

# Franchising ??

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**Franchising Consultancy Services**

# Power of Franchising



**How**  
A Burger,  
A Pizza,  
A cup of Coffee,  
A Convenience Store Chain  
Indian Spiritual System



**CHANGED**

**the way business works ....  
transformed people's lifestyles .....  
transcended large economies .....  
And innumerable consumer & market attributes**

# Power of Franchising .....

Individuals created benchmarks & Global Giants ;



**Founded in 1940 USA** , Ray Kroc Purchased the chain in **1955** & responsible for its worldwide growth; with approx. **36000 franchisees** worldwide; in approx **119 countries**;



**Founded** by Dan & Frank Carney, **in 1958 USA**; largest user of cheese  
World's largest Pizza chain with **13200 restaurants** across **95 countries**



**Founded** by Fred DeLuca & Peter Buck **in 1965, USA**; **44,488 outlets** across **111 countries**, Target 50000 by 2020 ; First Franchise in 1974;



**Founded** by Bryan Stokes **in 1988 in Australia** , Given this name in 1999 , First Store franchised 1997 , **14000+ stores world wide** ;



**Founded in 1927 in USA** , formal name in 1946, Chairman: Toshifumi Suzuki **World's largest Convenience store chain** with approx. **57500 Franchisees & Licensees** in approx **18 countries**



**Founded in 1971 USA**, Howard Schultz, Chairman, President & CEO Purchased in **1987** , **16858 Franchisee across 50 countries** ; Premier Roaster & retailer of Specialty coffee ;



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**How these International Brands became National across Countries**

# McDonald's .....Quick snippets..



- Successful introduction of a product into its system which had the **power to change the eating habits of most Americans;**
- McDonald's stores accounted for **5% of all Coca Cola sold in US;**
- It surpassed "Sears" as the world's **largest owner of retail real estates;**
- One out of every 15 American workers got his/her first job from McDonald's – fully **12.50% of American had worked for it;**
- It had replaced the US Army as the nation's largest job training organization (started with a **\$500,000 Hamburger University in 1968**).
- Established Franchising as a business model as never done before;
- **Created a product that influenced the very culture of a country like America and the world thereafter;**
- **Creation of innovative & socially engaging employment –for both mentally challenged adults and senior citizens;**



# McDonald's ...Quick Glimpses



- **In 2005 alone, it served**
  - **304 million pounds** of mixed greens (**2 Lakh tons Of green vegetables**),
  - 102 million pounds of tomatoes;
  - **9 million pounds** of carrot (**6 thousand tons of carrot**), 51 million pounds of fruit;
  - **16 million gallons** of fruit juice,
  - Purchases **50,000 metric tonnes** of whitefish per year.
- First in the domain to provide nutrition information on packaging of the food
- A proven entrepreneurial format
  - **20 of top 50 management team** started at the restaurant level, **including CEO, Jim Skinner**
  - 67000 restaurant managers / asstt. Managers started as restaurant staff ;
  - Only restaurant organization to receive credit from American Council of Education (ACE);
  - **more than 275,000 franchisees, managers and employees have graduated from Hamburger University (HU)**
- The Workplace
  - Invests more than **US \$ 1 Billion annually on training**
- Invests about **US \$ 1 Billion + in marketing;**
- **72 Safety protocols** followed at every outlets
- The food passes through more than **2000 safety, quality and inspection checks** on its way from the farm to the serving table



# Franchising in India some key facts



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# Franchising in India – key Facts.....

The **Concept of Franchising in India is there for many years** but now catching up momentum & being used as fastest route of growth even by large orgns viz; Reliance Group ,Tata Group ,..some key facts :

- The earliest known franchisee businesses were in Computer Education (**NIIT,Aptech**), **Bata** – the famous shoe Co; Kidzee- In Pre-schooling , **Apollo Hospitals** ;
- Approx **2000+ active Franchisors** in the Country ;
- There are about **100000 Franchisees** across sectors in India;
- The total Investments by these franchisees in setting up their individual businesses is approx **Rs 1,50,000 Crores** ;
- The total annual turnover achieved by these franchised businesses in India is in the region of approx **Rs 80,000 to 1,00,000 Crores** ;
- The total **manpower directly employed** by these franchisees is **approx 10,00,000** ;
- **85% success rate in comparison 90% failure in self tartups;**

# Franchising in India – key Facts

- In India the **Franchisee Sector is only 2.5% against 50% of retails Globally is through Franchising** -huge opportunity in future ;
- A KPMG report forecasts a four times growth of the retail sector by 2017 ;
- Indian retail market is **expected to grow from US \$ 450 Billion to US\$ 1.3 Trillion by 2020 ;**
- **Small businesses are going to be the key Economic driver – Franchise Friendly segment ;Franchising shall be the best entry & expansion strategy;**
- **Business in the small & Mid segment's growth of 11.5%, is higher than India's GDP rate of 8% y-o-y;**
- **Increasing Globalization** has lead to the foray of well known brands across sectors from Food, clothing ,automobiles etc etc; viz; Domino's (Public issue),Pizza hut, McDonalds etc etc
- **Franchising is directly proportional to growth of Middle Class – its main consumers ;**
- **Burgeoning Middle class ,Technology integration , Mobile-sation & internet-isation of Nation** is changing the life style & further changing the business dynamics resulting in opportunities for deeper penetration – huge opportunities ;





# Franchising in India – key Facts

- **Food & Beverage** : **Subway, McDonalds, Pizzahut, Sagar Ratna, Amul**, Move & Pick, The Great Indian Kabab Factory, CookieMan etc etc ;
- **Healthcare Services** : **Apollo Hospitals; Escorts Group**, Ranbaxy Labs; Wockhardt ,Max Healthcare etc etc ;
- **Diagnostic Services** :Pathnet (a JV Between Dr Reddy's Lab & Gribbles Pathology Australia),**Dr Lal's Pathlab** ;Abhay clinic (Govt of India Project );
- **Pharmacies** : **Medicine Shoppe, Apollo**, Health & Glow, etc;
- **Telemedicine** – currently in its infancy ;
- **Beauty & Slimming** : **VLCC, Lakme Saloons** etc etc ;
- **Retailing** :Raymond, Arrow, Lee, Levi's, Planet Kids, Jinny & Jony; etc;
- **Pre-schooling** ; Kidzee, I Play I Learn, Millennium Junior , Euro Kids, Tree House , etc etc ;



# Franchising in USA & Canada....vis-a-vis India

## USA

- Approx 50% retail sales is from franchised operations ;
- Women are more active & substantial women are the Franchise owners ;
- Franchising – A US \$ 2.5 Trillion + industry;
- Franchise businesses growth has outpaced the overall economic growth.

## CANADA

- World's second largest franchise sector with over \$ 100 Billions + Annual Sales;
- Approx 100000 individual franchise operations under 1000+ brand names;
- A new Canadian franchise opens every 2/3 hours ....One franchise operation for every 500 Canadians approx;
- Of all franchises opened in last 5 years 90% still operating ... 80% approx under same ownership.



# What's Franchising ??

# Franchising – a brief definition

## What's Franchising ?

- Franchising is a contractual agreement between two legally independent entities;
- whereby one entity (the Franchisor) grants the rights to another entity (the Franchisee);
- to sell the Franchisor's product or do business under its trademarks in a given location for a specified period of time;
- In return the franchisee agrees to pay the Franchisor a combination of fees ;
  - usually an upfront amount called franchisee fees &
  - recurring amount every month called as royalty calculated on a % of the unit revenues .

# Franchising – An Overview

- In simple Franchising is about **being in business for yourself but not by yourself** ;
- Franchising is the **dominant mode of retail entrepreneurship**;
- Franchising has proven to be the **most successful expansion method in the history of business** for over decades.
- **In developed economies it accounts for almost 50% of the entire retail sales.**
- **Significant role in expanding Diverse businesses** and Large Companies?
- Franchising is an International Phenomenon and has played a significant role **in building up Large Economies** ?
- **A Win-Win Partnership** for both franchisor & Franchisees.
- **90% of the self started business fail to survive in first 5 years of operation ,whereas 95% of the franchised businesses are successful even after 10 years.**



# Franchising – the Win Win Model

Franchising is one of the **most autonomous and decentralized form of business. Both franchisor and the franchisee benefit and share the space** due to :

- Collective & Shared business interest
- **Economies of scale for franchisor & economies of location for the franchisee** .....mitigate the pricing issue & give **edge to deliver class service on a mass scale** ;
- **Risk is minimized & chances of success are high** as you are buying into proven business concept & strategies ;
- **Optimal Capital & Resource deployment**
- **Best mode for nascent industries and innovative products.**
- **Central expertise – Grass root delivery and administration.**

# Franchising – the Win-Win Model

- The **Franchised units benefit** from the **drive & dedication** that **entrepreneurs bring to the unit level operations** ;
- Its not only **helpful in speedy proliferation** ,but at the same time **gets operational too fast due to the dedicated drive of owner & existing proven SOP & Common materials from franchisor** ;
- In a **real sense these chains gets best of both the worlds** ;
- Franchising is a powerful marketing system .It **enables a Company to grow exponentially by spreading ownerships & closing gaps in the distribution system without relegating control over the entire franchise network** ;
- Companies **seeking to expand into smaller cities /towns franchising serves as a viable business concept to maximize growth potential** & reach;
- Average gestation period to start a franchise outlet is very minimal;**

# Successful Franchisor Franchisee relationship facts

- **It's a marriage – but not monogamous**
- **Franchise relationship is not based on equality:**
  - While Franchisor remains the policy maker, franchisee has to be the conformer.
- Management of entrepreneurs
- **Nucleus is common mutual business interest**
- Essential peripherals –  
Logistics, support, compliances, communication, continuous up-gradation, localisation & customization
- A thin line demarcates Consensus & conflict.

**FRANCHISOR'S OWN INTERESTS ARE FIRMLY INTERTWINED  
IN MAXIMISATION OF THE FRANCHISEE'S INCOME**



# Franchising Types ???

Franchising can be broadly be classified into two types –

- **Traditional :**

Where Franchisor is mostly **a manufacturer selling its products through a franchisee network** ; (Viz; Petrol pumps /stations ; car dealerships etc etc ;)

- **Business Format :**

**Here the franchisor sells a way of doing business** i.e.; business know how or way of doing business to its franchisees .....its labour /people intensive .

It played a significant role in expanding not only a range of products but a range of industries as well. Products as diverse as **Fast food ,specialty Food,Beauty Saloons, Automotive Repairs, Pre-school ,Childcare etc etc ;**

Many a Fortune 500 Companies has adopted this route to spread their business ;



# Who can be a Franchisor ???

Broad Scenarios can be classified as –

- **Have Concept Only** and need to build on it ....
- **Have Both Concept & Operational expertise on-ground** – want to scale up using franchising as the mode of proliferation...
- **Have the expertise in Franchising operations** – who can identify the opportunity and build a franchise model around the concept / existing business and leverage it exponentially...

**Improvement of Technology viz, internet, satellites, Telecom Services, etc., is rendering the geographical boundaries redundant, creating new avenues of innovative business concepts ..... present a spectrum of potential product / services across segments that could / would ride the franchising route for mass proliferation.**

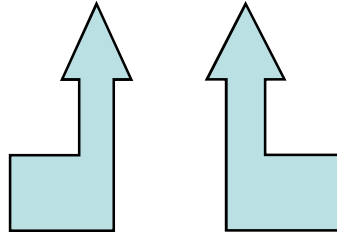


# What franchising Imparts ??

## SELF - ACTUALISATION

### • Independence

- Financial
- Emotional
- Personal
- Social
- Educational
- Family Obligations



### • Satisfaction

- Entrepreneurship
- Recognition
- Leadership
- Security
- Dream come true

**With one in five small businesses failing within its first year of operations, Franchising is the most risk free and ideal mode to venture into independent business, with tried and tested system and knowhow as the foundation stone.**



# PRODUCT / SERVICES

## FRANCHISOR :

### THE CREATOR

IMPARTING TECHNICAL KNOW  
HOW & OPERATIONAL  
GUIDANCE

- **PRODUCT SUPPORT**
- **BUSINESS & OPERATION SUPPORT** - Marketing & Promotions, Competition Strategy, Transparency of Operations Know how ;

## FRANCHISEE :

### THE EXECUTOR

STRICT ADHERANCE TO THE  
LAID DOWN GUIDELINES

- **QUALITY DELIVERY** -Aggressive & Dynamic - implementer - result-oriented - with Problem Solving & Developmental Attitude, good local standing ;
- Ensure the customer is the final beneficiary.



# BRAND

## FRANCHISOR :

### THE BRAND MANAGER

- Create Brand awareness
- Ensure Brand Protection
- Generate Brand Loyalty
- Able to command Long term Brand recognition
- Maintain Brand Integrity
- Explore Brand Alliances

## FRANCHISEE :

### THE BRAND AMBASSADOR

- Provide Brand Experience
- Propagate Brand penetration
- Able and willing to be a part of the branding & promotional exercises.
- Aggressively Brand Loyal
- Enthuse Brand respectability



**FINANCIAL  
COMPLAINCES**

**LEGAL  
COMPLAINCES**

**FRANCHISOR : THE BUSINESS MASTER**

Sound financial policy & clear communication of deliverables & receivables

**FRANCHISEE : THE OPERATING BENEFICIARY**

Proper knowledge and adherence to financial policies of franchiser ,e.g. royalty payments, books & records to be maintained, etc.

**FRANCHISOR :**

Adequate legal agreement and documentation to protect his brand including stern legal action

**FRANCHISEE :**

Adequate knowledge of the legal bindings of the agreement, his obligations, deliverables - be aware of the “thin line” beyond which the “relationship” is stretched to legal contravention and the consequences of his such acts.



**CONNECTIVITY**

**UPGRADATION /  
CONT. R&D**

### **FRANCHISOR : THE COMMUNICATOR**

Employ Clear, Decisive & E Savvy Communication Strategy - Interactive Website, Communication & Feedback channels, marketing & product co - ordination, empathising with franchisee's local condition.

### **FRANCHISEE : THE MEDIUM**

Following, Implementing & Maintaining A Healthy Two Way Communication Channel

### **FRANCHISOR : READING THE MARKET PULSE**

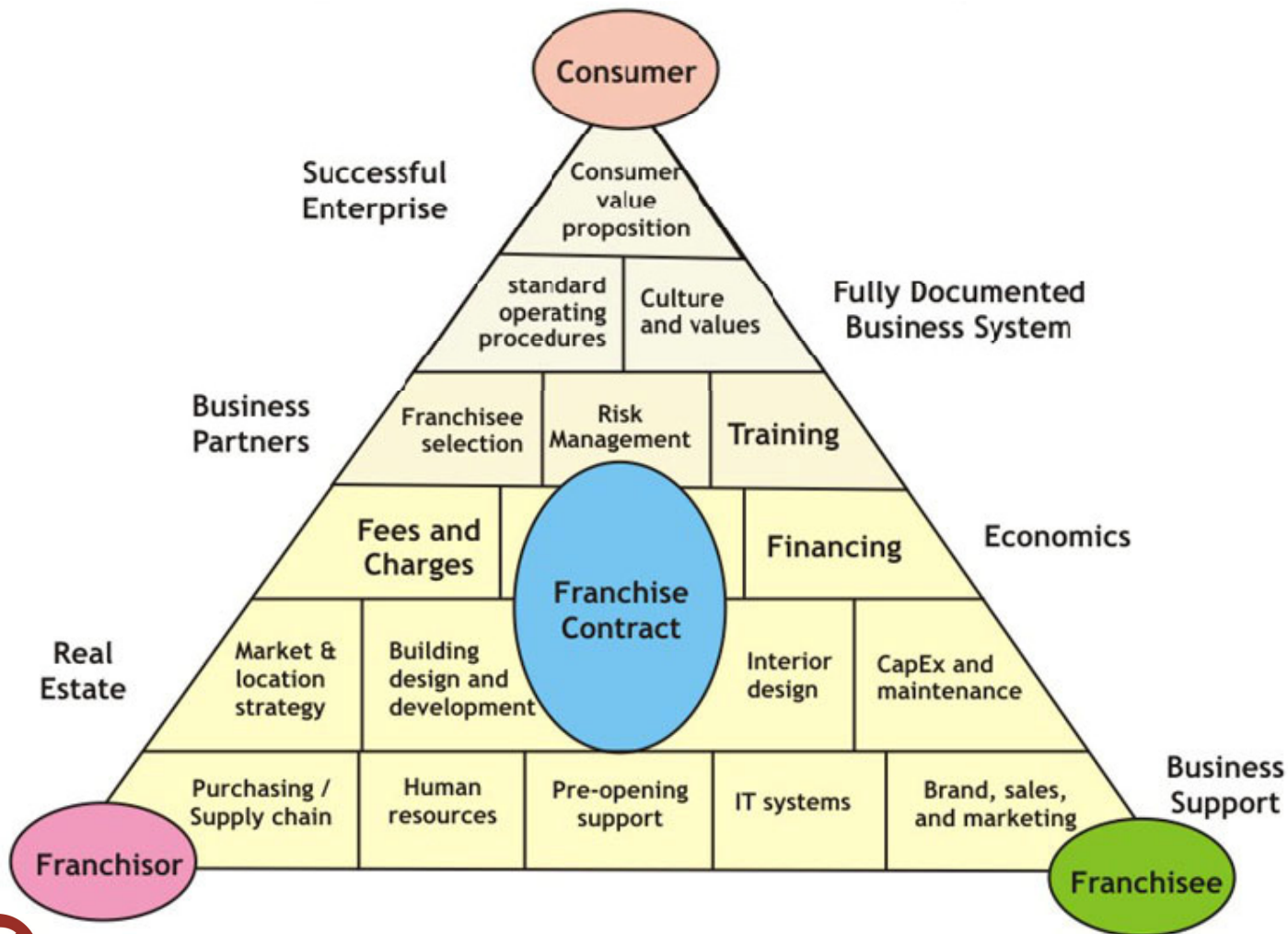
Continuous up-gradation in services & quality of delivery based on market feedback.

### **FRANCHISEE : FEEDING THE MARKET NEED**

Implementation of the R &D, quality mechanism, customisation & localisation



# Franchising requires balancing Franchisor - franchisee & consumer requirements





**Case Study  
of  
Successful Franchising  
'KIDZEE'  
Largest Chain  
of  
Pre-schools  
in India'**



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# Important Ifs & Buts .....

## Initial stage :

- What segment & domain belongs to ?? Does this fit into the segment?
- Who are the Primary & Secondary consumers ??
- Are they area specific or across the Nation ??
- Is it a short lived opportunity or a Perennial platform ?
- does this impart vertical & horizontal logical progression & expansion opportunity ??
- What are the key USPs ?? U can offer ??
- Any estimate on the Potential business ??
- What's the competition ?? If exists then is the competition at motivation stage or damaging ??

# Why new product ,Ideation & conceptualization

- Existing Ground reality - propelling to explore newer opportunities;
- Identifying the key Product & Services - **chain of K-12 schools** was my focus to replace existing product & services gradually ;
- Route to achieve the objective - a win-win situation ;
- Initial Building Blocks ;
  - Resolving a series of Questions by me to myself (separate slide);
  - Ideation ,conceptualization , freezing on the concept;
  - Survey of existing Preschools ; info gathering;
  - Sketching a Franchise model ;
  - First level Financial Model ;
  - Presentation to BOD the entire restructuring strategy ;
  - Desired consent of BOD ;
  - All grounding up actions - VMO, Brand Name ,Logo, Website ,Curriculum, theme ,Recruiting core team, etc etc ;
  - Releasing first advertisement for - **Kidzee** ;

# The largest chain of preschools in India..

- Founded in 2002;
- Brainchild of a **Chartered Accountant**;
- Started as a franchise set up with many Firsts;
- Nurtured more than **4,00,000** children throughout India;
- Has over **1500+** centers in over **550+** cities & expanding;
- Redefined the profession of Preschool teaching;
- Is the most successful preschool chain in Asia;
- Then **Logical Expansion to K-12 Schools** & launched **KIDZEE HIGH** (Currently **Mount Littera Zee Schools**) the original focus ;
- **Lateral expansion** – launched state of art Child care – **KIDZCARE** ;



CA ARUN K KHETAN



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**Every big business today....  
Started up as a small business once**

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**Many small business today ....  
Would be a potential big business .....  
tomorrow**

**A big business is nothing but ... many small businesses and  
business activities put together.....**



**THANK YOU**