

# The Small Business Franchise

by Sophia



## WHAT'S COVERED

Have you ever thought of opening your own business? If so, have you ever thought about opening a franchise, like McDonald's or Dunkin' Donuts? This tutorial will cover an overview of the growing small business franchising market. Our discussion breaks down as follows:

1. [Franchising](#)
2. [Types of Franchises](#)
3. [The Rise in Franchising](#)
4. [Franchising vs. Multilevel Marketing](#)

## 1. Franchising

A **franchise** is a type of business model in which one organization pays to use an established business model and intellectual properties. A franchisor (the original business) grants a license to a franchisee (the individual or company purchasing the rights).

Starting a business from scratch can have its advantages and disadvantages compared with franchising. Starting from scratch allows the owner to realize his own ideas; you're not limited to what the franchise tells you that you can or cannot do. However, you have to develop relationships with other stakeholders, suppliers, customers, etc., and funding can be difficult to get at the beginning.

Franchising, on the other hand, brings an established customer base with it. There's a recognizable name, and there are certain expectations you get from customers, which will be positive or negative, depending on the franchise. Funding is also much easier because the numbers can be shown to the bank reflecting what other franchises have done, and it's an established name.

Franchising as an option gives a license to operate an individually owned business.

⇒ **EXAMPLE** Commonly known franchises include businesses like McDonald's, H&R Block, Ramada Hotels, and Papa John's Pizza.

The franchisee is a person who buys and operates this franchise as their own business. The franchiser is the one who sells the opportunity to use that franchise's name and business model.

Of course, there are pros and cons to every business option. In this case, a franchise brings in a proven business model, and it also has support from the home office. Big cons are the start-up costs that are involved with opening, which can be very expensive, and the lack of freedom on the part of the franchise owner.



#### TERM TO KNOW

##### Franchise

A type of business in which one organization pays to use an established business model and intellectual properties.

## 2. Types of Franchises

There are three major types of franchises.

Type of Franchise	Example
Manufacturer gives authorization to retail stores to sell a particular item, and only those people are allowed to sell that particular item.	Your local gas station is authorized to sell that particular brand of gas at their gas station. Also, car dealerships follow this model.
Producer licenses distributors to sell a product to retailers	Coca Cola doesn't own all the bottlers around the world. The bottlers are owned by individual companies and are franchised to license that product and sell it on Coke's behalf.
Franchiser supplies a name and supplies, but not the actual product.	McDonald's is an example of this particular type of franchise. It sells the name and the supplies to make the product, but they don't make the actual product. You make the actual product on site and sell it.

## 3. The Rise in Franchising

There has been a dramatic rise in franchising and they have gained significantly in popularity.



#### DID YOU KNOW

There are a high number of women and minorities who are involved in franchising, and there are outreach programs specifically for these two demographics.

There are also dual branded franchises out there. For instance, Long John Silver's Restaurants and KFC may have one location with two different franchises at the same location. This increases the customer base and

hopefully generates greater sales, but it also increases the cost of ownership and startup.

Just because you have a franchise and it's an established name doesn't mean you're guaranteed success--there are no guarantees in the world of business.

## 4. Franchising vs. Multilevel Marketing

**Multilevel marketing** is defined as a type of business where people are compensated not only for their own sales, but they also earn a percentage of what their recruited salespeople sell.

### IN CONTEXT

There is some debate on some forms of franchising versus multi-level marketing. Herbalife is a multilevel marketer that has been in the news lately. They franchise business opportunities, and they've become very successful, but now they're being sued because of a hedge fund bet that was made in 2012.

The real money in multilevel marketing is made not by selling the actual product, but by over sellers. In other words, the primary way you make money in a multi-level marketing strategy is by recruiting other sellers to sell the product, not actually selling the product yourself. In a multi-level marketing strategy, the people who recruit take a portion of the sales that the people below them sell.



### TERM TO KNOW

#### Multilevel Marketing

A type of business where people are compensated not only for their own sales but also earn a percentage of what their recruited salespeople sell.



### SUMMARY

Today, we learned about **franchising** as an option to own your own small business. We explored the pros and cons associated with that decision, as well as the different **types of franchises** that exist.

We learned about **the rise in franchising** and the outreach programs that exist to support the large number of women and minorities involved in franchising. Lastly, discussed a comparison of **franchising vs. multilevel marketing**, where people are compensated not only for their own sales, but also earn a percentage of what their recruited salespeople sell.

Good luck!

Source: ADAPTED FROM SOPHIA INSTRUCTOR JAMES HOWARD



## TERMS TO KNOW

**Franchise**

A type of business in which one organization pays to use an established business model and intellectual properties.

**Multilevel Marketing**

A type of business where people are compensated not only for their own sales but also earn a percentage of what their recruited salespeople sell.