

Sample essay on disadvantages of franchising in china

[Business](#), [Company](#)



1. Threats to Subway Intellectual Property in China

The copying and imitation of business ideas has become a common thing in China. Burkitt & Chao (2011) informs that many Chinese entrepreneurs have become perfect copycats as they utilise sophisticated modern technology to copy logos, coupons, shopping bags, employees' uniforms, and so on. They ride on the image of established and respected brand names to make sales. They have brought a new meaning to piracy. They are so refined that they copy the products, the branding, the appearance of the physical retail outlets, and even the service. This has brought the concept of fake stores. According to Alexander Moody-Stuart (Burkitt & Chao 2011) the Subway managing director, fake Subway outlets in China copy Subway's logo, their 6-inch and 12-inch sandwich formats, and amazingly accept coupons from genuine Subway stores. Interestingly, the government acts only when aggrieved companies raise the alarm, evidence of the government's lethargy in dealing with piracy. Infringement on Subway's copyright may not elicit much response or protection from the government. However, Subway should protect its copyright by involving the local traders. Since franchising allows local entrepreneurs to use branding and other copyright content of the mother company, local traders would not allow other traders to infringe on their business space. Thus they would provide security for subway's copyright by raising protests and reporting cases of Subway's copyright infringement, because the local traders stand to lose if Subway experiences piracy.

2. Subway's Method and Level of Compensating Franchisee

According to Subway (2013), any trader who wishes to run a Subway

franchise must pay an initial cost of US \$15, 000. The total setup fee for a Subway franchise is about \$78, 600. This is a hefty amount to pay as initial capital. This is a very high cost that most start-up businessmen may not afford. This approach has probably restricted many interested people from starting Subway franchises. They should consider lowering this cost and probably assisting franchisees with funding in the form of raw materials, and so on.

Besides that, franchisees pay 12. 50% of their net sales every week.

According to Subway (2013), the company uses 4. 50% on advertising. This is a fair charge especially because the company pays the cost of advertising, a key component of business sales. However, the company may make some improvements by increasing the period that franchisees need to pay the 12. 50% to a month. This would allow traders to plough-back the money into the business and thus invigorate sales. This would allow businesses to grow.

3. Advantages of Franchising in China

Restaurants enjoy government support since 1980. Franchising allows both Western and Chinese traders to share and exploit their entrepreneurial skills for exemplary business success. Again local traders foot the cost of starting up a franchise thus lowering the cost of entering a new market by the company. All these factors combine to encourage business growth. This enables more franchisees to take up the business opportunity and thus encourage the company's expansion. Because of the common branding and policy, the company enjoys product consistency throughout all its franchises. Finally, the company is able to circumvent restrictions imposed by Chinese legislation by passing its business over to local traders.

The most prevalent disadvantage is the escalating costs of starting and running a business in China. This is made worse by unambiguous Chinese laws that put companies at risk of hefty fines or closure. Again, most prospective traders in China have limited knowledge in the running and management of businesses. New entrants also face language and cultural barriers.

Except for the high costs, franchising may be the best option for starting a business in China.

4. Cultural Challenges in China

The first cultural challenge is language. Chinese language is not popular in most countries and thus many traders do not understand it. Except for business, many people have no other motivation for learning the language. The language is even more complex because it combines both the dialect and Chinese characters, so reading and writing is very difficult. Besides language, the Chinese way of life such as food, and so on is not well-understood by many people in the world and for this reason, people find it hard to operate in China. Language and cultural differences make it difficult for companies to source for Chinese traders to partner with.

The company may overcome these challenges with time as it establishes its presence in China. Again, Subway needs to train its staff on Chinese language and culture.

Works Cited

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