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business franchise

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What Is Franchising?

Franchising is a business model and strategy in which a company (the franchisor) grants the rights to independent individuals or groups (franchisees) to operate a business using its brand, products, and methods. Franchising is a form of business expansion that allows the franchisor to grow their brand and reach a wider market without having to invest as heavily in opening and managing new locations themselves.



1. Why Franchising?

Franchising offers a range of benefits for both **franchisors** (the companies granting the franchises) and **franchisees** (those who operate the individual franchise locations). Here are some reasons why both parties might choose franchising as a business model:



Benefits for Franchisors:



- **Rapid Expansion**

Franchising allows a company to grow its brand and reach a larger market quickly without having to invest substantial capital in opening and managing new locations themselves.



- **Reduced Risk and Investment**

Franchisors shift some of the financial burden and risks associated with opening and running new locations to the franchisees. Franchisees invest their own funds to establish and operate their businesses.



- **Shared Operational Costs**

As franchisees open and operate more locations, economies of scale can be achieved in terms of procurement, marketing, and other operational aspects, benefiting both franchisor and franchisees.



- **Local Expertise**

Franchisees often have a better understanding of the local market, culture, and customer preferences, which can lead to better adaptability and success in specific regions.



- **Brand Building**

Franchisees' collective efforts contribute to building a stronger and more recognizable brand, benefiting the entire franchise network.

2. How Franchising?

Starting a franchise involves several steps, whether you're a business owner looking to expand through franchising (franchisor) or an individual interested in owning a franchise location (franchisee). Here's an overview of the process from both perspectives:

Franchisor Perspective

- **Evaluate your Business:** Ensure that your business concept is well-established, successful, and easily replicable. Analyze whether it has the potential to be attractive to potential franchisees.
- **Legal and Financial Preparation:** Consult with legal experts to create the necessary legal documents, such as the Franchise Disclosure Document (FDD) and the Franchise Agreement, to ensure compliance with relevant laws and regulations.
- **Operations and Support:** Develop comprehensive operational manuals, training programs, marketing strategies, and ongoing support systems that you can offer to your franchisees.
- **Trademark Protection:** Register and protect your brand name, logo, and any other trademarks associated with your business to maintain brand consistency and protect intellectual property rights.
- **Franchise Fees and Royalties:** Determine the initial franchise fee and ongoing royalties that franchisees will be required to pay. Ensure that these fees are reasonable and in line with industry standards.
- **Franchise Recruitment:** Develop a strategy to attract potential franchisees. This might involve creating a professional website, attending franchise expos, and marketing your franchise opportunity.
- **Franchisee Selection:** Evaluate potential franchisees to ensure they are a good fit for your brand and business model. Conduct interviews, background checks, and due diligence to choose the right candidates.
- **Training:** Provide thorough training to your franchisees on all aspects of operating the business, including processes, customer service, marketing, and management.
- **Support System:** Establish ongoing support mechanisms for franchisees, including regular communication, access to resources, and assistance with operational challenges.



3. Franchisee Perspective

Franchisee Perspective:

- **Research:** Research different franchise opportunities to find a business that aligns with your interests, skills, and financial capabilities. Look into the reputation of the franchisor and the success of existing franchise locations.

- **Initial Contact:** Reach out to the franchisor to express your interest and gather information about the franchise opportunity. Attend discovery days or seminars organized by the franchisor to learn more.

- **Review FDD:** The Franchise Disclosure Document (FDD) contains crucial information about the franchise, including costs, obligations, and legal agreements. Review this document carefully and consider seeking legal advice.

- **Financial Planning:** Determine the total investment required to open and operate the franchise. This includes the initial franchise fee, equipment costs, real estate expenses, and working capital.

- **Location Selection:** If applicable, work with the franchisor to select a suitable location for your franchise. Consider factors like foot traffic, demographics, and competition.

- **Funding:** Secure financing for your franchise, which might involve personal savings, loans, or investments from family and friends.

- **Franchise Agreement:** Once you're comfortable with the terms, sign the franchise agreement and pay the required fees to officially become a franchisee.

- **Training:** Attend the training program provided by the franchisor to learn the ins and outs of operating the business according to their established systems.

- **Opening and Operations:** With the franchisor's support, set up your franchise location and begin operations. Adhere to the franchisor's guidelines for branding, products, services, and customer experience.

Both franchisors and franchisees should approach the franchising process with careful consideration, transparency, and a willingness to collaborate for mutual success. Consulting legal, financial, and business experts is essential to navigate the complexities of franchising and ensure a smooth and successful partnership.



4. Trends in Franchising

Some trends in Franchising areas follows:

- **Technology Integration:** Franchises were increasingly incorporating technology to streamline operations, enhance customer experience, and improve efficiency. This included things like mobile apps for ordering, online reservation systems, and data analytics to track customer preferences.
- **Health and Wellness Focus:** With growing consumer awareness about health and wellness, there was a trend towards franchises offering healthier menu options, fitness centers, and beauty salon & wellness services. This was particularly prominent in the food and beverage and fitness sectors.
- **Sustainability and Green Practices:** More franchises were adopting eco-friendly practices, such as using sustainable materials, reducing waste, and implementing energy-efficient technologies. This was driven by consumer demand for environmentally responsible businesses.
- **Alternative Franchise Models:** Alongside the traditional single-unit franchise model, alternative models like multi-unit franchising and area development were gaining popularity. These models allowed franchisees to manage multiple locations or develop franchises in specific geographic areas.
- **Diversification of Franchise Portfolios:** Some franchisees and investors were diversifying their portfolios by owning franchises from different industries. This was seen as a way to mitigate risks and take advantage of opportunities in various sectors.
- **Virtual and Remote Services:** The rise of virtual and remote services led to the emergence of franchises that operated entirely online or provided services remotely. This included areas like online education, virtual fitness training, and remote work support services.
- **Delivery and Convenience:** Many franchises were expanding their delivery and takeout options to cater to the demand for convenient dining experiences. This was particularly relevant for restaurants and food service franchises.
- **Personalization and Customization:** Franchises were exploring ways to offer personalized experiences to customers, from customized menu options to tailored services, recognizing the value of meeting individual preferences.
- **International Expansion:** Established franchises are looking to expand into new international markets, and local brands in different countries were seeking franchising opportunities to grow their presence globally.
- **Social Responsibility and Community Engagement:** Consumers were showing a preference for brands that demonstrated social responsibility and community involvement. Franchises were getting involved in local charitable initiatives and community-building efforts.
- **Resilience and Adaptability:** The COVID-19 pandemic highlighted the importance of adaptability and resilience. Many franchises had to quickly pivot their operations, implement safety measures, and find innovative ways to continue serving customers.
- **Employee Training and Development:** Franchises were focusing on improving employee training and development programs to enhance customer service, improve retention rates, and maintain consistent quality across locations.

Remember that trends can vary depending on the industry, location, and economic conditions. If you're interested in franchising, conducting thorough research and staying updated with current trends is essential to make informed decisions.

5. Global Franchising

Global franchising involves expanding a franchise business beyond its original domestic market to operate in multiple countries and regions around the world. This strategic approach allows franchisors to replicate their successful business model, brand identity, products, and services in diverse international markets through franchise partnerships. Here's an overview of the key aspects of global franchising:

1. Market Research and Selection:

Franchisors need to conduct thorough market research to identify potential target countries that align with their brand and offerings.

Factors such as consumer preferences, economic conditions, cultural differences, legal and regulatory environments, and competition should be carefully analyzed.

2. Localization and Adaptation:

Cultural sensitivity and adaptation are crucial. Franchisors often need to modify their products, services, and marketing strategies to resonate with the local audience.

Adapting to local tastes, customs, languages, and preferences can enhance customer acceptance and engagement.

3. Legal and Regulatory Compliance:

Each country has its own franchise laws and regulations. Franchisors must navigate these legal requirements to ensure compliance and protect their intellectual property.

Creating country-specific franchise agreements and disclosure documents may be necessary.

4. International Support Systems:

Franchisors need to establish support systems that can effectively cater to franchisees in different time zones and regions.

Providing ongoing training, marketing materials, operational guidance, and communication channels is essential for maintaining consistency and quality.

5. Franchisee Selection and Training:

Choosing the right franchisees is critical for success. Prospective franchisees should align with the franchisor's values, have the necessary resources, and understand the local market.

Comprehensive training programs should cover all aspects of operating the franchise, even if franchisees are from different countries.

Global franchising offers both opportunities and challenges. It can be an effective way for successful brands to expand their reach and tap into new markets. However, it requires careful planning, a deep understanding of local markets, and a commitment to adapting to different cultures and business environments. As with any business endeavour, consulting legal, financial, and industry experts is recommended to navigate the complexities of global franchising.

The author of this article is **Dr. Chackochen Mathai**, who holds a Ph.D. in Franchise Management with over 33 years of experience in helping more than 1000+ entrepreneurs through the franchise route. He is currently the COO of Naturals Salon & Spa, leads the International Business & Naturals Beauty Academy.

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