

What is Franchising?

Franchising is growing very quickly, but what exactly is a franchise?

It is important for all your Franchisor staff to have a clear understanding of what franchising is. If they do not understand it, they cannot be expected to get the relationship correct.

Franchising is currently the largest growth area for small business – don't take our word for it either, that's the view of the Australian Competition and Consumer Commission in their forward to their Franchisees Guide.

Many potential franchise owners or Franchisors can quantify a number of large and successful franchise chains, but most struggle to define franchising.

Strangely enough, the Australian Government's compulsory **Franchise Code of Conduct** does not provide us with a definition of what is a franchise. Although, it does say for an agreement to be a franchise *"it has to contain three elements:*

These are:

- 1. A franchise agreement involves one party (called the Franchisor) granting another party (called the franchise owner or franchisee) the right to operate a business under an existing marketing plan.*
- 2. A franchise is associated with a trade mark or symbol.*
- 3. The franchise owner pays the Franchisor a fee prior to commencing business. This fee may be for stock, equipment, training or royalties".*

The following description of Franchising is taken from ***How To Be An Effective Master Franchisee***, a training manual and Guide for Franchisors to use in training Master Franchisees and International Licensees. The Guide is written by Douglas Matheson and should be available from major bookshops.

"Franchising is a form of commercial cooperation. The Franchisor grants a party 'the rights' to use a business and marketing system in order to cause a trademark to be more readily recognized by the public. The Franchisor grants the rights in order to guarantee the use of a uniform business system for the presentation of products and services to consumers. In exchange for the right to use the trademark and the system, the franchisee pays fees to the Franchisor in the form of an initial license fee and an ongoing royalty fee.

More than a method of distribution, franchising is a way for the Franchisor to derive financial benefit from its expertise without investing its own capital in the franchisee's business. A franchise relationship differs from a distribution or dealership arrangement when the agreement involves the use of a single business name, the use of uniform business methods including a prescribed marketing program, and the payment of royalties in exchange for benefits granted by the Franchisor.

The major difference between a business organization and a franchised organization is the realization that the Franchisor and the franchisee are interdependent and that one cannot succeed without the other. They are symbiotically interrelated, mutually related, strategically allied, and involved in an exchange relationship. Each is independent of each other, yet intrinsically linked to the business network. The Franchisor is responsible for managing groups of people coming together in order to form economies of scale: 2+2=10. Economies of scale develop from mutually shared vision and everyone marching to the same drummer. Mutually shared vision and uniformity in a system results from trust which evolves from effective communication".

The **Franchise Association of South Africa** takes a less legalistic (but valuable) way of looking at franchising:

"Franchising is a way to work together, learn together and continue to partner and grow partnerships together. Franchisees and Franchisors are "joined at the hip" so to speak. The more we can do things together and the better they communicate the stronger their voice, and the better they prosper."

And for a final definition let's look at the **British Franchise Associations** view:

"Franchising is a means of starting and running your own business with a very high success rate: providing you choose a good franchise in the first place.

A good franchise will offer you a proven business format with the initial and continuing support that you will need. Your business will work under the brand established by your Franchisor, using the business system they have developed and proven in the marketplace.

You will pay an initial fee to set up using the brand and the proven business format, and you will pay continuing fees for the support that will keep you in business earning profits on the trade that you do, and building a capital asset that you can re-sell."

If you require assistance with your purchase of a franchise, please feel free to contact The Franchise Shop on 1300 139 557.