Why Franchising is a Smart Business Solution

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I. INTRODUCTION

Franchising is a form of marketing and distribution in which the owner of a business system (the franchisor) grants to an individual or group of individuals (the franchisee) the right to run a business selling a product or providing a service using the franchisor's business system. Franchisees are given permission to use the franchisor's branding, trademarks, and identifying marks under specified guidelines. It is important for anyone deciding to start a business by becoming a franchisee to remember that in franchising the franchisee is bound to a partnership agreement with the franchisor for a defined period of time. The word "franchise" is of Anglo-French derivation—from franc, meaning free—and is used both as a noun and as a (transitive) verb. For the franchisor, use of a franchise system is an alternative business growth strategy, compared to expansion through corporate owned outlets or "chain stores". Adopting a franchise system business growth strategy for the sale and distribution of goods and services minimizes the franchisor's capital investment and liability risk.

Growth in the business
Franchising offers an alternative that allows entrepreneurs to expand their business without the cost of equity.

1. You don’t need as much capital.
A lack of capital is one of the most common obstacles to expansion of businesses as entrepreneurs often find their available funds far outstripped by their growth goals. Taking on debt from banks, leasing companies, private investors, sometimes even friends and relatives is a huge barrier for business owners looking to grow. High interest rates can cause payments to spiral out of control and bank loans are often difficult to come by, especially in amounts that are adequate to fuel aggressive growth. Unlike the days before the Great Recession, banks today often will not lend even in situations when they’re fully secured. Franchising offers an alternative that allows entrepreneurs to expand their business without the cost of equity. The franchisee provides the capital needed to open and operate a unit, allowing the franchisor to grow without incurring debt or giving up equity.

2. You can promote growth quickly.
Most entrepreneurs have the same fear: that someone will beat them to market with their own concept. The business world moves so quickly that those fears are not without merit. Unfortunately, it takes time to open a single unit. Depending on the nature of the business, you may need to hunt for appropriate sites, negotiate leases, assist with location build-out, research about the local market, arrange vendor relations and more. Even with adequate capital, unit growth is still limited based on an entrepreneur’s ability to support that growth. Franchising may be the only strategy for some entrepreneurs to secure leadership in the market. Franchising allows companies to compete with much larger businesses and saturate markets before their competitors can respond.

Franchising Is a Two-Way Street
Franchising can help a business grow on both sides of the fence. The franchisors' principal benefit is that they can expand more entities rapidly across different locations. Since franchisees buy the franchises to own and operate them, the parent company grows without taking on the financial risks they would endure if they opened the new locations themselves. This rapid growth is the primary benefit of structuring your business around the franchise enterprise model. Aside from the benefits we mentioned above, which can contribute to helping a business grow, being part of a franchise is like being part of a well-oiled machine that operates as one. As a franchise owner, you get the support that can contribute to the success of your business. You also get advertising and marketing assistance from the franchisor. Advertising and marketing are essential because they have the power to retain a customer base while drawing in new customers, contributing to the growth of your business. Something else to consider is that the experience you gain as a franchise owner can support your overall personal development as an individual, which allows you to become more successful overall. The mutual relationship between the franchisor and franchisee is symbiotic. Neither works independently of the other. For this reason, the franchise model has been a proven success for decades. It takes very little research to find numerous examples of franchise growth, both on the part of the franchisor and its franchisees. Many franchise owners end up growing their businesses by purchasing more than one franchise location. The success of their first purchase allows them to do this.

The Franchise Disclosure Document
A Franchise Disclosure Document (FDD) must be prepared in strict compliance with FTC rules. By law, you can’t sell a franchise until you’ve given the prospective franchisee an FDD. In fact, 15 states require franchisors to register their FDDs with the state or to notify them that they will offer franchises before they begin to conduct any franchising activity in the state.

The FDD discloses extensive information about you and your business, divided into a cover page, table of contents, and 23 categories, including:

- The franchisor: How long you’ve been in business, likely competition, and any special laws that pertain to your industry, such as license or permit requirements.
- Key persons: The identity and experience of executives and key management personnel.
- Litigation history: A discussion of all litigation involving your company and other franchisees or customers, and disclosure of any allegations of fraud or violations of franchise laws.
• Bankruptcy: If you or any of your executives has filed for bankruptcy, it must be disclosed here.
• Initial franchise fee: Lists the costs in starting and operating the franchise, including any non-refundable deposits or fees, along with ongoing advertising and marketing fees.
• Training: Describes the training programs you will provide to the franchisee.
• Restrictions. Lists any restrictions on sources of products or services and the suppliers that must be used to maintain the integrity of the franchise system.
• Financing: Discusses any financing help you may provide to the franchisee.
• Obligations. Lists the obligations and expectations of both you and the franchisee in the daily operation of the business.
• Financial performance: This section is optional, and many franchisors choose to omit any information or projections about sales or revenues.
• Financial statements: You must provide information about your financial status, including audited financials so a franchisee can determine if your company is profitable and able to sustain the franchise system and support over time through varying economic conditions.
• Current franchisee contacts: Names and contact information of current franchisees so the prospective franchisee can speak to them and glean more information about the viability of the franchise system, support, and revenue opportunities.

Requirements to start franchises and how it is done
Franchising is regulated by the Federal Trade Commission and by state laws. As a franchisor, you are required to provide accurate and detailed disclosures to prospective franchisees so they can make informed decisions about your franchise offer. These legal documents, along with the operating manuals, staffing, training programs, and marketing initiatives, are your main investments in the franchise system. The two primary documents you’ll create are the Franchise Agreement and the Franchise Disclosure Document (FDD).

The Franchise Agreement
The franchise agreement is the binding contract between you and your franchisee. It explains all rights and obligations for both parties and protects the integrity of your franchise system and your trademarks. This is one of the first documents you will send to a prospective franchisee.

A good franchise agreement will be concise, clear, and fair. Issues typically addressed in a franchise agreement include:
• Initial and ongoing franchise fees
• Timelines for opening the franchise for business
• Franchise territory protections (if applicable)
• Specifications for equipment, supplies, and inventory
• The term of the agreement and conditions for its renewal
• Rules regarding the transfer of the franchise to a third party
• Conditions for termination of the agreement
• Post-termination obligations
• Non-compete covenants

While franchising is a staple of the American business landscape, the merits of franchising have not been ignored abroad. It is steadily increasing its footprint in numerous other countries. This is especially true in emerging markets such as China, India, Russia, Brazil and the Middle East among others.
• Minimum sales requirements (if applicable)

• How disputes are to be resolved, including alternative dispute resolution methods such as mediation and arbitration

Seek Professional Help
This is not something you can do by yourself. It’s important to work with a franchise attorney and possibly a franchise consultant as you develop your legal documents. Failure to comply with the FTC rules is one of the primary bases for legal claims by franchisees against franchisors. Your long-term income stream is dependent on your ability to sell franchises and maintain good working relationships with your franchisees, so it’s important to get the legal paperwork done correctly the first time out.

Advantages of franchising
1. Less risk
In a nutshell, the greatest advantage of a franchise system is that it reduces risk of business failure. This is due to the fact that an ethical franchisor will have a tried, tested and proven business concept in the market place. It is a well known fact that less than 7% of franchise owners fail within the first 3 years, as compared to over 90% of new business start ups. This lower risk may also make it easier to access loans, including the best SBA franchise loans, to help you launch your business.

2. Competitive edge
Franchising enables a small businessman to compete with big businesses and a franchisee can take advantage of the economies of scale. All franchisees acting together can buy more cheaply and on better terms than an individual small business. Add to this the franchisor’s reputation in the industry, the franchisee can trade under a recognised brand and should have a distinct advantage over any independent small business competitor. In theory at least, the products, equipment and system will have been previously market tested and therefore they come to the franchisee with a certain degree of ‘ready acceptance’ by the consumer.

3. Training and Support
Through training imparted by the franchisor, the franchisee climbs a very steep learning curve in a shorted period of time, thereby increasing their chances of succeeding considerably. For example, someone who wishes to set up a dress hire business would find it very difficult to get the stock mix right at the outset. A franchisee, however, should have the benefit of his/her franchisor’s experience and should receive advice on the range and mix of the stock to carry etc.

The franchisee has the benefit of the management and administrative experience of the franchisor in addition to which most franchisors provide back up and support including trouble shooting services to assist franchisees in their daily endeavours. This support includes managerial and administrative services, product information and marketing support

4. Efficient growth
Opening the first unit of a business is costly and time consuming. Opening a second unit can be almost as difficult. When that burden is shared with another business owner, it makes the process more efficient and tackles the onus off the initial business owner. When trying to grow your small business, starting a franchise can make opening multiple locations a much simpler process.
5. Pooled resources
A franchisee has the ostensible backing of a large organisation and this is achieved by the pooling of resources, particularly in the field of advertising, marketing and promotions where each franchisee, by contributing a little, can have the benefit of a large fund for this purpose. Franchises are therefore able to have their goods and services promoted through media which would otherwise be closed to them. In a well-run and structured franchise business, the franchisee is left to concentrate on selling the goods or services while at the same time receiving the benefit of continuous market research and development to improve the business and the franchised system.

6. Business assistance
One of the benefits of franchising for the franchisee is the business assistance they receive from the franchisor. Depending on the terms of the franchise agreement and the structure of the business, the franchisee might receive essentially a turnkey business operation. They may be provided with the brand, the equipment, supplies, and the advertising plan—essentially everything they need to operate the business. Other franchises may not provide everything, but all franchises provide the knowledge and wisdom of the franchisor. Whether that knowledge is stored in a searchable, digital knowledge base or is a phone number to reach the franchisor directly, the franchisee has access to a deep reservoir of business assistance to guide them through the process of owning and operating a business. This knowledge can be essential to running a successful business and makes it much easier than starting a business from scratch.

7. Minimal employee supervision
One of the big stresses as a business owner is hiring and managing employees. As a franchisor, the only support that you have to provide to the franchisee is training and business knowledge. In general, the franchisor has no hand in the management, hiring, and firing of employees. This minimal employee supervision allows the franchisor to focus on the growth of the business instead of day-to-day operations. Instead of worrying about whether an employee shows up for their shift or not, the franchisor is focused on the big picture for business success.

8. Buying power
Another benefit of franchising is the sheer size of the network. If you’re operating a standalone business and need to order products or supplies to make your products, you’re paying more money per item because your order is relatively small. However, a network of franchises has the opportunity to purchase goods at a deep discount by buying in bulk. The parent company can use the size of the network to negotiate deals that every franchisee benefits from. A lower cost of goods lowers the overall operation costs of the franchise.

9. Profits
In general, franchises see higher profits than independently established businesses. Most franchises have recognizable brands that bring customers in droves. This popularity results in higher profits. Even franchises that require a high initial investment for the franchise fee see high return on investment. One of the biggest struggles of any new business is finding customers. Franchises, on the other hand, come with instant brand recognition and a loyal customer base. Even if you’re opening the first branch of a franchise in a small town, the likelihood is that potential customers are already familiar with the brand from exposure to TV commercials or travel to other cities.

10. Access to capital
One of the biggest barriers to expansion for small business is the money it costs to expand. And while there are several business loan options, they don’t always pan out. Franchising your business will take some time and money on your end, but it also has the potential to make you a lot of money in the form of franchise fees. Expanding your business as a franchise allows you to expand with little debt. The business expands as capital becomes available from franchisees instead of taking on debt through loans. The franchisor also shares minimal risk with the franchisee because the franchisee puts their name on the deed for the physical location of the business and lowers the franchises overall liability.

Disadvantages of franchising

1. Lack of independence
An important feature of franchising is that every aspect of the business format is defined and each outlet is operated strictly in agreement with this format. Not everyone would be happy to operate a business under such constraints and you must consider how well you can accept this aspect of the franchising system when looking for a franchise to buy.
- Discipline: Buying (licensing) a franchise means working within a system in which there is little freedom or scope to be creative. Almost every aspect of operating the business is laid down in the manuals.
- Franchisor Monitoring: Regular field staff monitoring visits are welcome initially, but as time passes you will feel able to do your own trouble-shooting and you may come to regard the franchisors interest as an intrusion - it is after all your business.
- Service Charges: At first these services are necessary and franchisees do not mind paying for them. However as time goes on, if less use is made of the franchisors services then franchisees can resent making the continuing payments.
- Reputation: Each franchisee affects the reputation of the whole system depending on their performance and ability. In many franchises there is a wide gulf in the quality of product or service between the best and the worst franchisees. Thus any franchisee can harm the reputation of all outlets in the chain, even internationally.

2. Inflexibility
- Responding to the market: Franchising tends to be an inflexible method of doing business as each franchisee is bound by the franchise contract to operate the business format in a certain way. This can make it difficult for a franchisor to introduce changes to the business format, repositioning or introducing new types of equipment. In some franchises it can be difficult for a franchisee to respond to new competition or to a change in the local market.
- The job itself: What may seem an attractive challenge now could become boring after a few years so it is important that you choose a franchise to buy in which you will enjoy the work, or which has potential for growth.

3. Risk associated with franchisor performance
It is important to recognise that not all franchise businesses are soundly based or well run. In signing the franchise agreement you are formally binding yourself to a particular franchisor and it is, therefore, vital to select one which is competent and ethical.
There are 4 different categories of franchisor; some should be avoided at all costs, while others will vary in attractiveness according to the level of risk you are prepared to take.

1. The Established franchisor: This represents the least risky type of franchise opportunity. The business format will have been fully tested in a number of locations, most likely abroad too, and although the initial cost of opening such a franchise may be relatively high, a franchise with this type of company will be highly attractive to anyone for whom security is important.

2. The New Franchisor: There is nothing intrinsically wrong with a new franchise but great care must be taken in deciding to invest in any particular franchise. As franchisors incur high initial costs, they need a minimum number of franchises to break even. When a franchisor has fewer than the break-even number of franchises it is likely that:
   - More effort will go into selling franchises than into providing support services.
   - There will be some deficiencies in services in order to keep costs down.
   - Financial resources will be strained.

   In this start-up phase the franchisor is vulnerable to financial problems if franchises cannot be sold quickly enough. Franchises in this take-off phase are potentially those, which will earn the highest returns, for example if the product or service is outstanding in some way a large territory can be covered. With a franchisor you are in a position near that of an independent business - greater return. Depending on the risks you are prepared to take, this type of franchise may be attractive, or one to be avoided.

3. The Unethical Franchisor: Unfortunately some franchisors have no intention of entering a long-term support relationship with the franchisee, instead they have heard that franchising is a way to make money quickly out of gullible franchisees. This is done by setting up a shell franchise - lots on offer but nothing to back it up, then selling such franchises to those who are so keen to become a franchisee that they fail to make a thorough appraisal of the business on offer. Make sure that you spot this type of franchise, take time to investigate different opportunities.

   You cannot afford to learn from your mistakes.

4. The Incompetent Franchisor: These are franchisors who are not offering franchises to perpetrate fraud but who are incompetent in one or more of the following ways:
   - The basic business is unsound
   - The franchisor is under-resourced and may not be able to fund the initial running of the business
   - The franchisor has not run a pilot test so cannot confirm that the business is actually franchiseable
   - They have not used experience or accredited franchise consultants or lawyers
   - Their manuals and start-up assistance and support if of poor quality

   Costs may be higher than you expect. As well as the initial costs of buying the franchise, you pay continuing management service fees and you may have to agree to buy products from the franchisor.
   - The franchise agreement usually includes restrictions on how you can run the business. You might not be able to make changes to suit your local market.
   - You may find that after some time, ongoing franchisor monitoring becomes intrusive.
   - The franchisor might go out of business.
   - Other franchisees could give the brand a bad reputation, so the recruitment process needs to be thorough.
   - You may find it difficult to sell your franchise - you can only sell it to someone approved by the franchisor.
   - All profits (a percentage of sales) are usually shared with the franchisor.
   - The inflexible nature of a franchise may restrict your ability to introduce changes to the business to respond to the market or make the business grow.

5. Loss of complete brand control
   When a business owner opens an independent business, they maintain complete control over their brand and every decision that happens within the business. When a franchisor allows a franchisee to open a business under their brand, they’re giving away (actually, selling) some of the control over their small business branding. While the franchise agreement should contain strong stipulations and rules to guide the decisions made by the franchisee, your franchisees won’t be clones of you. They will think and act differently, and your brand could wind up suffering because of it.

6. Increased potential for legal disputes
   Any time you enter into a close business agreement with other people, you open yourself to the risk of legal disputes. While a well-crafted and lawyer-approved franchise agreement should limit a lot of the possibilities for legal disputes between the franchisor and franchisees, these disputes are still possible. Any legal disputes that must be resolved in mediation or through the court system can be costly in both time and money, which takes away from the success of the franchise.

7. Initial investment
   While much conversation is devoted to the initial investment that a franchisee must make in the franchise, that ignores the initial cost that is taken on by the franchisor. When a franchisor starts a franchise, there’s a startup cost to get the business in operation. A franchisor must make sure that the franchise agreement is written clearly and reviewed by a lawyer experienced in franchise law. You may also hire a franchise consultant for expertise during this process. Starting a franchise requires an initial investment of both time and money on the part of the franchisor.

8. Federal and state regulation
   While not entirely a drawback, dealing with the federal regulations set down by the Federal Trade Commission for franchises can be a nuisance for franchisees. These regulations ensure that franchises are operated fairly, but it also requires time and effort from the franchisors to meet all of these regulations.

And while you don’t have to file your agreement with the federal government, you do have to file with some states—and you will have to make sure you’re compliant with different state’s laws. This can be a time-consuming process, but can be made easier with professional guidance.

9. MANAGING GROWTH
   The flip side to “fast growth” is ensuring that your new business as a “franchisor” has the resources required to adequately manage the franchise network. The business of franchising and being a franchisor is different from operating the business that you have franchised. You will need to ensure that you have the staff and the systems that can support an expanding franchise network.
10. TRAINING AND CONTINUED SUPPORT OF FRANCHISEES
The development and implementation of a good training programme which will produce compliant franchisees requires time and resources. A common complaint made by franchisees is that their initial training was very basic and that they commenced operating the franchise business without really knowing what to do.

FINANCIAL STABILITY AND INVESTMENT IN FRANCHISING
Well, before investing in franchising, make sure that your franchisor is financially strong… one of the dangers of investing in franchise is getting caught up in the hype… the sizzle of opportunity. A franchise provides an opportunity to buy into an existing, successful business model that has a proven track record, a successful training program, a solid supply chain, and expert technical support. Some of the best-known franchisees have impressive success rates, with low chances of failure. It takes money to start any kind of business, franchisees included. Franchising investment options run the gamut from low to high, including start-up costs (franchise fees, equipment, supplies, plus real estate if needed) and reserve capital to keep the business running until it generates positive cash flow. Once you have determined the level of investment that works best for your budget, timing, and goals, you can review our brand listings here, sorted by investment level, to find the right industry, concept, and location for your new business. Make your first entry into franchising more systematic, streamlined, and profitable than you thought possible. Financial statements represent the financial track record of your franchise and tell you how well positioned your franchisor will be for the future. They are provided for you in the Franchise Disclosure Document (FDD) and contain important information about the franchisor’s financial status and strength. Financial statements are important to investors because they can provide enormous information about a company's revenue, expenses, profitability, debt load, and the ability to meet its short-term and long-term financial obligations. Also referred to as the 'Profit and Loss' statement, the Income Statement shows the summary of franchise revenue and expenses through operating and non-operating activities. The income statement provides an overview of the sales and net income of a franchise business over a specific accounting period. Too often, business owners, particularly franchisees, focus keenly on the operations and compliance part of their entire franchise network. As long as the business continuously makes a profit, sometimes, they don’t dig deep on how to understand and improve that franchise profit. Franchisors should be more focused on achieving transparency in financial reporting as this can be their leverage in achieving the most optimal financial results for their franchise business. Here are the reasons why prioritising financial transparency practices can have long-term benefits for any franchise business: How would you know which areas to work on when you don’t have any metrics to base on whether your franchise is performing well, on average, or poorly? It is easy to look at the faults and find explanations for why a business underperformed, but the best approach is to proactively look for opportunities to improve profitability, and that starts with knowing all your financials. The franchisor’s end goal should be how to be profitable in the long term, and they can only do so by receiving truthful reports from franchisees on their accounting balance sheet, income statement, and statement of cash flows. Knowing accurate revenues, costs, and profit profiles of each of their franchisees will help franchisors optimise their benchmarking processes, which will then help them determine what works best for the business and what areas need improvement. They can enhance the strengths even more, and help underperforming franchisees before issues escalate. Focusing on financials and how the franchise business makes a profit can have very favorable results that will cascade to the entire franchise network. Looking at the bigger picture, financial transparency is the only way to get honest to goodness financial insights that will boost the growth and profitability of franchise businesses for the long-term.

How franchising affects the economy
Franchising's Impact on Local Economies
Taxes paid by franchisees tend to support their local communities. These funds go to support schools, emergency services, and road repairs. Franchises help creating jobs and expand to new locations more quickly than other businesses. The franchises help the local unemployment rates by providing jobs for different types of people. Many franchisees become involved in their communities by supporting non-profit organizations and schools. Many franchisees join regional business associations, sponsor local sports teams, volunteer employee time, or donate to charitable organizations. In return, the public is more likely to patronize their business keeping the money in the community.

Franchising's Impact on a country's Economy (for example: USA)
The International Franchise Association creates an annual report detailing the most current industry statistics. Franchisees create an economic output of $1.6 trillion and account for 5.8% of the U.S. GDP. The 2016 franchise production of goods and services totaled $868.1 billion while paying out $351.1 billion in annual wages. Indirectly, franchises produce $929.9 billion in GDP. Franchises accounted for 3.4% of the private-sector gross domestic product. The total combinations of jobs, annual payroll, and annual output added up to 7.4% of the GDP. Non-franchised businesses grow because of the purchases of franchises and the purchases made by the owners and workers. That money goes right back into the economy as a recession-fighter. 73% of voters believe that franchises support the national economy and, comparably, 75 of American voters believe franchises support the communities they operate in.

Social responsibility created by franchises
It’s late afternoon and John is in need of a sugar rush. He is at the till in his local grocers and a small box selling sweets catches his eye. He buys a couple and walks off munching away, not aware of how the money he spent has made a positive impact on the world. The point is that the franchise behind these boxes donates a portion of the sales to a
children’s hospice. This is a socially responsible franchise in action. Franchising is not all about the bottom line. Many franchises make a profit and benefit their communities and charities at the same time. This ‘double bottom line’ is at the heart of corporate social responsibility in franchising.

How Franchises Can Be Socially Responsible Businesses

The concept of corporate social responsibility refers to activities that businesses do to connect with or give back to their communities. The term originates in the late 1960s but has only come to prominence in the last few years. In our sweet box example, the franchise in question is Snak Appeal. They support 25 children’s hospices throughout the UK and Ireland. The franchise distributes and collects ‘honesty boxes’ of sweets, with a proportion of the profits going to charity. They have raised over £100,000 for Keech Hospice Care in the four years since they launched. They do not cap the amount that they give to charities and the more they earn, the more they give! Subway is a well-known example of a franchise that bases its business on principles of social responsibility. As one of the largest franchises in the world, it’s no surprise that they have a comprehensive responsibility plan. They aim to be environmentally, socially and nutritionally responsible through different initiatives.

Why is McDonalds a perfect example of franchising

McDonald’s is a heavy-franchised business model. In 2018, of McDonald’s total restaurants, 93% were franchised. The long-term goal of the company is to transition toward 95% of franchised restaurants. The company’s operating income in 2018 was $8.8 billion compared to $9.55 in operating income for 2017.

Is McDonald’s a franchising? You bet, and a heavy one!

Of the 37,855 restaurants in 120 countries at year-end 2018, 35,085 were franchised, and the Company operated 2,770 restaurants. This makes the heavily franchised model running at 93% total capacity, compared to McDonald’s long-term goal of 95%. This makes the heavily franchised model running at 93% total capacity, compared to McDonald’s long-term goal of 95%.

As specified in its 2018 annual report “McDonald’s is primarily a franchisor and believes franchising is paramount to delivering great-tasting food, locally-relevant customer experiences and driving profitability. Franchising enables an individual to be his or her own employer and maintain control over all employment-related matters, marketing, and pricing decisions, while also benefiting from the financial strength and global experience of McDonald’s. However, directly operating restaurants is important to being a credible franchisor and provides Company personnel with restaurant operations experience.”

How do McDonald’s partnerships work?

As specified in its annual report “under McDonald’s conventional franchise arrangement, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating, and décor of their restaurant business, and by reinvesting in the business over time. The Company generally owns the land and building or secures long-term leases for both Company-operated and conventional franchised restaurant sites. This maintains long-term occupancy rights, helps control related costs and assists in alignment with franchisees enabling restaurant performance levels that are among the highest in the industry.”

In short, the model is pretty smart. McDonald’s keeps control over the land and or long-term leases to leverage its market position to negotiate deals. At the same time, this kind of deal serves as an alignment between the company and its franchisees.

McDonald’s business model is based on three key players. Franchisees, suppliers, and employees are the piece of the puzzle of McDonald’s successful business model.

• Franchisees are entrepreneurs that at local level allow McDonald’s to expand rapidly while keeping a global focus
• Suppliers across the globe guarantee McDonald’s ability to operate at a high level
• The continuous training of employees across the over thirty-six thousand restaurants around the world allow McDonald’s to perform at full speed

Key highlights from McDonald’s business model

• McDonald’s uses a heavy franchised business model. As of 2018, the company had 93% of total restaurants as franchising.
• Its long-term target is 95% of franchised restaurants worldwide.
• Even though revenues have decreased since 2013, it’s important to understand this is part of the transition to a heavy-franchised business model.
• Indeed, according to McDonald’s financial reports in 2018 Franchised margin dollars represented about 85% of the combined restaurant margins in 2018, about 80% in 2017, and about 75% in 2016.
• Therefore as McDonald’s business model primarily shift toward a heavy-franchised model we might expect this effect of reduced revenues and increased margins.
• That is also due to how revenues are reported for each segment
• Although company-operated restaurants have higher revenues compared to franchised restaurants, they contribute less to the company’s gross margins and net income.
• It’s important to understand the key difference between McDonald’s company-owned restaurant business model vs the McDonald’s franchised restaurant business model.
• McDonald’s can be considered a restaurant business in the McDonald’s company-owned side of the business.
• However, it can be considered a mammoth commercial real estate company on the franchising restaurant side of the business. Indeed, in 2018, McDonald’s reported at cost over $37 billion in property and equipment, which makes it one of the largest commercial real estate companies on earth.

APART FROM FRANCHISING WHAT ARE THE OTHER WAYS OF EXPANDING YOUR BUSINESS

Beyond Franchising: 6 Ways To Expand Your Business

• Company-Owned Operations. The most obvious expansion method for many companies is the development of additional company-owned outlets. ...  
  • Business Opportunities or Licensing. ...  
  • Trademark Licenses. ...  
  • Dealerships and Distributorships. ...  
  • Agency Relationships. ...  
  • Joint Venture.

1. Company-Owned Operations

The most obvious expansion method for many companies is the development of additional company-owned outlets. This strategy offers several advantages over franchising. Perhaps most important, company-owned growth allows owners to
keep 100 percent of each unit’s profits rather than sharing those profits with franchisees. It also offers increased control over unit management, as owners can hire and fire management largely at will. This control allows for increased flexibility and the ability to react to market changes more quickly. For the company contemplating first-time franchise expansion, it also represents a more predictable method of growth, as there's no need to learn the new business of franchising. Finally, the addition of company-owned locations allows the business owner the opportunity to build tangible assets in the business, which can have a very positive impact on the company’s valuation when the owner begins to consider exiting the business.

ADVERTISING
Of course, along with the advantages, there are some disadvantages. First and foremost is risk. While you get to keep 100 percent of the profits, you're also responsible for 100 percent of the losses. And the more money you invest in corporate operations, the more you have at risk.

2. Business Opportunities or Licensing
The advantage to the business opportunity (biz opp) route is that in many cases, the licensor doesn't have to comply with the FTC’s franchise disclosure regulations, which saves money and makes the sales process less complex. That said, a biz opp may still have to comply with franchise disclosure laws in some states and will need to comply with the patchwork quilt of biz opp laws that exist in more than two dozen states. So while the biz opp licensor may avoid some legal costs if a company plans to roll out the offering on a local level, a national rollout may require them to pay more in the way of legal fees and make it only marginally easier to sell. At the same time, avoiding a common brand identity often puts the licensor at a long-term disadvantage over its franchising brethren. Even a one-unit chain looking to expand through franchising will likely double their advertising expenditures with the sale of their first franchise, whereas the licensor who sells 100 biz opps will get little, if any, in the way of brand recognition -- because their operators will do business under their own names. Moreover, because each biz opp will operate under a different name, the licensor can't legally control how the licensee operates. For this reason, the fees charged by an unbranded biz opp tend to be substantially lower and often have no long-term component or royalty -- unless it involves ongoing purchases from the licensor. On the other hand, without a common name, you can't exercise control, and without control, it's difficult to provide the value of a franchisor that is developing common advertising campaigns, marketing initiatives, merchandising schemes, and other ways of enhancing value and performance at the unit level. On balance, biz opps don't substantially reduce the burden of legal compliance, and, at the same time, they offer far less quality control than franchising. And since fees are generally lower and there is no ability to create a national brand, this expansion method is often not a satisfactory alternative to franchising.

3. Trademark Licenses
The second option available to those looking to expand through third parties is the use of a trademark license. For those of us without famous names, trademark licenses are exceptionally difficult to market—especially if we're branding a business instead of a product. After all, if someone is going into a business, it's the system of operation -- the recipes, the advertising, the operating procedures, and the knowledge of how to succeed -- that the prospective buyer is looking to obtain, not simply the name. More important, it's extremely easy to step over the line of providing “significant operating control or significant operating assistance.” Some of the elements cited by the FTC as being significant are controls over site approval, design specifications, production techniques, promotional campaigns requiring franchisee participation, and territory restrictions. And the FTC has stated that training programs, management and personnel advice, site selection assistance, and operations manuals are all forms of “significant assistance.” One slip in the wrong place, and, oops, you're an inadvertent (and illegal) franchisor. Even if you didn't provide any support or exercise any control, wise trademark owners should be asking themselves, “Do I really want to allow someone to use my name on a business without the ability to control how my name is used?” The damage done by a single rogue operator could harm a brand that took years to build. For that reason alone, developing a system of related businesses through trademark licensing is usually not a viable alternative.

The “No Fee” Options
The last alternative to franchising involves removing the fee element from the equation. These no-fee options include:

4. Dealeships and Distributorships
This format involves the provision of products to a third party at a bona fide wholesale price for resale, a tried-and-true means of establishing a distribution channel. Of moreover, many manufacturers these days are finding that the traditional dealer relationship lacks a fee, support must be provided for free -- essentially eating into the manufacturer’s wholesale margin. And while dealers will clamor for more and more support as competition increases, they'll often have little loyalty to the manufacturer’s brand when a competitor comes calling with a product that provides for increased sales, improved margins, or is perhaps just the flavor of the month. In a franchise, the franchisee commits to your product line long term and generally pays fees on top of the wholesale margin you'd otherwise receive -- allowing manufacturers to benefit from service components that often aren't part of the wholesaler's revenue stream.

5. Agency Relationships
In an agency structure, an independent salesperson sells a service on your behalf -- so again, this form of relationship is only appropriate for companies for which fulfillment of the contract is provided by the corporation and not by the agent. The easy distinction here is that all money flows downward (from corporate to the agent) and not upward (from the franchisee to the franchisor). If your agent is taking money and sending you any, the relationship has likely triggered the fee element of the franchise laws. Minimal brand loyalty, high turnover, and support-specific margin erosion typify these types of relationships.

6. Joint Venture
A joint venture partnership is characterized not by fees but by sharing both equity and profits. So, for example, your joint venture partner might put up 70 percent of the money and work at a salary that was below market for one year. You'd put up 30 percent of the capital, sign personally on a bank note, and provide your intellectual property. Based on your negotiations, you might end up in a 60/40 split of the ownership of the company. Your 40 percent would entitle you to 40 percent of any profits that are distributed -- but only if
profits are distributed. You'd also be required to pay taxes on 40 percent of the reported profits of that company -- even if no profits are distributed. So if, for example, the controlling partner chooses to make a capital expenditure in the company (which is not tax-deductible) instead of making a distribution, you could be on the hook for the taxes, even though you didn't see any of the money. One major issue encountered by those who use a joint venture structure is defining and tracking profits. How should the operating partner get compensated for their time? When does an expense become a perk? What constitutes overhead, and how does that get allocated? How does the non-operating partner get compensated for their time? What kinds of controls need to be established to ensure all profits are, in fact, reported? Even in relationships in which the operator is honest and well-meaning, the process of tracking profitability for a single unit can be cumbersome; across a hundred units or more, the accounting involved quickly becomes daunting. And one more cautionary note here: Any joint venture that pays fees to the owner of the intellectual property will be deemed both a joint venture and a franchise, even if the intellectual property owner is one of the joint venture partners. Finally, the joint venture relationship itself is extremely difficult to manage. Unlike a franchisee who's obligated to follow the rules by contract, the joint venture partner is, in fact, a partner and will often attempt to take greater latitude with the system of operations than would a franchisee.

**CONCLUSION**

A business is always successful when the motive is to solve a problem and when the business is providing the world with a solution, franchising a business can not only provide the solution to the problem in a restricted area but it can also help the people of different regions. In addition there is the added manpower, resources and capital which will result in new ideas and innovations to improve different aspects of the business. Therefore it does not only benefit the business where it decreases risk but also the public as more solutions are made accessible to them. The sheer size of franchising in terms of number of stores, revenue generated in the United States, and its significant portion of the U.S. GDP is evidence enough of its success. Franchising accounts for more than a third of the annual retail sales in the United States; clearly, it is a successful wealth-creating machine. The capital marketplace would simply not support this road to entrepreneurship if return on investment did not guarantee it. This segment is the first clear documentation of both franchisee and franchisor wealth creation. The debate is advanced in favor of our argument that franchising, for all the stakeholders, is entrepreneurial in nature and fact. Here, we've provided you with a large overview that by franchising the business and providing it with different dynamics can fulfill the promise of wealth creation. Overall franchising is a business opportunity that we would definitely suggest to any entrepreneur who is looking to expand their business or looking to get into a franchise business. The numbers as well as the practical approach proves the same. The advantages outweigh the disadvantages to a great extent and it is a clear pathway to success if the approach is correct.

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