Starting a business vs franchise

Business

Explain the differences of establishing a business from scratch and setting up a franchise. Evaluate the success of franchises in Australia (refer to examples). There are significant differences between establishing a new business and setting up a franchise. Starting a business from scratch often takes a long time and a large amount of capital to accomplish, but the rewards can be substantial. A franchise is a business that is licensed to trade under a recognised brand name for payment of a fee (e. g. McDonalds, 7-11, etc). A franchisee purchases the franchise from the franchisor and operates under their name while paying fees.

The factors involved in choosing one of these two options differ considerably and include the amount of risk, cost, operations and reputation. Establishing a new business involves the highest amount of risk due to the entrepreneur being solely responsible for everything that occurs in the business. In addition, there is a significant threat offailurefor any new business which can result in huge losses for the business owner. Without a previous business reputation, it may prove difficult for entrepreneurs to securefinancewhich in effect significantly limits their access to funds to pay for establishment costs.

Starting a new business gives the owner greater control over all key decisions and operations, as a result allowing the owner to set up the business exactly how they wish. Establishing a reputation for a new business is a slow process since a customer base and marketing campaign needs to be developed to generate sufficient sales for the firm. As a result, a new business will experience a slow growth in profits and may not be able to achieve a high level of profits at the start. Setting up a franchise presents the lowest risk due to already being established and generally selling widely recognised products.

The costs associated in purchasing a franchise vary significantly depending on a number of factors such as type and size. Due to the general success of a franchise, it is much easier for a franchisee to obtain finance. However, franchisees must pay ongoing costs such as royalties to the franchisor which may lead to a reduction in overall profits. Setting up a franchise heavily restricts the owners control over business operations which prevents them from making their own decisions. This is due to the fact that the franchisor has total control over the business operations and ultimately determines how the owner runs the franchise.

It is also much easier for a franchisee to generate sales due to the widely established reputation of the franchise and the products sold may already be advertised and marketed by the franchisor. Most franchises have been extremely successful in Australia and have become the fastest growing area of small business – in 2004 there were approximately 850 franchise operations in Australia. Franchises such as Gloria Jeans and Jims Mowing have grown tremendously in the past few years – between 1999 and 2004, the number of franchises grew by 25%.

This is due to the effective business formula, well-recognised name and established trademarks of franchises which have attracted numerous investors in Australia. Another reason regarding the enormous of franchises in Australia is the fact that most of them offer comprehensive training and support to franchisees. For example, McDonald’s provide franchisees with uniforms, staff training packages, the ingredients and equipment for production and conducts extensive advertising on their behalf. As the success of franchises continues to grow in Australia, it is becoming an attractive option for many potential entrepreneurs in starting a business.