

The franchise as a form of business organization

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The Franchise As A Form Of Business Organization

In the United States there are many people that have an entrepreneurship spirit. Owning your own business is a great way to achieve financial independence. On many instances people have the resources to invest, but they do not have a good business idea. These individuals can greatly benefit from the concept of franchising. A franchise is a form of business organization in which a firm that already has a successful product or service enters into a continued contractual relationship with another business under the franchisees name (Investorwords). The largest franchise in the world is the hamburger giant McDonald's. McDonald's in 2012 generated global revenues of \$27. 57 billion (Marketwatch). The purpose of this paper is to describe the benefits of franchising.

The franchising concept allows people the ability to purchase a business concept from the franchisee. There are lots of benefits associated with franchising. The first benefit is that the franchisee obtains the brand value of a company without having to invest years of marketing efforts to make the company popular. The franchisor is responsible for the marketing budget of the company. Big name franchises such as Burger King, Pizza Hut, and Taco Bell spend millions of dollars each year in advertising to attract customers to the establishments of its franchise owners.

When a person purchases a franchise they receive full training on how to operate the business from the franchisor. McDonald's provides training to its franchisees by sending them to Hamburger University. The franchisor also helps the franchisee find a good location for its establishment. The person that buys a franchisee gets access to privileged intellectual property, special formulas, and trade secrets that the company holds. As part of the contract <https://assignbuster.com/the-franchise-as-a-form-of-business-organization/>

the franchisee must purchase the raw materials for its product from the franchisor. Since many franchises have thousands of establishments the matrix company is able to obtain economies of scale that are passed on to the franchise owners. This enables franchises to have lower material costs than similar businesses competing in an industry.

Buying a franchise lowers the overall business risk of starting a company. The person buying a franchise does not have to start a business from scratch. From the first day the franchise opens the company has an established clientele base that desires the products and services that the franchise offers. Franchises have higher customer retention rates than independent stores. The franchisees receive managerial and administrative support from the corporate headquarters during the lifetime of the business. Franchise owners are able to increase the brand value of its business without a direct investment in advertising expenses. In order to compensate the corporate headquarters for its services most franchisees are charged a small royalty on all sales generated by the store. A franchise is a business concept that can generate immediate profits for their owners due to the fact your new store has an established reputation in the marketplace. “ Many well-known franchises have national brand-name recognition” (Ward). The purchase of a franchise can help franchisees obtain long term wealth.

Work Cited Page

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