

# Benefits of franchising as a business model

By [Manny Nichas](#)

4 Apr 2013

Many people wishing to start a business could choose between beginning something from scratch or purchasing a franchise. With the group's business model, which began as a mix of owned and franchised stores and then elected to continue only as a franchise model, there are useful pointers for would-be owners.



## Owner-model

Most people starting their businesses from scratch tend not to think at first of a franchise - usually they have skills they are keen to leverage and typically want to be their own boss. What such people often fail to appreciate is that these desires can be entirely accommodated by buying a franchise.

Being an independent business owner means you have to contend with franchise heavyweights that have a lot more resources for advertising and marketing and ready-made brand recognition. When creating a start-up business, most entrepreneurs have little time and less capital for getting their name out, especially in cutthroat markets such as food service, hospitality and retail.

Therefore, there are things to consider if you are starting a new business and most likely putting all of your energy into operations.

- Who will drive the sales?
- What product or service will you be offering?
- How will you draw up a business plan for raising finance?
- Is your location already crowded with businesses of the type you want to start?
- How will you deal with all of the hard decisions that come up in business and the stakeholders such as customers, staff, banks and investors?

## Start-up realities

Owning your own business can be incredibly lucrative, especially if it is a 'blue sky' type venture, but it can take years for such a business to turn a profit. It is for all these reasons that the idea of buying and owning a franchise has taken the retail market by storm as the preferred business model for many entrepreneurs.

There are many other reasons too. For instance, there is a higher failure rate among new business ventures than among those who buy a franchise. This is because they enjoy no management support or franchise community to go to for advice or to bounce ideas off. If you start your own business, it is often more difficult to get financing for a company that does not already have a track record. There are also no economies of scale in terms of purchasing and real estate, no brand recognition, and higher costs for things like advertising and design - costs that are shared in a franchise system.

## Franchise model

A franchise is based on a proven business model. There is very little trial and error to owning a franchise. When you buy a franchise, many of the mundane decisions are made for you.

Unlike starting your own business from scratch, franchising gives you a recognised brand identity. Your start-up business already has the benefit of having had years of advertising done for it, before you even open your doors.

Perhaps the biggest perceived drawback to owning a franchise is the royalties and other fees paid to the franchisor. However, this has to be seen as a trade-off against the many negatives of starting your own business from scratch, which are mitigated or eliminated.

Franchises charge fees for the very good reason they went through the pain of developing products, systems, and a successful brand image, which the franchisee is now leveraging off. This substantially lowers the failure rate for franchise systems compared to most new businesses.

Apart from the advantages already described, franchisees benefit from purchasing power, research and development costs, real estate, legal help and construction assistance. Therefore, franchise fees and royalty payments (usually a percentage of what you have made) are good value for money, compared to the learning curve the individual would have to go through on his own. To reassure yourself on this point, speak to people who have already bought their own franchise.

## Rules vs autonomy

Obviously, franchising is not for everybody and not everyone fits into the mould of being a franchisee. There are rules and systems that constrain some people's unbridled entrepreneurial flair and need for autonomy.

However, most entrepreneurs find they are prepared to sacrifice autonomy for the instant brand recognition they enjoy. To open your doors with a customer base from day one, get preferred pricing on equipment and supplies and have a network of support is a powerful motivator.

It is however critical to understand that operating a franchise requires a franchisee's complete commitment, hard work and dedication to ensure its ultimate success. Together with the franchisor, your risk of failure is minimised.

Choosing a franchise as a way of starting your own business requires your own personal research and questioning of franchisees in similar markets to help you to gather the information you need to make the right decision.

## ABOUT THE AUTHOR

Manny Nichas is the CEO of Ocean Basket seafood franchise.

For more, visit: <https://www.bizcommunity.com>