

# What is a Franchise - Franchise Opportunities | International Franchise Association

## WHAT IS A FRANCHISE?

Franchising is simply a method for expanding a business and distributing goods and services through a licensing relationship. In franchising, franchisors (a person or company that grants the license to a third party for the conducting of a business under their marks) not only specify the products and services that will be offered by the franchisees (a person or company who is granted the license to do business under the trademark and trade name by the franchisor), but also provide them with an operating system, brand and support. A brief separate glossary of franchising terms is available on IFA's website at <http://www.franchise.org/what-are-common-franchise-terms>

## Business Format Franchising

There are two different types of franchising relationships. Business Format Franchising is the type most identifiable to the average person. In a business format franchise relationship the franchisor provides to the franchisee not just its trade name, products and services, but an entire system for operating the business. The franchisee generally receives site selection and development support, operating manuals, training, brand standards, quality control, a marketing strategy and business advisory support from the franchisor. More than 120 diverse industries use franchising as their route to market including:

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### **Traditional or Product Distribution**

While less identified with franchising, traditional or product distribution franchising is actually larger in total sales than business format franchising. In a traditional franchise, the focus is not on the system of doing business, but mainly on the products manufactured or supplied by the franchisor to the franchisee. In most, but not in all situations, the manufactured products generally need pre- and post-sale service as found in the automobile industry. Examples of traditional or product distribution franchising can be found in the bottling, gasoline, automotive and other manufacturers.

### **Franchising is About Relationships**

Many people, when they think of franchising, focus first on the law. While the law is certainly important, it is not the central thing to understand about franchising. At its core, franchising is about the franchisor's brand value, how the franchisor supports its franchisees, how the franchisee meets its obligations to deliver the products and services to the system's brand standards and most importantly – franchising is about the relationship that the franchisor has with its franchisees. In a 2014 survey by Franchise Business Review on franchisees' relationship with their franchisors it was determined:

90 percent enjoy operating their business,

88 percent of franchisees enjoy being part of their organization,

85 percent feel positive about their affiliation with their franchisor,

83 percent respect their franchisor,

80 percent feel their franchisor operates with a high level of honesty,

78 percent would recommend their franchise brand to others, and

73 percent would "Do it all over again" if they had the option.

### **Franchising is About Brands**

A franchisor's brand is its most valuable asset and consumers decide which business to shop at and how often to frequent that business based on what they know, or think they know, about the brand. To a certain extent consumers really don't care who owns the business so long as their brand expectations are met. If you become a franchisee, you will certainly be developing a relationship with your customers to maintain their loyalty, and most certainly customers will choose to purchase from you because of the quality of your services and the personal relationship you establish with them. But first and foremost, they have trust in the brand to meet their expectations, and the franchisor and the other franchisees in the system rely upon you to meet those expectations.

## **Franchising is About Systems and Support**

Great franchisors provide systems, tools and support so that their franchisees have the ability to live up to the system's brand standards and ensure customer satisfaction. And, franchisors and all of the other franchisees expect that you will independently manage the day-to-day operation of your businesses so that you will enhance the reputation of the company in your market area.

When selecting a franchise system to invest in, you want to evaluate the types of support you will be provided and how well the franchisor is managing the evolution of the products and services so that it keeps up with changing consumer expectations. Some of the more common services that franchisors provide to franchisees include:

- A recognized brand name,
- Site selection and site development assistance,
- Training for you and your management team,
- Research and development of new products and services,
- Headquarters and field support,
- Initial and continuing marketing and advertising.

You want to select a franchisor that routinely and effectively enforces system standards. This is important to you as enforcement of brand standards by the franchisor is meant to protect franchisees from the possible bad acts of other franchisees that share the brand with them. Since customers see franchise systems as a branded chain of operations, great products and services delivered by one franchisee benefits the entire system. The opposite is also true.

## **Franchising is also a Contractual Relationship**

While from the public's vantage point, franchises look like any other chain of branded businesses, they are very different. In a franchise system, the owner of the brand does not manage and operate the locations that serve consumers their products and services on a day-to-day basis. Serving the consumer is the role and responsibility of the franchisee.

Franchising is a contractual relationship between a licensor (franchisor) and a licensee (franchisee) that allows the business owner to use the licensor's brand and method of doing business to distribute products or services to consumers. While every franchise is a license, not every license is a franchise under the law. Sometimes that can be very confusing.

In the United States, a franchise is a specific type of licensing arrangement defined by the Federal Trade Commission and also by several states. In the United States a franchise generally exists when:

The franchisor licenses a franchisee the right to use its trade or service mark;

To identify the franchisee's business in marketing a product or service using the franchisor's operating methods;

The franchisor provides the franchisee with support and exercises certain controls; and,

The franchisee pays the franchisor a fee.

The definition of a franchise is not uniform in every state. Some states for example, may also include a marketing plan or community of interest provision in the definition. The definition of what is a franchise can vary significantly under the laws in some states and it is important that you don't simply rely on the federal definition of a franchise in understanding any particular state's requirements.

Put another way, in a franchise a business (the franchisor) licenses its trade name (the brand, such as BrightStar or Sport Clips) and its operating methods (its system of doing business) to a person or group operating within a specific territory or location (the franchisee), which agrees to operate its business according to the terms of a contract (the franchising agreement). The franchisor provides the franchisee with franchising leadership and support, and exercises some controls to ensure the franchisee's adherence to brand guidelines.

In exchange, the franchisee usually pays the franchisor a one-time initial fee (the franchise fee) and a continuing fee (known as a royalty) for the use of the franchisor's trade name and operating methods. The franchisee is responsible for the day-to-day

management of its independently owned business and benefits or risks loss based on his own performance and capabilities.

Investing in a franchise or becoming a franchisor can be a great opportunity. But before you select any franchise investment and sign any franchise agreement, do your homework, understand what the franchise system is offering and get the support of a qualified franchise lawyer.

## **NEXT STEPS**

The International Franchise Association has over 1,400 franchisor members, representing 100 unique business categories, listed on our site. If you are considering whether or not to go into business for yourself, but not by yourself, we are confident that you will find a number of franchise systems that might be a good fit for you. To begin your search, [visit our franchise opportunities section - click here](#)



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