

# The advantages and disadvantages of franchise business essay

[Business](#)



This essay is discussing about the advantages and disadvantages of a small business owner in New Zealand when they choose franchise as a business option. For what is franchise, according to Schaper, Volery, Weber, Lewis(2011, p. 117), a franchise is an arrangement whereby the originator of a business product or operating system permits another business owner to sell the goods and/or to use the business operating system on the originator's behalf. As old saying goes, ' every coin has its two sides', that is to say, advantages and disadvantages exist internal within franchise when it is elected as one way to operating a small business. Since franchise is one of the format to operating a small business, it is necessary to know what is a small business. According to Schaper et al.(2011), a small business is a small-scale, independent firm that is usually managed, funded and operated by its owners, and whose staff size, financial resources and assets are comparatively small in scale. Except form small business, SME is more profession to discuss in New Zealand context. For what is SME, it is abbreviation of small and medium enterprises. As it is play a vital role in New Zealand's economy and society growth, it should be assessed later, and also some special examples will be discussed later under New Zealand circumstances when running a franchise as one approach to doing a small business. In order to further discussing about the franchise, it is good to analysis some of the essential factors in it first. For instances, definitions of franchisors and franchisees. What is more, the relationship between franchisors and franchisees? According to Schaper et al.(2011), the franchisor is a business or individual who owns the rights to particular business franchise system or product. For example, the controlling

corporation of KFC fast-food or the head office of Bandai game corporation, that is to say, the controller or monitor of the franchisee. The counterpart of franchisors is franchisee. According to Schaper et al.(2011), the franchisee is the business/person given contractual permission by the original owner of a system or product to operate a business franchise system or sell a product. In the other word, the franchisee is a subordinating business or corporation of the controlling corporation oversight. Now that we know what is the franchisor and what is the franchisee already. The relationship between them should be stressed then. As described in the introduction paragraph, a franchise is one of small business form which making a contract between franchisors and franchisees. In the one hand, the franchisors lend the authority to franchisees selling his commodities and/or to doing his serve, and also, providing necessary technological assistance or management ideas to helping franchisees to manage, to plan or to hold their business well. On the other hand, the franchisors are benefit from franchise fees or transfer fees provided by the franchisees at fixed intervals. The franchisees not only independent on his own business routine, but also respond to his oversight company in some directly or indirectly ways. On the one hand, the franchisees obtain vital resources or essential management ideas, even primal fund assistance form the head company to guaranteeing their business successful. On the other hand, after all of that done before, the franchisees must pay, for example 10 percent of their working capital to their head company, monthly. In some special situation, they even pay much. For instance, when a contract come to a termination between franchisors and franchisees, the franchisees must make a choice, continuing

to sign the contract by paying highly fee or quit the business. Through the contract, franchisors and franchisees are closely joint to each other in this model of business, both of them enable to acquire what they want in this relationship. From the illustration described above, there is no hard to find out advantages and disadvantages in franchise model. At first, some advantages are listed, according to Judson (2004, p. 139) the business model is proven, so lower risky to the franchisees. By their nature, franchises are repeatable systematized business. And franchisees benefit from the marketing materials that have already been created by the company for local advertising efforts. What is more, franchisees benefit from the national-wide advertising efforts and brand recognition of the company. And franchisees have access to supplies at lower costs. In the last, franchisors provides valuable training and support structures. From these advantages, franchisors help franchisees building his own business by providing a series of stereotype which is created through ages exploring and experiencing. The franchisees are more easily to handle his personal small business in the beginning of his own small business. But how to enlarge or expand it is another story. What is more, some disadvantages should be addressed when the franchise style are widely used nowadays. According to Judson (2004, p. 139), franchisees lose out on the most valuable element of a go-it-along business, lacking of creativity. Many rules the franchisees should obey means that they have traded one boss for another. Franchisees have little flexibility. The psychic rewards associated with operating a franchise can be limited. Even through small business owner thinks that the oversight is existing in name only, however, form these drawbacks listed above, the ‘

boss' do exist, whether the small business owners admit it or not. From franchisees part to view, because they are simply replicating the model which is created by franchisors years before, they are not avoiding lack of creativity and independent thinking capacity. Another risk should be taken by franchisees, once franchisor's company or organisation collapse, they may lose everything, but this risk is lower than a man start his own small business. Some advantages and some disadvantages are out there. When one small business owner making his choice, he should consider both of them. Is franchising good or bad for a small business? A good example can be taken like New Zealand. According to Lord(2010, p. 65), 90 percent of enterprises in New Zealand employ five or fewer people, while 69 percent have no paid employees at all. It means that, majority of New Zealand enterprises are small business, while they are compete with overseas international corporations in global market how can they surviving is a good question to ask kiwi business men. Franchise is not best way, however, a way good enough out. Based on the franchise, small business owner equip ability and resources, even back up support to against with the overseas world-wide company. The small business men of kiwi people who are unprofessional learning to manage, to plan and to cut cost. And finally hold their personal business successfully. That is the reason why franchising is so prevalent in New Zealand. SME should be familiar with New Zealand business men for it is an essential part of the New Zealand economy. Small Business Advisor Group(as cited in Massey, 2005) SMEs contribute almost 40 percent of New Zealand GDP and are growing both as individual enterprises and as a group. Now that so large portion it is occupied. With its growth,

feeling pros and suffering cons can not be avoided. So how to enhance its growth and decrease its difficulties should be considered. In order to tackle down these disadvantages which obstacles growing of SMEs in New Zealand, it is important to know what they are and what some characteristics they have. At first place, 'low tech' can be a label of New Zealand industry, it is well known that, New Zealand is famous for its milk power, butter, meat, wood and wood article all over the world. And it is also, most of small businesses starting with a Family Trust or Partnership model which employ five or even fewer people. In this context, high-tech seems no opportunity to be utilized in SME area in New Zealand. Then, it is an alert to government to set some useful principles and/or policies to help SME field. As well as small business owners, they should consider how to boost their own abilities by using high-tech resources or materials. Franchise is good way to learn how to run successful business stuff. What is more, they are separate and lack of management, in some range, by the government. Except from minority franchise chain shops can be a large scale, and can be seen everywhere, majority of SMEs are separate without connection. For this reason, they have no capacities and money to innovate. Now that they have the same business objects, they should come together and make a contract or something helpful to achieving their goals. And, once lack of government guide or monitoring, cut-throat competition is arising of the same trade area in SME. On the one hand, the government to legislate is necessary to protecting SME from cut-throat competition and to guaranteeing safety of market. On the other hand, the small business owners should equip awareness to collaborate and to share information with each other. That only two aspects

of issues appeared in SMEs area, much more are exist. In some certain aspects, some people may regard the relationship between franchisors and franchisees as the relationship between employers and employees. Are they similar to each other? May be in some ways they are. But they are different. There are several differences can be pointed. First of all, employees have less flexibility to franchisees. Even though both two relationship have a boss to monitoring them, however, less flexibility are to employees than franchisees. For employees must do what a manager or a boss ask them to do, but franchisees can do the business by their own ways, just to follow the general guides or rules fixed by the oversight, not to obey the boss or manager directly. What is more, franchisees have more mini-chain subordinate them, but employees just work for their boss personally. According to Bradach(1998, p. 51) hierarchy was used by franchisees to manage the units in their mini-chains. That is to say, they have more complex relationship to deal with than employees. If the franchisees are strong enough to have their own subordinate company, they can be the boss of their mini-chains. So, more roles they are playing than employees, to their franchisors they are kind of ' employees', and to their subordinate company, they are bosses. Under this situation, they should try to deal with the relationship between each side well. Last but not the least, employees get reward, which means salary or allowance, form their employers, however, franchisees give their franchise fees to their franchisors at fixed period. From this point, it is clearly notice that the essences are totally different from employees to franchisees. For what are listed above, two relationships are similar but different. In this essay, first of all, the definitions of franchise,

franchisors and franchisees are illustrated, as well as each different characteristic of them are being pointed. What is more, the advantages and disadvantages of franchise are listed, so long as their features; particularly, is that good or bad to choose franchise as a small business option in New Zealand. What else, as SME is one of the major component of New Zealand economy, through it growth way, what problems it may meet and how kiwi people know about it? In order to enhance and boost it growth, what the government and small business owners should do are given, even through just some of them. And then, this essay compare two relationships, the relationship between employers and employees, and the relationship between franchisors and franchisees, they are similar, but they are different.