

# What are the advantages and disadvantages of franchising?

## Advantages

### For Franchisors:

- The franchisor has many benefits for using franchising as a form of business expansion. Franchisor can utilize the franchisee's assets including funds, time, faculties, network and ideas to expand, increase collective buying power, R&D of new products and services. A franchise can sell its business without giving away its ownership.

### For Franchisees:

- The business format is proven
  - Franchisee has fewer risks as business format, brand and recognition is proven, and do not required to invest in market research and R&D during business development
- Training and know-how
  - Franchisor provides employee training for franchisees and its staff members. Training programs provides a huge benefit for owners, since franchisor also provides employee policies and information about the procedures that are key in maintaining smooth business operations.
  - A franchise provides franchisees with a reliable support system, covering area such as procurement, distribution relationship, standardization, legal and finances etc. This offers especially benefits owners who have little experience with the industry and who do not have a large network of contacts
- Lower Overhead Costs
  - Franchisees can take advantage of the company's nationwide distribution system when it comes to low-cost bulk purchasing
  - Franchisees can save vast marketing and advertising fee on brand building as franchisors tends to centralized brand promotion

## **What are the disadvantages of franchising?**

### **Cost:**

- The general's "franchise" contract required franchisee to pay a fixed initial fee, then during the contract period, the franchisee may pay a certain percentage of their profit or turnover as the franchise fee.
- In order to ensure the quality and level of products and services, it is common that franchisee is required to purchase equipment and raw materials at designated suppliers requested by franchisors. Additional costs may involved with unified marketing and publicity by the group.

### **Low autonomy and freedom:**

- Franchisees must strictly follow a given mode of operation, product mix and recipes and service levels. It limits the franchisees autonomy and freedom, including the decision on scale of expansion, freedom on creates species and human resources management.
- Operated by franchisees of business may not be familiar with (in fact, "franchise" which is an attractive place to entrepreneurs do not necessarily need to have experience in the business), so that the training provided by the franchisor and Support services will become very important. Lack of services in this area, there could lead to franchise business failure. Franchisees strength and experience, franchisees must pay attention.

### **Risk:**

- Most franchise rights are granted for a limited period of time. There is a risk that franchisor refuse to renew or terminate the agreement for other reasons. Franchisees will have to give up years of foundation and start again. Some franchise agreement might restrict the franchisee in operating a similar business in the same area after franchise contract ends.