

## Business organisation – Franchises

A franchise is where a business sells a sole proprietor the right to set up a business using their name.

Examples of major franchises are:

- ▶ McDonalds
- ▶ Clarks Shoes
- ▶ Pizza Hut
- ▶ Holiday Inn

**The franchisor** is the business whose sells the right to another business to operate a franchise – they may run a number of their own businesses, but also may want to let others run the business in other parts of the country.

A franchise is bought by the **franchisee** – once they have purchased the franchise they have to pay a proportion of their profits to the franchiser on a regular basis. Depending on the business involved, the franchiser may provide training, management expertise and national marketing campaigns. They may also supply the raw materials and equipment.

The advantages of being a franchisor:

- Large companies see it as a means of rapid expansion with the franchisee providing most of the finance.
- If the franchise model works, then there are large profits to made from
  - selling franchises
  - royalty payments
  - selling raw materials and equipment.

The advantages of setting up as a franchisee are:

- The franchisee is given support by the franchiser. This includes marketing and staff training. So starting a business in this way requires less expertise and is less lonely!
- The franchisee may benefit from national advertising and being part of a well-known organisation with an established name, format and product
- Less investment is required at the start-up stage since the franchise business idea has already been developed
- A franchise allows people to start and run their own business with less risk. The chance of failure among new franchises is lower as their product is a proven success and has a secure place in the market

The disadvantages of setting up as a franchisee are:

- Cost to buy franchise – can be very expensive (hundreds of thousands of pounds).

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- ☒ Have to pay a percentage of your revenue to the business you have bought the franchiser from.
- ☒ Have to follow the franchise model, so less flexible. You would probably be told what prices to set, what advertising to use and what type of staff to employ.

In conclusion, buying a franchise is a good way of an individual setting up a business because:

- ▶ They do not have to establish themselves in the same way as a sole trader might have to.
- ▶ They will have the support of a tried and tested business model, often with a national marketing campaign behind them.

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