Unit V

Launching the Business

Franchising

- A system of distribution in which semi-independent business owners (franchisees) pay fees and royalties to a parent company (franchisor) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system.

- Franchisees do not establish their own autonomous businesses; instead, they buy a "success package" from the franchisor, who shows them how to use it. Franchisees, unlike independent business owners, don't have the freedom to change the way they run their businesses—for example, shifting advertising strategies or adjusting product lines

- The franchisor provides the business model and the expertise to make it work; the franchisee brings the investment, spirit, and drive necessary to implement the model successfully. Many successful franchisors claim that neglecting to follow the formula is one of the chief reasons some franchisees fail.

Franchisor and the Franchisee

Element	The Franchisor	The Franchisee
Site selection	Oversees and approves; may choose site.	Chooses site with franchisor's approval.
Design	Provides prototype design.	Pays for and implements design.
Employees	Makes general recommendations and training suggestions.	Hires, manages, and fires employees.
Products and services	Determines product or service line.	Modifies only with franchisor's approval.
Prices	Can only recommend prices.	Sets final prices.
Purchasing	Establishes quality standards; provides list of approved suppliers; may require franchisees to purchase from the franchisor.	Must meet quality standards; must purchase only from approved suppliers; must purchase from supplier if required.
Advertising	Develops and coordinates national ad campaign; may require minimum level of spending on local advertising.	Pays for national ad campaign; complies with local advertising requirements; gets franchisor approval on local ads.
Quality control	Sets quality standards and enforces them with inspections; trains franchisees.	Maintains quality standards; trains employees to implement quality systems.
Support	Provides support through an established business system.	Operates business on a day-to-day basis with franchiser's support.

Successful franchisees - examples

- McDonald's.
- Taco Bell.
- Burger King.
- Pizza Hut.
- Lakme.
- Amul.
- Pepperfry.
- Tanishq.

Todd and Bambi Stringham: Signs by Tomorrow

- After spending 15 years in the corporate world, Todd and Bambi Stringham grew disillusioned and decided to make a career change. After evaluating their experience, strengths, and finances, they decided to make their dream of owning a business a reality by buying a franchise.

- The Stringhams spent months reviewing the features of more than 30 franchisors that matched their profile of what they were looking for in a franchise before settling on Signs by Tomorrow, a Maryland based company with 150 outlets that makes a variety of signs, primarily for businesses.

- They wanted a franchisor that would support their operation with a solid business system and that would allow them to use their own creativity. "I have always wanted to own my own business," says Todd. "After a lot of research, we found that Signs by Tomorrow had the business model and support system we were looking for."

Types of Franchising

- Trade name
- Product distribution
- Pure franchisee

Types of Franchising

Trade-name franchising - a system of franchising in which a franchisee purchases the right to use the franchisor's trade name without distributing particular products exclusively under the franchisor's name.

When franchisee purchases the right to use the franchisor's trade name without actually distributing the specific trade mark products exclusively using the name of the franchisor, this is called 'trade-name franchising.'

Types of Franchising

- **Product distribution franchising** - a system of franchising in which a franchisor licenses a franchisee to sell its products under the franchisor's brand name and trademark through a selective, limited distribution network.

- Chevrolet, Ford, Pepsi, Coca-Cola

A good example can be a retail store selling all products of **Coca Cola** and displaying brand name and identity. It can stock up all Coca Cola brands including sprite and other brands with hoardings but it does not stop the retailer from also selling Pepsi in the store.

Types of Franchising

- **Pure franchising** (also called **comprehensive or business format franchising**) involves providing the franchisee with a complete business format, including a license for a trade name, the products or services to be sold, the store layout, the methods of operation, a marketing plan, a quality control process, a two-way communications system, and the necessary business support services.

McDonalds and Delhi Public School

The Benefits of Buying a Franchise

- A franchisee gets the opportunity to own a small business relatively quickly

- often reaches the break-even point faster than an independent business

- Franchisees also benefit from the franchisor's business experience.

- For many first-time entrepreneurs, access to a business model with a proven track record is the safest way to own a business.

The Benefits of Buying a Franchise

1. A business system

- One of the biggest benefits of buying a franchise is gaining access to a business system that has proved record of success

- In many cases, the business system that a franchisor provides allows franchisees to get their businesses up and running faster than if they had tried to launch them on their own

- Using franchisor's business system as a guide, franchisees can be successful even they may have little or no experience in the industry

- The franchisor looks first for candidates who are financially qualified

- The company does not require franchisees to have experience as mechanics, instead the ideal candidate is someone with business skills whom the franchisor can train to operate a million-dollar business successfully

The Benefits of Buying a Franchise

2. Management training and support

- Franchisors offer management training programs to franchisees prior to opening a new outlet

- Many franchisors provide follow-up training and consulting services

- This service is vital because most franchisees do not have experience in the industry

- These programs teach franchisees the fundamentals they need to know or day-to-day operations as well as nuances of running their businesses successfully

- To ensure franchisees continued success, many franchisors supplement their start up training problems with ongoing instruction and support

- Franchisors offer training programs because they realize that their ultimate success depends on their franchisee's success

The Benefits of Buying a Franchise

3. Brand Name Appeal

- The franchisee purchases the right to use nationally known and advertised brand name for a product or service

- The franchisee has the advantage of identifying his business with a widely recognized trademark, which provides a great deal of drawing power

- Customers recognize the identifying trademark, the standard symbols, the store design, and the products of an established franchise, because of this customer are read to purchase their products or services

- Entrepreneurs who launch independent businesses may have to work for years and spend many thousands of dollars in advertising to build a customer base of equivalent size

- Franchisees must be aware that negative actions by the franchisor or other franchisees can undermine the value of the brand name and have a negative impact on other stores in the chain

- One of the most important functions that a franchisor performs is promoting and enhancing the company's brand because a stellar brand perception among customers and potential customers translates directly into sales for franchisees

The Benefits of Buying a Franchise

4. Standardized quality of Goods and Services

- Building a sound reputation in business can take many years, but destroying a good reputation takes no time at all

- If some franchisees are allowed to operate at substandard levels, the image of the entire chain suffers irreparable damage, therefore franchisors normally demand compliance with uniform standards of quality and service throughout the entire chain

- Franchisor conducts periodic inspections of local facilities to assist in maintaining acceptable levels of performance

- Maintaining quality is so important that most franchisors retain the right to terminate the franchise contract and to repurchase the outlet if the franchisee fails to comply with established standards

The Benefits of Buying a Franchise

5. National advertising programs and marketing assistance

- An effective advertising program is essential to the success of every franchise operation

- Marketing a brand name product or service across a wide geographic area require far-reaching advertising campaign

- A regional or national advertising program benefits all franchisees and most franchisors have one

- Advertising campaigns are organized and controlled by the franchisor, but franchisees actually pay for the campaigns

- Many franchisors also require franchisees to spend a minimum amount on local advertising

- Some franchisors assist franchisees in designing and producing local ads

The Benefits of Buying a Franchise

6. Financial Assistance

- Purchasing a franchise can be just as expensive than launching an independent business, and the recent upheaval in financial markets has made many lenders hesitant to fund business start-ups, including franchises

- A franchising research company, reports that 20 percent of franchisors offer direct financing to their franchisees

- Credit crunch has caused a growing number of franchisors to provide financial assistance to franchisees

- Small franchise systems are more likely to provide direct financial assistance to franchisees than are larger, more established franchisors

- Traditionally, franchisors rarely make loans to enable franchisees to pay the initial franchise fee.

- However, once a franchisor locates a suitable prospective franchisee, it may offer the qualified candidate direct financial assistance in specific areas such as purchasing equipment, inventory or even the franchise fee

The Benefits of Buying a Franchise

7. Proven products, processes and business formats

- Franchisees essentially purchase a franchisor's experience in the form of a business system

- A franchise owner does not have to build the business from scratch

- Instead of depending solely on personal ability to establish business processes and attract a clientele a franchisee can depend on the methods and techniques of an established business

- Franchisees do not have to struggle for recognition in the local marketplace as much as independent owners do.

The Benefits of Buying a Franchise

8. Centralized Buying Power

- A significant advantage of a franchisee has over an independent small business owner is participation in the franchisor's centralized, volume buying power

- If franchisors sell goods and supplies to franchisees they may pass on the franchisees cost savings from quantity discounts they earn by buying in volume

The Benefits of Buying a Franchise

9. Site selection and territorial protection

- A proper location is critical to the success of any small business, and franchises are no exception

- Most franchisors offer franchisees site selection assistance to increase the probability that their outlets will attract sufficient numbers of customers, reach their break-even points quickly and generate consistent profits

- Sometimes entrepreneurs discover the becoming affiliated with a franchisor is the best way to get into prime locations

- Many franchisors conduct an extensive location analysis for each new outlet, including researching traffic patterns, zoning ordinances, accessibility and population density

- Although choosing a location usually is the franchisee's responsibility, some franchisors control the site selection process

- Even when the franchisee makes the location decision, the franchisor reserves the right to approve the final site, Choosing a suitable location require location analysis, including studies of traffic patterns, zoning ordinances, accessibility, population density and demographics

The Benefits of Buying a Franchise

10. Greater chance of success

- Investing in a franchise is not risk free. New franchises enter the market each year, but all not all of them survive

- Franchise offers no guarantees of success; experts view is that franchising is less risky than building a business from the ground up

- Success rate of franchises is higher when a franchise system does the following ☐ Requires franchises to have prior industry experience

- Requires franchisees to actively manage their stores

- Has built a strong brand name

- Offers training programs designed to improve franchisees and skill

- Success of failure depends on the franchisee's managerial skills and motivation and on the franchisor's business experience, system and support.

Charles Loflin – Pizza Patrón

- Twenty years ago, Loflin met Antonio Swad, the founder of [Pizza Patrón](#) and Wingstop, and decided to become a Wingstop franchisee. The first location, in San Antonio, was so successful that Loflin opened more franchises, eventually owning 70 Wingstops in the Southwest. He went on to add some Pizza Patrón locations to his portfolio.

- After becoming so successful, Loflin approached Swad with the idea of buying the entire Patrón brand, which he now owns along with the 70 Wingstops. Loflin is looking to continue to develop both brands and bring an app and more technology to the Pizza Patrón brand.

Dave Chantrell – The Melting Pot

- Dave Chantrell, who worked as a server at the Melting Pot while studying at the University of Virginia.

- Chantrell's experience as a server helped him understand the culture of the franchise as well as the responsibilities of each employee in providing diners with a memorable experience.

- His purchase of the local Melting Pot was made possible through an loan he acquired with his partner, and its success was partly due to his first-hand knowledge of the business.

Drawbacks of buying a franchise
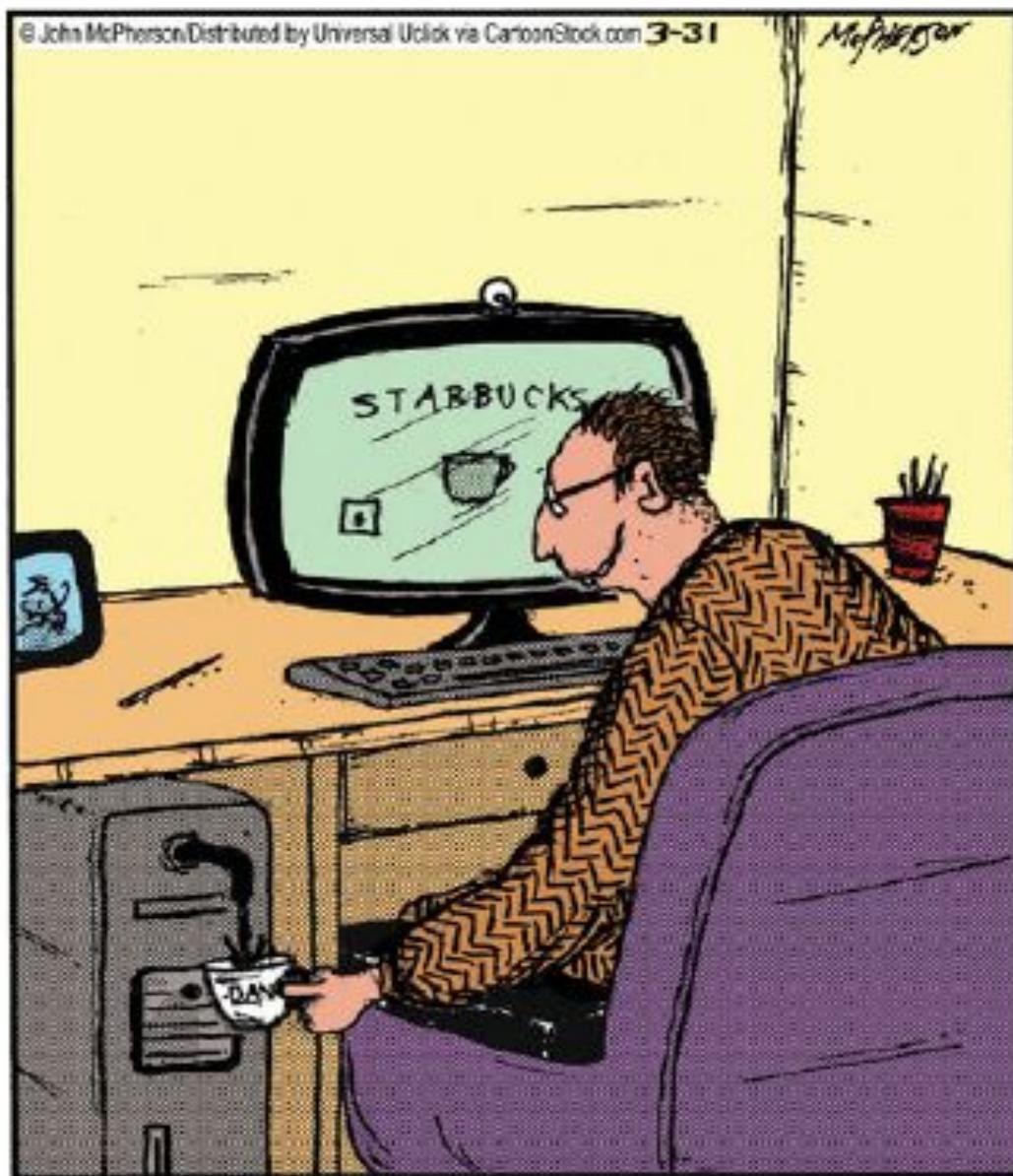
Franchising also suffers from certain drawbacks:

- franchise fees and profit sharing,

- strict adherence to standardized operations

- restrictions on purchasing

- limited product lines

- unsatisfactory training programs

- market saturation

- less freedom

E-Commerce and the Entrepreneur

Before launching an e-commerce effort, entrepreneurs should consider the following important strategic issues:

- The way in which a company exploits the Internet's interconnectivity and the opportunities it creates to transform relationships with its suppliers and vendors, its customers, and other external stakeholders are crucial to its success.

- Success requires a company to develop a plan for integrating the Internet into its overall business strategy - Web site design and maintenance, creating and managing a brand name, marketing and promotional strategies, sales, and customer service.

- Developing deep, lasting relationships with customers takes on even greater importance on the Internet. Online companies must give their customers good reasons to keep coming back.

- Establishing an attractive Web site brimming with catchy photographs and descriptions of products is only the beginning.

- Measuring the success of its Internet-based sales effort is essential if a company is to remain relevant to customers whose tastes, needs, and preferences are always changing.

- Using Web analytics to continuously improve a Web site is essential.

Starbucks doubles its sales by devising a way to sell coffee over the Internet.

Six factors essential to achieving e-commerce success

- ***Acquiring customers.*** The first e-commerce skill that entrepreneurs must master is acquiring customers, which requires them to drive traffic to their Web sites. Entrepreneurs must develop a strategy for using the many available tools, which range from display ads and Google AdWords to social media and search market

- ***Optimizing conversions.*** Every online entrepreneur's goal is to convert Website visitors into paying customers. The efficiency with which an online company achieves this goal plays a significant role in determining its profitability. Unfortunately, more than 97 percent of visitors to the typical retail Web site do not purchase anything

Six factors essential to achieving e-commerce success

- *Maximizing Web site performance.* - a site that downloads quickly, is easy to navigate, and contains meaningful content they can find quickly and efficiently. A fast, simple checkout

- *Ensuring a positive user experience.* Achieving customer satisfaction online is just as important as it is offline.

- *Retaining customers.* Just as in offline stores, customer retention is essential to the success of online businesses. Entrepreneurs must create an online shopping experience that engages customers, offers them value, and provides them with convenience.

- *Use Web analytics as part of a cycle of continuous improvement.* Web analytics tools to analyze the performance and effectiveness of their Web sites.

Ten Myths of E-Commerce

- Myth 1. If I Launch a Site, Customers Will Flock to It
- Myth 2. Online Customers Are Easy to Please
- Myth 3. Making Money on the Web Is Easy
- Myth 4. Privacy Is Not an Important Issue on the Web
- Myth 5. "Strategy? I Don't Need a Strategy to Sell on the Web! Just Give Me a Web Site, and the Rest Will Take Care of Itself"
- Myth 6. The Most Important Part of Any E-Commerce Effort Is Technology
- Myth 7. Customer Service Is Not as Important Online as It Is in a Traditional Retail Store
- Myth 8. Flashy Web Sites Are Better Than Simple Ones
- Myth 9. It's What's Up Front That Counts
- Myth 10. My Business Doesn't Need a Web Site

Ten Myths of E-Commerce

Myth 1. If I launch a Site, Customers will flock to it

- Some entrepreneurs think that once they set up their web sites, their expenses end there, it's not true

- Without promotional support, no web site will draw enough traffic to support a business

- Listing a site with popular search engines does not guarantee that online customers will find your company's web site

- Just like traditional retail stores seeking to attract customers, virtual companies have discovered that drawing sufficient traffic to a website requires constant promotion

- Setting up a website and then failing to drive customers to it with adequate promotional support is like setting up a physical store, you may be business but nobody knows you are there

- Entrepreneurs with both physical and virtual stores must promote their websites at every opportunity by printing their Uniform Resource Locators on everything related to their physical stores in broadcast ads, on shopping bas, on merchandise labels, on employee's uniforms, and anywhere their customers will see

Ten Myths of E-Commerce

Myth 2. Online customers are easy to please

- Experienced online shoppers tend to unforgiving, quickly clicking to another site if their shopping experience is subpar or they cannot find the products and information they want

- Companies are finding that they must improve their Websites constantly to attract and keep their customers

- To be successful online marketers, small companies must create web sites with features that appeal to experience web shoppers, such as simple navigation, customer reviews, an efficient checkout process, multiple payment options, rock solid security, quick access to product information, videos and blogs.

- Easy access to service representatives through multiple options, such as toll free telephone number, live chat, click to call, live in video chat, and texting increases the probability that they will complete their transactions and return to shop again

Ten Myths of E-Commerce

Myth 3: Making money on the web is easy

- Doing business online can be very profitable, but making money online requires an up-front investment of time, money and energy

- Success online also requires a sound business strategy that is aimed at the appropriate target audience

- As thousands of new sites spring up every day, getting a company's site noticed requires more effort and marketing muscle

- Attracting customers to web site is really no different from attracting customers to a brick and mortar store

- Entrepreneurs must define the target customers, devise a marketing plan to reach them, and offer them good value and superior customer service to keep them coming back

- Promoting website via social media, comprehensive FAQ pages, e-mail order confirmations and shipment notices, and highly visible telephone and e-mail contact information followed by quick responses enhance their reputations for online customer service

Ten Myths of E-Commerce

Myth 4. Privacy is not an important issue on the web

- The internet allows companies to gain access to almost unbelievable amounts of information about their customer's online behaviour

- Tracking and monitor customer's behaviour while they are on a site, giving internet based businesses the information they need to make their web sites more customer friendly

- Many sites also offer visitors "freebies" in exchange for information about themselves

- Companies then use this information to learn more about their target customers and how to market to them more effectively

Ten Myths of E-Commerce

Myth 5. "strategy? I don't need a strategy to sell on the web! Just give me a web site, and the rest will take care of itself

- Building a strategy means an entrepreneur must first develop a clear definition of the company's target audience and a thorough understanding of those customer's needs, wants, likes and dislikes

- To be successful, a web site must be appealing to the customers it seeks to attract as just as a traditional store's design and décor must draw foot traffic

- If a web site is to become the foundation for successful e-business, an entrepreneur must create it with the target audience in mind

- A customer needs to put effort to go to a competitor's store if they cannot find what they want, but in online customers only have to make a mouse click to go to a rival website

- Competition online is fierce, and to succeed, a company must have a sound strategy.

Ten Myths of E-Commerce

Myth 6. The most important part of any E-commerce effort is Technology

- Just a decade ago, the cost to launch an online retail business was three to five times higher than it is today

- The technology to run the site, the physical warehouse, site hosting, and staff required a significant investment before the site even went live

- Outsource the tasks of storing and shipping products, lease space on a server, and rent cloud computing software to operate their business, all of which lower the cost and complexity of starting an online company

- Successful entrepreneurs know how their industries work inside out and then build an e-business around that knowledge.

Ten Myths of E-Commerce

Myth 7: Customer service is not as important online as it is in a traditional retail store

- Numerous studies report that convenience and low prices are the primary drivers of online shopping

- With just few mouse clicks or taps on the screen of a smart phone or tablet, people can shop for practically anything anywhere in the world and have it delivered to their doorsteps within days

- E-commerce companies treat customer service as an afterthought, an attitude that costs business in many ways, including lost customers and a diminished public image

- Customer service is just as important on the web as it is in traditional brick and mortar stores

- When customers abandon their shopping carts, companies can close a significant percentage of those "lost" sales by sending prompt follow-up triggered emails designed to convince the customers to complete their purchases

Ten Myths of E-Commerce

Myth 8: Flashy web sites are better than simple ones

- Businesses that fall into this trap pour significant amounts of money into designing flashy web sites will all the "bells and whistles"

- The logic is that to stand out online, a site really has to sparkle. The logic leads to a "more is better" mentality when designing site

- A site that performs efficiently and loads quickly is far better selling tool than one that is filled with a "cornea gumbo" slow to download, and confusing to shoppers

- Sites that download slowly usually never have the chance to sell because customers clock to another site

- The time required to download a website is one of the most important determinants of its sales effectiveness

- Websites that load faster earn higher rankings on search engines

Ten Myths of E-Commerce

Myth 9. It's what's up front that counts

- Designing an attractive, efficient web site and driving traffic to it are important to building a successful e-business

- The potentially large number of orders that a web site can generate can overwhelm a small company that has failed to establish the infrastructure needed to support the site

- Although e-commerce can lower many costs of doing business, it still requires a basic infrastructure in the channel of distribution to process orders, maintain inventory, fill orders and handle customer service.

- The companies with warehouses, supply chain management and solid customer service are going to be the ones that survive

- Web based entrepreneurs often discover that the greatest challenge their businesses face is not necessarily attracting customers on the web but creating a viable order fulfilment strategy

Ten Myths of E-Commerce

Myth 10. My business doesn't need a web site

- Nearly one in five small businesses does not have a website, and many of those that do have sites that lack the ability to makes sales online

- Today's shoppers prefer to purchase from companies that offer a multichannel approach, particularly those that offer in store pick up for online orders and in store returns for online purchases

- A multichannel approach pays big dividends even for small business that consider themselves completely local

- 91 percent of shoppers have gone into a store as a result of an online encounter with a business

- 85 percent of shoppers go online to conduct research first, looking for store hours, directions, maps and special sales

- Others prefer the convenience of making online purchases after having a positive encounter with a company's physical location

Thank you