

Targeted Teaching Topic



FRANCHISING — ANOTHER WAY TO BE AN ENTREPRENEUR

Entrepreneurship Can Be Lonely Business



For budding entrepreneurs, franchising is a way to go into business for themselves without being “totally on their own.” It decreases the risk and provides a support system in areas such as accounting, marketing, human resource management, purchasing, inventory control, and much more.

Franchisees also leverage the talent and expertise of their fellow franchisees and the parent company. As with most things, teamwork yields a better result than one individual working on their own. This can be especially true for a novice entrepreneur. And, while it provides advantages, it does not create miracles.

What is Franchising?

Franchising is a method of distributing products or services. At least two levels of people are involved in a franchise system: (1) the franchisor, who lends his trademark or trade name and a business system; and (2) the franchisee, who pays a royalty and often an initial fee for the right to do business under the franchisor's name and system. Technically, the contract binding the two parties is the “franchise,” but that term is often used to mean the actual business that the franchisee operates.



How does a Franchise Chain Start?

If you’ve read the article about Scooter’s Coffeehouse on pages 10-12, you have a bit more insight into how one starts. An entrepreneur has an idea for a new product, service, or format for selling those products and services. As the business becomes successful, the owner(s) often open more outlets. At some point, the entrepreneur may realize that continued expansion requires a system or organizational structure that franchising can offer. He or she then “franchises” the business’s name and system of operation and offers the opportunity for others to use these to open their own branches or outlets. Fees and/or ongoing royalty payments are required of the franchisee based on percentages of sales. Voila! A franchise has been created.

What Types of Businesses Franchise?

According to The International Franchise Association, there are now more than 75 different categories for their membership. As their website states, “Typically, you would think of fast food and restaurants first when thinking of franchising, but franchising covers the spectrum from almost A to Z, from advertising/direct mail to construction to dating services to home inspection to security systems to video sales and rentals. Printing and copying services, maid services, computer services, cleaners, lawn care services, real estate, hotels and motels, and travel agencies are excellent examples of successfully applying franchising to established industries.”

Sources: International Franchise Association, <http://www.franchise.org> and Wikipedia, <http://en.wikipedia.org/wiki/Franchising>

Franchising – Another Way to be an Entrepreneur

Teachers Guide

Relevant National Content Standards for Entrepreneurship

Business Functions	
The business activities performed by entrepreneurs in managing the business.	
N	Risk Management Understands the concepts, strategies, and systems that businesses implement and enforce to minimize loss
Legal Considerations	
N.14	Explain legal issues affecting businesses
N.15	Protect intellectual property rights
N.16	Select form of business ownership

Understanding Franchising as an Ownership Option

They exist all around us and students are VERY aware of the presence of franchises in their daily lives, especially fast food restaurants! But, many times this way of starting a business and being an entrepreneur is overlooked. Franchises are an integral part of the fabric of our lives as consumers and of our economy as a whole. So, it's important for entrepreneurship students to understand that this is a viable method of ownership.

Like any form of ownership, it has its advantages and disadvantages. It is not a solution for all ownership and financing challenges and it's not a fit for all entrepreneurs. But, it's definitely worth exploring for both novice and experienced entrepreneurs. And, knowing the advantages and disadvantages will also be beneficial for an entrepreneur or budding entrepreneur who may someday want to expand their business concept by franchising it to others.

Advantages of Franchising

- The business idea/concept has been proven
- Best practices are established and shared with the franchisee
- Customers recognize the brand name and trade mark
- Support systems (accounting, hiring, marketing, legal) are in place and don't have to be created from scratch
- Financing may be easier to obtain (established reputation of the franchisor)
- Training programs enhance the possibility of success (avoiding mistakes)
- Products sold can be more easily obtained
- Purchase discounts are often possible because of volume purchases by the franchisor.
- Costs of developing advertising and promotions are shared by all franchisees
- Wider reach for audience; customers buy what they know
- May be easier to sell the business; the franchisor usually assists to keep the franchise alive

Disadvantages of Franchising

- Initial costs and ongoing fees and royalties need to be researched carefully
 - Initial startup costs can be extremely high
 - Management fees, royalties, and required purchases can eat up profits
- Independence is lost. Franchise agreements restrict independent decision-making
- Ability to adjust to local market conditions and changes is lessened
- If the franchisor goes out of business...so does the value of your business
- Bad press for another franchisee can impact your business
- It may be more difficult to sell; the franchisor must approve the buyer
- Profits are shared with the franchisor; they aren't yours alone

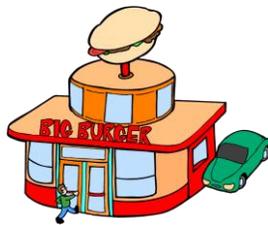
Characteristics of Businesses for which Franchising Seems to Work Best

- Businesses with a good track record of profitability
- Businesses built around a unique or unusual concept
- Businesses with broad geographic appeal
- Businesses which are relatively easy to operate
- Businesses which are relatively inexpensive to operate
- Businesses which are easily duplicated

Source: Alon, Ilan (2005), *Service Franchising: A Global Perspective*, New York: Springer.

Economic Impact of Franchised Businesses – United States (2005)

- There are **909,253 franchised business establishments** in the United States.
- Franchised businesses provide more than **11 million jobs, or 8.1 percent of the national private-sector workforce.**
- Franchised businesses **supply an annual payroll of \$278.6 billion**, or 5.3 percent of all private-sector payrolls in the United States.
- Franchised business **produce goods and services worth \$880.9 billion per year**, or 4.4 percent of private-sector output in the United States.
- “Franchised businesses” are defined as all establishments that are part of a franchise system – businesses owned by franchisees **and** those owned by the franchisor.



Economic Impact of Franchised Businesses – Nebraska (2005)

- There are **6,799 franchised business establishments** in Nebraska.
- Franchised businesses provided 82,392 jobs.
- By Congressional District, jobs ***IN*** franchised businesses were:
 - District 1 – 31,015
 - District 2 – 35,538
 - District 3 – 21,503
- By Congressional District, jobs created ***BY*** franchised businesses were:
 - District 1 – 42,258
 - District 2 – 59,908
 - District 3 – 29,180

Suggested Activities

❖ Franchise Logo/Trademark Quest

Using the Franchise Logo/Trademark Quest Student Activity Handout, have your students gather as many logos/or trademarks as they can find from various types of franchises found in your community or the surrounding trade area. These can be found in phone books, magazines, newspapers, or printed out from the web.

Post their handouts around the classroom and have the class do a “Gallery Walk” during which they identify one or more logos/trademarks for businesses they either don’t recognize or from which they haven’t purchased merchandise or services.

Lead a class discussion about area franchises. Questions might include:

- How many of you were surprised by the number of franchises in our area? Why or why not?
- Which franchises do you think you would enjoy owning?
- What types of franchises do you think would “play to your strengths, talents or expertise?” For example, if you love to be outdoors doing physical work, which franchise(s) might play to those strengths? If you like detail and working inside which franchise(s) might play to those strengths?



❖ Franchise Photo Quest

Have your students take digital photos of franchises in your local community and the surrounding trade area. At least 2-3 photos of the exterior (building, signage) would be optimal. Then download the photos into a “slide show” for review by the class. They may be surprised at how many businesses they, their friends, and relatives visit and purchase products and services from are actually franchises.



Resources:

The International Franchise Association has a wealth of downloadable reports and other resources related to franchising. Click on the following link, <http://www.buildingopportunity.com/impact/reports.aspx>, for reports on the economic impact of franchising for the United States, Nebraska, and each congressional district. A visually appealing and easy-to-understand PowerPoint presentation entitled, *Economic Impact of Franchised Businesses: Volume 2 - PowerPoint Presentation*, is worth downloading for use in class.

Sources:

Discovering the Impact, *International Franchise Association*: <http://www.franchise.org/>.

Franchising, Wikipedia, <http://en.wikipedia.org/wiki/Franchising>

FRANCHISE LOGO/TRADEMARK (™) QUEST

Your Task...

- Gather logos/trademarks from various types of franchises found in our community or the surrounding trade area to place below. These can be found in phone books, magazines, newspapers, or printed from Internet websites. If the logo is too large to fit, place on another sheet of paper.
- Try to find at least one for each of the businesses indicated below.

Quick Service Restaurant	Lodging
Full Service Restaurant	Maintenance/Cleaning Service
Printing/Copying	Auto Repair
Hair Salons	Children's Services
Business Support Services	Educational Products