boundaries of the state they operate in. Franchisees believe that franchising gives them a competitory advantage ; since they get some grade of independency, while having preparation, adept support and fiscal aid. (Kaufmann and Dant, 1996 ; Kaufmann and Stanworth, 1995 ; Peterson and Dant, 1990 ; Stanworth and Kaufmann, 1996)

2. 2 Balancing the powers

The traditional position of franchising images the franchisor as the party that has all the power over the 2nd party which is the franchisee. That position is the consequence of a logical manner of thought, since the franchisor is the party that owns the trade name name, provides preparation, adept support every bit good as fiscal aid to the franchisee. (Kaufmann and Dant, 1996 ; Kaufmann and Stanworth, 1995 ; Peterson and Dant, 1990 ; Stanworth and Kaufmann, 1996)

These facts evidently are more than plenty to give the franchisor the upper manus over the franchisee when it comes to affairs like puting capital and determination devising. However, despite of that high quality that the franchisor has over the franchisee, some franchisees have tried to equilibrate that power construction, frequently through initiation or going members of progressively powerful franchisee associations. Harris and

France (1997) study that rank in the American Association of Franchisees <https://assignbuster.com/the-egyptian-franchising-development-association-commerce/>

and Dealers has increased from 20 establishing members in 1992 to over 6,000 today. The American Franchise Association has raised rank from 4,000 in 1992 to 7,500 in 1997 (Harris and France, 1997). The statistic shows the overpowering figure of franchisees who have found the power equilibrating affair to be of great importance and have tried to take action sing it. In other instances franchisors themselves have found that the degree of trust between them and the franchisees is worsening and the degree of bitterness is lifting. As a consequence they have take action in order to try and decide the job. Morrison (1997, p. 56) notes that franchisors have initiated stairss in the recent yesteryear to procure “ more just concerted understandings ” with franchisees. Franchisors took immediate action and formed “ a franchisee consultative council to acquire their input on cardinal issues, including new merchandises and pricing. ” Touby (1993, p. 70) . That move implemented by the franchisor slightly satisfied the franchisees and was plenty to reenforce their trust in the franchisor ‘ s position.

Through farther research, the research worker has discovered that struggles between the franchisors and the franchisees largely take topographic point if the franchisee is a individual unit one. That decision was withdrawn after the research worker had come through the undermentioned quotation mark:

Harmonizing to Grunhagen, M. and Mittelstaedt, R. (2002)

“ Question: Was one of your outlooks that if you had more shops, you would hold more say with [the franchisor] ? Franchisee: That is really true. That used to happen in the system. The [franchisee] association has tempered that a small spot. I mean, the president of the association today, he had 15 eating houses, and they still listen to large cats, there ‘ s no denying that.
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But the association has added a batch of credibleness. [a^!] But, it was non an issue [for me] – that if I get more shops, the company will speak to me. Even when there was no association, that was n't an issue at all. Partially, because I was so little at the clip, I did n't even believe about acquiring to that size that would do any difference. After a few old ages so, the association came up and the issue was tongueless (emphases added) . ”

The illustration or the quote shown above proves that the franchisors frequently get into struggles with single- unit franchisees instead than multi-unit franchisees, since multi-unit franchisees have a batch of power within the boundaries of the state they operate in, which forces the franchisor to listen to their demands and petitions and allow them take part in the determination devising procedure.

2.3 Advantages of Franchising (For Franchisor)

Expansion: Franchising is considered to be an Advantage for the Franchisor since it allows it to spread out quickly through states and continents without holding to put capital ; they instead depend on the capital of the franchisee. Furthermore the franchisor does non give up control of the franchise since the trade name name evidently stays the same and the franchisee is merely considered to be a go-between or a representative.

Legal Considerations: Through Franchising, the franchisor is wholly relieved of the legal responsibilities of opening a new mercantile establishment within the boundary lines of the state, for case they do non hold to travel through the problem of obtaining the needed licences or licenses, they merely depend on the franchisee to acquire this legal work done since it is

considered to be a local issue and it would be easier for the franchisee to take attention of it.

Operational Considerations: Franchisors evidently are besides relieved of many of the operational considerations, since the franchisees will hold a batch of inducement to run the concern successfully because they have a direct interest in the operation. However the franchisee has to acquire back to the franchisor before taking any of import determinations sing the merchandises for case, which means that the franchisor has the upper manus.

2. 3. 1 Disadvantages of Franchising (For Franchisor) :

Limited pool of feasible Franchisees: The Organizations or the Individuals who have the resources and the needed makings to open and successfully run a franchise are highly limited, which could hold a negative impact on the enlargement of the franchise.

Control: The Franchisors face a immense control issue if they decide to franchise. Their trade name name is at interest, which means that an incompetent franchisee could easy damage the good will that the populace have towards the trade name through supplying inferior goods and services. Furthermore Replacing an incompetent franchisee is non every bit easy as replacing an incompetent director, since there is a contract, which could be a job. If that franchisee does non populate up to the franchisor ' s trade name name it could make some serious harm.

2. 3. 2 Advantages of Franchising (For Franchisees) :

Quick Start: The franchisor offers the franchisee a speedy start for a concern with an already established trade name name as opposed to holding to construct a concern Lashkar-e-Taiba alone a trade name name from abrasion. All that the franchisee needs to carry through is to merely pull off and run the franchise successfully in order to be able to populate up to its trade name name.

Expansion: With the aid of the expertness provided by the franchisors, the franchisees are able to take their franchise concern to a degree that they would non hold been able to without the adept counsel of their franchisors.

Training: The Franchisor frequently offers the franchisee important preparation that is non offered to new get downing concerns. This preparation could assist the franchisees to pull off the franchise successfully with a minimum sum of errors as opposed to any new starting concern.

2. 3. 3 Disadvantages of Franchising (For Franchisees) :

Control: The United States Office of Advocacy of the SBA indicates that a franchisee “ is simply a impermanent concern investing where it may be one of several investors during the life-time of the franchise. In other words, it is “ leasing or renting ” the chance, non “ purchasing a concern for the intent of true ownership. ” This merely means that the truth of the affair is that a franchisee has no control what so of all time over the franchise, since they do non really have it, this means that they do non hold the authorization to alter anything in the franchise without confer withing the franchisor foremost. (Clark, D. 1997)

Monetary value: Populating up to a franchisor's trade name is by no means considered to be an easy undertaking. It requires immense amounts of money in order to carry through. Additionally, the franchisor sets certain criteria that the franchisee has to follow without holding the luxury of falling back to less expensive options.

Conflicts: The relationship between the franchisor and the franchisee could perhaps confront struggle. If that was to go on, so the franchisee could perhaps confront immense jobs, since they evidently do not hold the upper hand in that operation. This means that the franchisee could merely lose everything if they get on the franchisor's bad side, and quietly disgracefully the international jurisprudence takes an extremely long time in order to decide a franchise struggle, by so the franchisee would have already lost its concern and will not be able to do anything about it.

2.4 Types of Franchising

There are four chief types of Franchising used by all franchises across the Earth (Daud, N.) Those four types are:

1-The Product Franchise: This type of franchise grants the retail merchant the right to utilize the trade name of the franchisor but has to pay a fee in return for utilizing these rights or at least purchase a minimal stock list of stock. Some tyre stores could be a good illustration for that type of franchise.

2-Manufacturing Franchise: "The franchisee is permitted to fabricate the merchandise under licence and sell them utilizing the conceiver's hallmark and name. They besides get the benefit of the national advertisement of the <https://assignbuster.com/the-egyptian-franchising-development-association-commerce/>

merchandise they manufacture. The company having the merchandise gets the franchise fee and sometimes a fee for every unit sold. Examples include the nutrient and drink industry. ”

3-Business Franchise Venture: These ventures typically require that a concern proprietor purchase and administer the merchandises for one specific company. The company must supply clients or histories to the concern proprietor, and, in return, the concern proprietor pays a fee or other consideration as compensation. Examples include peddling machine paths and distributorships.

4-Business Format Franchise: This type of franchising is the most popular one out of all four. In this type the franchisor grants the franchisee the rights to fabricate and sell its merchandises, it besides offers important preparation to the franchisee ; nevertheless the franchisee has to pay a fee for utilizing these rights.

2. 5 Barriers to Franchising

Get downing up a franchise is by no agencies an easy undertaking. After extended research the research worker found that there are a batch of barriers to franchising. Those barriers are:

Legal Barriers: Hoffman, R. and Preble. (2004) stated that:

“ Overall, the trade associations report the being of royalty revenue enhancements, contract jurisprudence, and the deficiency of specific franchise statute law as the major legal issues possible franchisors and franchisees needed to be cognizant of. ”

There are broad differences among states in footings of the extent of statute law available to modulate franchising every bit good as the extent to which such statute law is enforced. Legal barriers to franchising could be caused by either the place state or the host state.

Cultural Barriers: Different civilizations have different demands, which are considered to be a barrier to franchising, since it is highly hard for franchisors to accommodate to each and every civilization they enter. Furthermore, communicating could besides be a signifier of a civilization barrier, since it may non be really clear because of many differences, such as linguistic communication.

Hoffman, R. and Preble. (2004) stated that:

“ In general, international franchisors need to familiarise themselves with the local civilization and methods of carry oning concern to cognize how to outdo adapt their concern formats to any given host state ” .

Political Barriers: Hoffman, R. and Preble. (2004) stated that:

“ Challenges confronting franchisors in the future include concerns about economic stableness and energy, alterations in legal/political environments, and the demand to happen qualified franchisees. ”

Harmonizing to Hoffman and Preble, political barriers are considered challenges for franchisors in other words, the being of political instability within the state (wars, revolutions^a etc) .

Socio-Economical Barriers: Franchises could confront a job when gap in a state where the economic system suffers. (Limited income, weak currency[^];etc)

Technological Barriers: the technological barriers could go an issue if the franchisor operates in a state where engineering is non equal. This insufficiency could easy impact the managerial engineering, which is considered to be of great importance to both the franchisor and the franchisee, in footings of communicating, pull offing the staff, merchandise assembly and more. Basically, franchisors depend on the being of managerial engineering at the franchisee ' s quarters in order for all trading operations to run swimmingly.

Trade Barriers: Rules and ordinances set by the authorities that limits additions of revenue enhancements, duties and imposts. Sierra. E (1999) stated that:

“ Technical barriers to merchandise may take the signifier of criterions, proficient ordinances, conformance appraisal processs, healthful or phytosanitary steps, etc. ”

2. 6 Decision

The literature reappraisal of this thesis paper is discoursing franchising and all its different facets. The paper starts off by giving a elaborate definition of franchising and how it works. Then the thesis discusses the grounds behind the popularity of franchising across the planetary market from the franchisor ' s point of position every bit good as the franchisee ' s point of position.

Furthermore the research worker so starts to undertake the power battle <https://assignbuster.com/the-egyptian-franchising-development-association-commerce/>

between the franchisors and the franchisees. It was found that franchisors and franchisees get into struggles and battle over the determination doing power, due to the high quality factor. The research so discusses the relevant solutions implemented by the franchisor and the franchisee in order to stop these power struggles.

Furthermore the research goes in deepness of franchising and discusses the advantages and disadvantages of franchising from both the position of the franchisor every bit good as the position of the franchisee. Then the research goes on to discourse the four different types of franchising acknowledged across the Earth. At least one of these four types has to be used if the organisation decides to franchise. The four types are well-known by all franchisors around the universe.

The last point discussed in the literature reappraisal of the thesis is considered to be one of the most of import points of the research. That last point tackles the issue of barriers to franchising around the universe. Barriers to franchising are considered to be important, since it could forestall franchising from distributing put widely on an international degree. There are a batch of barriers to franchising ; nevertheless the research worker chose to undertake merely six of those barriers in order for the research worker to be able to speak about each and every one of those barriers exhaustively. In decision, the literature reappraisal of this thesis covered all the important points and statements needed in order for the research worker to be able to carry on the remainder of the research survey.