Franchising

Franchising is an arrangement where franchisor (one party) grants or licenses some rights and [authorities](https://www.toppr.com/guides/fundamentals-of-economics-and-management/organising/concept-of-authority/) to franchise (another party). Franchising is a well-known [marketing](https://www.toppr.com/guides/business-studies/marketing/market-and-marketing/) strategy for business expansion.

A contractual [agreement](https://www.toppr.com/guides/business-laws-cs/indian-contract-act-1872/agreement-with-minor/) takes place between Franchisor and Franchisee. Franchisor authorizes franchisee to sell their [products](https://www.toppr.com/guides/business-studies/marketing/product/), goods, [services](https://www.toppr.com/guides/business-studies/business-services/nature-and-types-of-services/) and give rights to use their trademark and brand name. And these franchisee acts like a dealer.

In return, the franchisee pays a one-time fee or commission to franchisor and some share of revenue. Some advantages to franchisees are they do not have to spend money on training employees, they get to learn about business techniques.

**What is the Meaning of Franchising?**

Franchising is basically a right which [manufacturers](https://www.toppr.com/guides/principles-and-practices-of-accounting/final-accounts-for-sole-proprietors-non-manufacturing/manufacturing-account/) or businesses give to others. This right allows the beneficiaries to sell the products or services of these manufacturers or parent [businesses](https://www.toppr.com/guides/business-studies/nature-and-purpose-of-business/concept-and-characteristics-of-business/).

The individual or business that grants the right to the franchise is called the franchisor, while the beneficiary of the right is called the franchise. Franchising is a business marketing strategy to cover maximum market [share](https://www.toppr.com/guides/business-laws/companies-act-2013/types-of-shares/).

Franchising is a business relationship between two entities wherein one party allows another to sell its products and intellectual property. For example, several fast food chains like Dominos and McDonalds operate in India through franchising.

### ****Examples of Franchising in India****

* McDonald’s
* Dominos
* KFC
* Pizza Hut
* Subway
* Baskin Robbins
* Burger King

### ****Features of Franchising****

Firstly, under a franchising agreement, the franchisor grants permission to the franchise to use its intellectual properties like patents and trademarks.

Secondly, the franchise in return pays a fee (i.e. royalty) to the franchisor and may even have to share a part of his profits. On the contrary, the franchisor provides its goods, services, and assistance to the franchise.

Finally, both parties in a franchise sign a franchising agreement. This agreement is basically a contract that states terms and conditions applicable with [respect](https://www.toppr.com/guides/essays/respect-essay/) to the franchise.

### ****Advantages and Disadvantages of Franchising****

#### Advantages to Franchisors

* Firstly, franchising is a great way to expand a business without incurring additional costs on expansion. This is because all expenses of selling are borne by the franchise.
* This further also helps in building a brand name, increasing goodwill and reaching more customers.

### Advantages to Franchisees

* A franchise can use franchising to start a business on a pre-established brand name of the franchisor. As a result, the franchise can predict his success and reduce risks of failure.
* Furthermore, the franchise also does not need to spend money on training and assistance because the franchisor provides this.
* Another advantage is that sometimes a franchisee may get exclusive rights to sell the franchisor’s products within an area.
* Franchisees will get to know business techniques and trade secrets of brands.

#### Disadvantages for Franchisors

* The most basic disadvantage is that the franchise does not possess direct control over the sale of its products. As a result, its own goodwill can suffer if the franchisor does not maintain quality standards.
* Furthermore, the franchisee may even leak the franchisor’s secrets to rivals. Franchising also involves ongoing costs of providing maintenance, assistance, and training on the franchisor.

#### Disadvantages for Franchisees

* First of all, no franchise has complete control over his business. He always has to adhere to policies and conditions of the franchisor.
* Another disadvantage is that he always has to pay some royalty to the franchisor on a routine basis. In some cases, he may even have to share his profits with the franchisor.