Franchising

1. What is franchising?

Ans. Franchising is a business strategy used to acquire and retain customers. It is a marketing system to create an image in the minds of current and future customers on how the company's products and services can benefit them. It is a method for distributing products and services that satisfy customer needs. In short, franchising is a strategic alliance between groups of people who have specific relationships and responsibilities with a common goal to dominate markets, i.e. to win a greater number of customers than their competitors and to retain their loyalty.

2. How does franchising help in the promotion and expansion of business?

Ans. Franchising is a network of interdependent business relationships that allows a number of people to share:

• a brand identification
• a successful method of doing business
• a proven marketing and distribution system

3. What is important for successful franchising?

Ans. To be successful in franchising you must understand the business and legal ramifications of your relationship with the franchisor and all the franchisees. Your focus must be on working with other franchisees and company managers to market the brand, and fully use the operating system to win and retain customers.

4. What are the different types of franchise?

Ans. There are many different types of franchise ownership opportunities.

• **Single-Unit Franchise**: Single-unit franchising is the most likely position that a brand-new entrepreneur would choose to start his business. In this type of franchise, the franchisee would only be responsible for running one unit. However, he or she would be deeply involved with all of the daily operations of the business.

• **Buying an Existing Franchise**: Many franchise owners decide to sell their franchises after they have opened them. There are several reasons why existing franchises are listed for sale. There are pros and cons to buying an existing franchise.

• **Multi-Unit Franchise:** Multi-unit franchising creates the opportunity for the franchisee to open more than one unit. In this case, multiple units are usually sold at a reduced rate per unit. In this type of operation, the franchisee participates less in the day-to-day operations of the unit.

• **Area Developer:** Area development is similar to multi-unit franchising. The only difference is that this type of franchising typically involves a greater number of units encompassing a larger territorial area. The area developer is granted the right to open a pre-determined number of outlets in a certain geographic territory.

• **Master Franchise:** Master Franchising allows people or corporations to purchase the rights to sub-franchise within a certain territory. A master franchisee helps the overall franchise company by recruiting franchisees to open units within a specific territory.

5. What are the different types of agreements needed for different franchises?

Ans. There are different types of franchise which are as follows:-

• **Direct Franchising Format:** In this franchising, the franchisor grants the franchise to a franchisee by the execution of a contract and has direct control over the franchisee.

• **Subsidiary Franchising:** Wherever laws and regulations allow foreign organizations to set up their subsidiaries in India, franchising is done through a subsidiary. The franchisor controls the subsidiary directly.

• **Regional Franchising or Multiple Franchising:** Here the franchisor offers franchise rights to a franchisee only for a region or an area. There are separate franchisees for each area or region in the country.

• **Unit Franchising:** The franchisor offers rights to a franchisee to open and run just one store through an exclusive agreement which involves many franchisees.

• **Master Franchising:** Here, the franchisor grants the franchise rights to an entire country or territory and the franchisee is permitted to open franchise outlets and grant sub-franchises to others.

6. What are the things to be done before taking up of a franchise?

Ans. Before taking up a franchise ambitiously, franchisees need to consider carefully the franchise in terms of its market size and market opportunities before investing their hard-earned money in it. The article presents a guideline to ambitious entrepreneurs to explore the market for their desired franchise, to understand the demands of the franchise and to find out the success/ failure ratio as well.

7. What is a franchise UFOC?

Ans. A UFOC (Uniform Franchise Offering Circular) is a legal disclosure document that contains specific information about a franchisor’s offering that must be provide to all prospective franchisees by law before a franchise agreement can be executed. Some of the information required in a UFOC includes the franchisor’s business experience, litigation history, bankruptcies, franchise fees, initial investment, territory info, besides the franchisor’s and franchisee’s obligations. Important note: As of July 2000, the UFOC has been renamed the FDD (Franchise Disclosure Document) by the FTC.

8. Is it necessary to consult a lawyer before buying a franchise?

Ans. Yes, it is advisable that you contact and consult an experienced franchise attorney before buying a franchise opportunity or signing any franchise agreement. Franchise agreements tend to be long and specialized contracts that need to be reviewed by a professional.

9. What is a Franchise royalty fee and what is the percentage of royalty?

Ans. A franchise royalty fee is traditionally defined as an ongoing fee that the franchisee pays to the franchisor (Franchise Company) as part of their franchising agreement. This fee, typically paid monthly, is calculated as a percentage of gross sales. The average franchise royalty fee is approximately 7.00%.